Oil market volatility and the implementation of the Declaration of Cooperation


OPEC Secretariat
Vienna

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The Argus view

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Volatility arises from:

- Changing circumstances
- Uncertainty, exuberance and fear
- Poor information

Volatility greatest during periods of large price moves
Spot and futures usually follow a similar trend, but...

Futures open interest is concentrated in near term
Oil trade is speculation

- Trade is forward-looking - fundamentals information is backward-looking
- The current policy environment is volatile.
- Hedging instruments are subject to volatility and the same impulses as spot trade.

NS Dated and Brent futures - a volatile relationship

North Sea market structure, $/bl

- Ice Brent month 2 vs month 1
- Ice Brent month 1 vs North Sea Dated
Latest OPEC/non-OPEC agreement takes effect

Compliance by OPEC members has been high
US output continues to grow

Crude oil spreads – expect a pronounced but temporary IMO effect
In summary

- Volatility is unavoidable. Currently driven by disruptive and unpredictable policy decisions.
- Physical spot prices help to anchor forward markets in reality.
- The Opec/non-Opec agreements have supported markets but can only go so far.
- They have helped to exacerbate shortages in the supply of heavier sourer crudes.
- US shale production and exports are quicker to react to market signals than conventional oil.