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Oil market volatility and the implementation of the Declaration of Cooperation

3rd Joint IEA-IEF-OPEC Technical Meeting on the Interactions between Physical and Financial Energy Markets
 OPEC Secretariat
 Vienna

James Gooder (VP Crude)
 28 March 2019

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Volatility arises from:

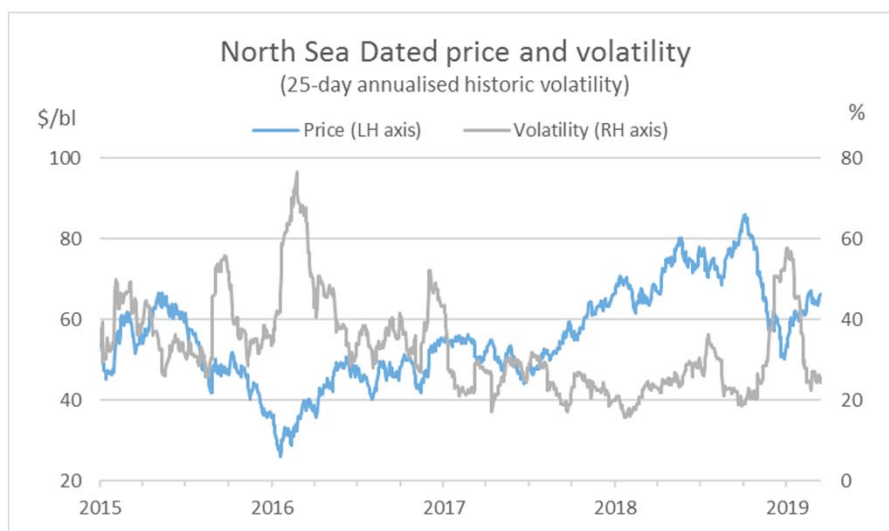
- Changing circumstances
- Uncertainty, exuberance and fear
- Poor information

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Volatility greatest during periods of large price moves

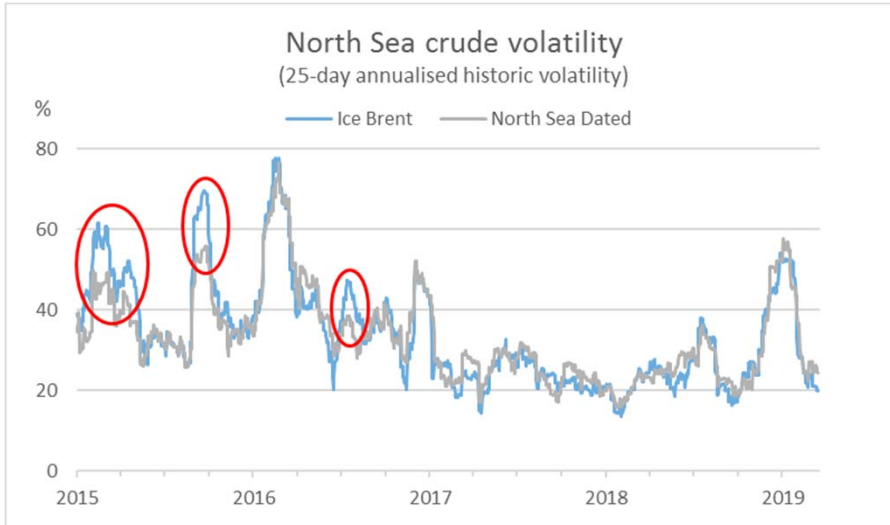


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Spot and futures usually follow a similar trend, but...

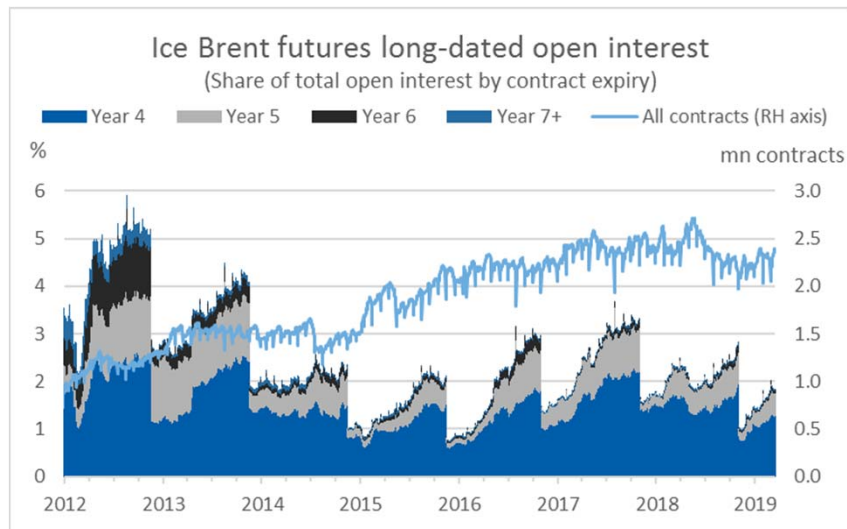


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Futures open interest is concentrated in near term



