MARKETS PROVIDE A STANDING OVATION FOR OPEC'S LATEST TWIST IN THE GREEK TRAGEDY

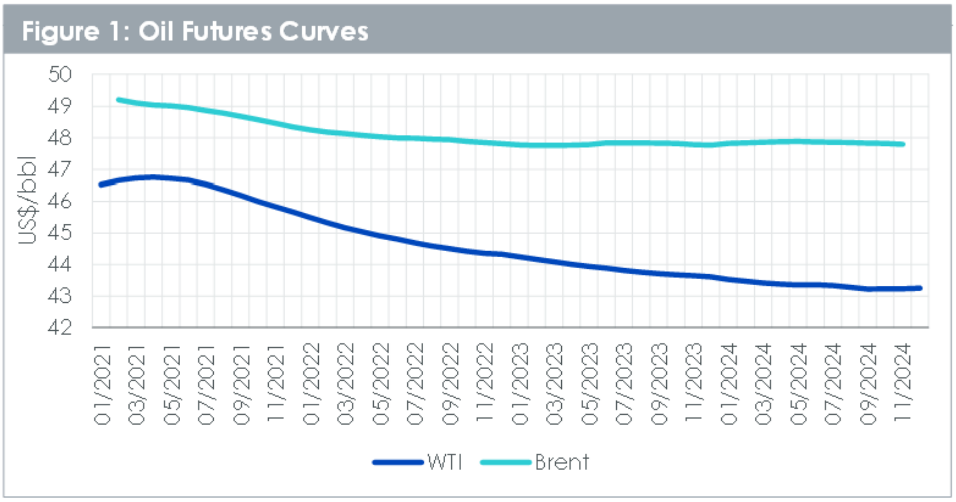
Nitesh Shah – Head of Commodities and Macroeconomic Research, WisdomTree Europe
07 Dec 2020

Back in March 2020, we likened OPEC[1] meetings to a Greek Tragedy. It may be hard to define the protagonist, but there is always a sense of betrayal and vengeance followed by a rallying of comrades. The high drama never fails to entertain. However, oil prices end up bearing the brunt of the emotional volatility.

Brent oil price rose close to US$50/bbl on Friday 4th December, following an OPEC+[2] meeting on 3rd December, marking the highest price since March 2020, just before the oil price crash occurred. It has surprised us, given that the OPEC+ deal fell short of expectations. The market had widely priced in an extension of current quotas for another three months. Yet OPEC+ has pursued with increasing production by 500,000 barrels per day in January 2021 and has scheduled monthly meetings to assess more production increases each month. Yes, that is lower than the 1.9 million barrel per day increase that was originally planned, but surveys of market participants clearly pointed to expectation of no increase for the first quarter. The outcome was a product of a compromise with the United Arab Emirates. The United Arab Emirates, traditionally a stalwart supporter of Saudi Arabia and the Gulf Cooperation Council, broke ranks, as it has become increasingly impatient to utilise its expanding oil capacity. The meeting had been delayed several days as a result and it has been the first time since March 2020 that Saudi Arabia hasn't seen the outcome that it had desired. To put that in context in March 2020, Russia broke ranks with Saudi Arabia sparking the price war that led to the worst oil price crash in history. While yesterday's outcome isn't as dramatic, fraying relationships in what is the core of OPEC could spell weak compliance. Furthermore, we could have a repeat of this saga every month, now that the production volumes have not been set for the coming quarter or year.

Tapering of just 500,000 barrels per day in January, followed by similar values in February and March, could allow the oil market to remain in a supply deficit in Q1 21, helping to withdraw the excessive inventory of oil. We believe the market is focused on that as a positive outcome.

While the major agencies like the International Energy Agency, Energy Information Administration and OPEC, remain cautious and have revised their 2021 demand figures downwards, the market appears to be more optimistic, with recent vaccine news providing a tailwind. Both Brent and West Texas Intermediate (WTI) futures curves are in backwardation from 2021 to 2024 indicating that the market is bullish on the demand front.



Source: Bloomberg 4/12/2020.

Historical performance is not an indication of future performance and any investments may go down in value.

In 2020 OPEC has celebrated its 60th birthday. What a celebration it has been! The drama and infighting among members and partner countries has been matched by price behaviour. After front month Brent prices fell 72% from 6th January 2020 to 21st April 2020, they have risen 157% from that point to 4th December 2020.

[1] Organization for Petroleum Exporting Countries

[2] Organization for Petroleum Exporting Countries (OPEC) and its partner countries (combined as OPEC+)

Related blogs

+ OPEC+ overcomes Mexican standoff again and extends cuts
+ Earlier OPEC+ meeting sets stage for production cut extension
+ From underdog to champion? Brent could be the favoured oil benchmark

Related products

+ WisdomTree Brent Crude Oil
+ WisdomTree WTI Crude Oil

View the online version of this article here.

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.