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How is the recent OPEC decision impacting market structure?

We've had a big collapse of the backwardation in the market, which is key, because it's been the policy of OPEC to keep that backwardation going - it's been the backbone of price strength. The key thing we got from the meeting last week is that it was not adjourned. OPEC is keeping the market guessing and markets don't like uncertainty. Let's remember that we also have not exited this demand shock mode. We see some borders closing because of Omicron and by the time we find out about its scientific impact, demand will have slowed down to a certain extent anyway, just as we had started to see jet fuel recovering. China is also not looking particularly bullish, with the crack down on the teapot refineries, subprime property crisis and likely restrictions on industrial activity ahead of the Winter Olympic Games. So, we're back to looking at fundamentals.

Impact on oil of what looks like a more hawkish US macro policy for 2022?

An increase in interest rates is usually not good for commodities as it results in less backwardation and a weaker market. But putting macroeconomics aside and looking at oil supply, I am more optimistic about Iranian barrels returning to the market than the recent rhetoric suggests. If Biden wants to reduce the price of oil very quickly, that's the obvious button to press. In our estimates, Iran has at least 100-140 million barrels of stored oil so you could get up to a million barrels a day overnight. Meanwhile, on the bullish side, we have Saudi OSPs coming out in the next few days and those will probably pick up a little. And even though there's plenty of non-OPEC supply expected to come out in the next 12 months, there's very little spare capacity being left in OPEC. If demand keeps picking up, what are they going to do? All the power has been in that spare capacity. ■

**Paraphrased comments*

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