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Oil trade is speculation

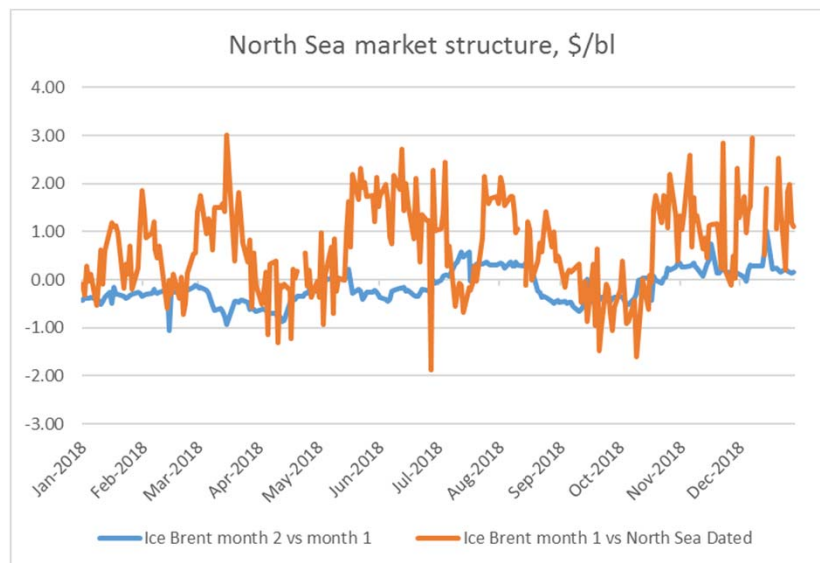
- Trade is forward-looking - fundamentals information is backward-looking
- The current policy environment is volatile.
- Hedging instruments are subject to volatility and the same impulses as spot trade.

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NS Dated and Brent futures - a volatile relationship

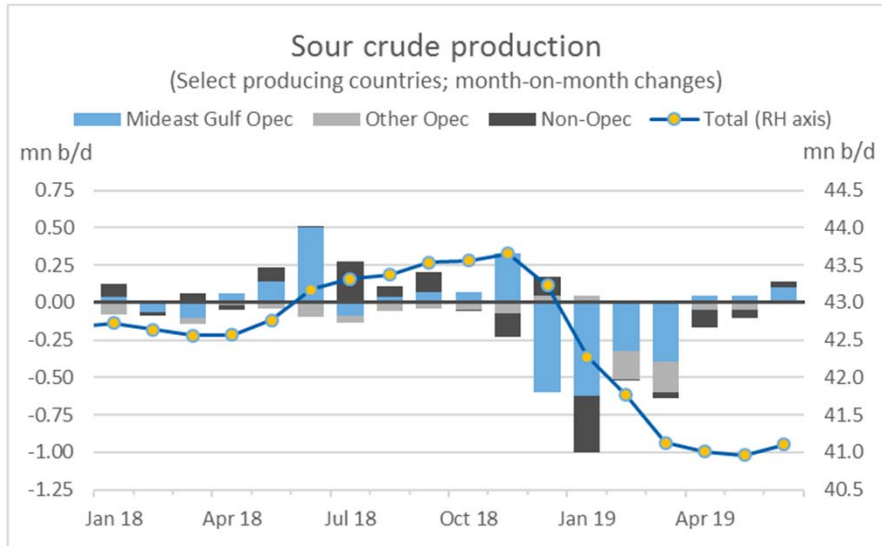


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Latest Opec/non-Opec agreement takes effect

