

## Global Decline in Oil Prices - Why?

An article written by John Kilduff, and published by CNBC, highlights the global decline in crude oil prices, and analyses the key factors that have resulted in a 30% loss in value of oil prices since hitting a summer peak.

### Why are prices dropping?

Put simply, global oil supplies are exceeding demand, and driving down prices as a result. The ‘explosion’ in US Oil production has triggered 9 million barrels to be produced daily, and the surge in US oil production is due to the ‘immense success of reborn technology’; fracking being a source of liberating millions of barrels of oil from fields thought to be the ‘bereft of fossil fuels’. At times, Gulf Coast storage facilities have been nearly filled to capacity due to several key pipeline upgrades; the U.S. has virtually ended imports of crude oil from West African countries, such as Nigeria, which used to be a key source of supply.



Another factor that isn't mentioned in this particular article is the struggling economies in Asia and Europe, which is leading to a decrease in oil consumption. China, being one of the world's largest oil consumers, has lowered its demand for oil as a result of their economic struggles. This factor is discussed in more depth in an article written by Tom Huddleston Jr. of the ‘Fortune’ business magazine.

### What is the importance of OPEC, and how are they responding?

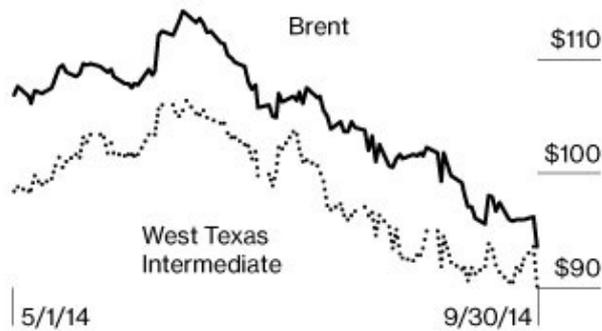
OPEC(Organization of the Petroleum Exporting Countries), whose mission is to coordinate the policies of the oil-producing countries, met on Thanksgiving Day in hope to ‘scramble to prop up oil prices’, and find buyers for their oil, whilst calling for a production cut. Saudi



Arabia was being relied upon to ‘carry the load’; though Saudi Arabia did not seem to be inclined to cut production. Due to John Kilduff's CNBC article being published before the meeting, I turned my attention back to Tom Huddleston Jr's ‘Fortune’ article, which was written more recently, and thus included the consequences of the OPEC meeting on Thanksgiving.

Tom Huddleston's article reveals that OPEC opted not to adopt additional measures to tackle oversupply issues, and would keep its 'self imposed output ceiling' at 30 million barrels per day. The announcement subsequently sent 'already-low' prices down even further; OPEC are unable to lower their overall oil output to a point that is consistent with Global Demand for the cartel member's oil, which the International Energy Agency estimates at just above 29 million barrels per day for the next year.

## Falling Crude Prices (Per Barrel)



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DATA: COMPILED BY BLOOMBERG

## What are the Consequences of Falling Oil Prices?

Intrigued by the potential consequences of falling Oil prices, I analysed an article published on 'The Week UK', which highlights the consequences of falling Oil Prices, and found that the main result of falling prices will be 'a slowdown and reduction in major new oil investments around the world', with Asia, Africa and South America likely to be the most affected. The article also discusses the historical 'knock on effects' of lower oil

prices and how they have generally benefited Western economies in the past, and may do so again if Europe act decisively.

Another interesting point raised in the article is how OPEC's power is under threat due to falling oil prices; OPEC, the 'once feared cartel of oil-exporting countries, with Saudi Arabia at it's core' has become a 'shadow of it's former self', according to political economist Will Hutton, from the Guardian. OPEC members certainly have opposing views regarding the crisis, with many of the Gulf States stating that cutting oil production would damage the market itself; Saudi Oil Minister Ali Al-Naimi speaks on behalf of OPEC by hoping that the market for Oil will 'stabilise itself eventually'.

However, OPEC members with smaller financial reserves and high government budgets, such as Iran and Venezuela, have expressed concerns that without production cuts, their economies are likely to suffer.



*Difference of opinion? : Saudi Arabia's King Abdullah, left, with Venezuelan President Hugo Chavez at the OPEC meeting.*

With the next meeting to be held on 5<sup>th</sup> June 2015, it will be interesting to see how OPEC decide to overcome the crisis of overproduction, that being if the current decline in the price of oil is still an apparent issue after 6 months. OPEC may be forced to come together shortly to reassess the market if the crisis deepens, but even if OPEC does conclude to cut production, there is no guarantee that countries such as Russia are to follow suit.

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