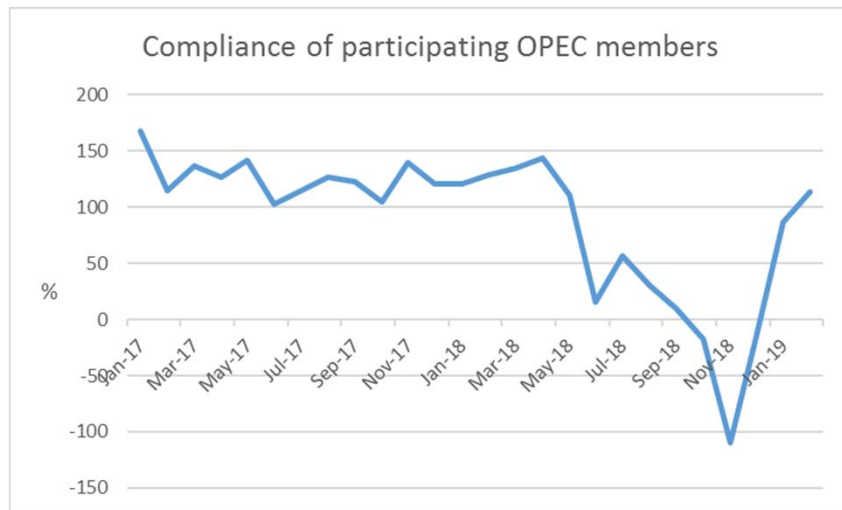


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Compliance by Opec members has been high

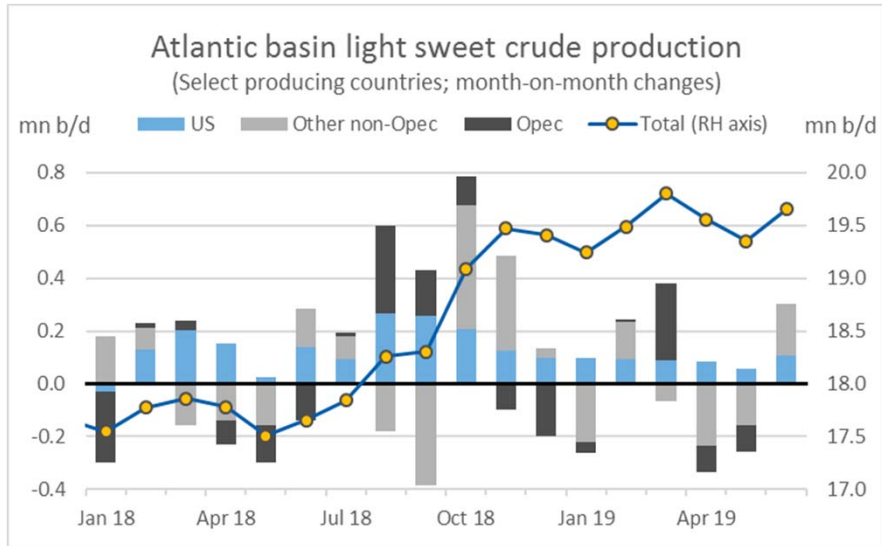


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US output continues to grow

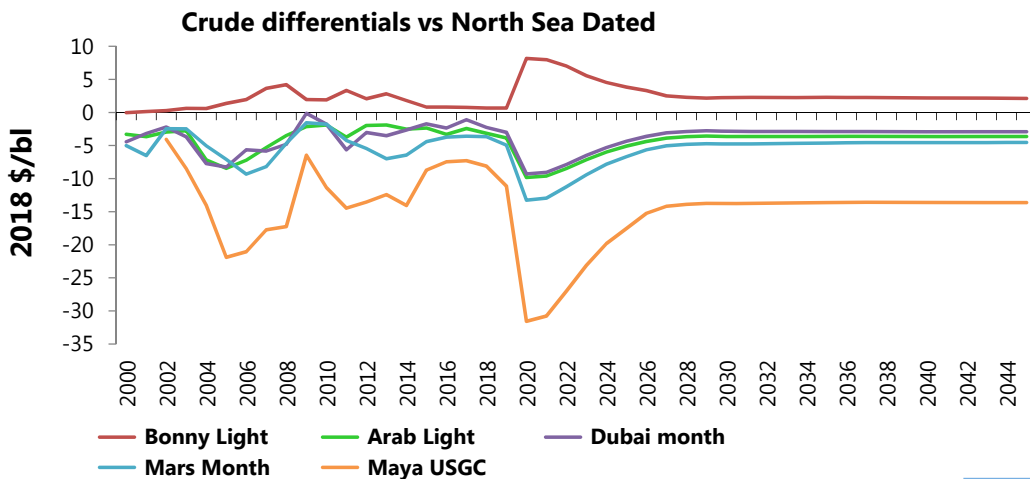


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Crude oil spreads – expect a pronounced but temporary IMO effect



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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.

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Thanks for listening!

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