Post the OPEC meeting: What now?

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The recent OPEC meeting revealed no new news with respect to production cuts or the ability of OPEC to stabilise the oil price. Whilst there was a commitment for a longer period of production adjustments for a further nine months with effect from 1 July 2017 the meeting concluded with a lack of discussion of deeper cuts. What was revealed was just how dependent the oil price is on other factors and data points, something that we previously highlighted in our blog Five things you need to know about trading oil.

Specifically, in this instance, traders were caught unaware by the recent build up in US inventories following eight consecutive weeks of reducing stockpiles. Additionally, from a seasonal perspective inventories should have been reducing. This recent uptick leaves inventories only 4.2% below recent highs from the end of March and 2.3% above levels from one year ago.

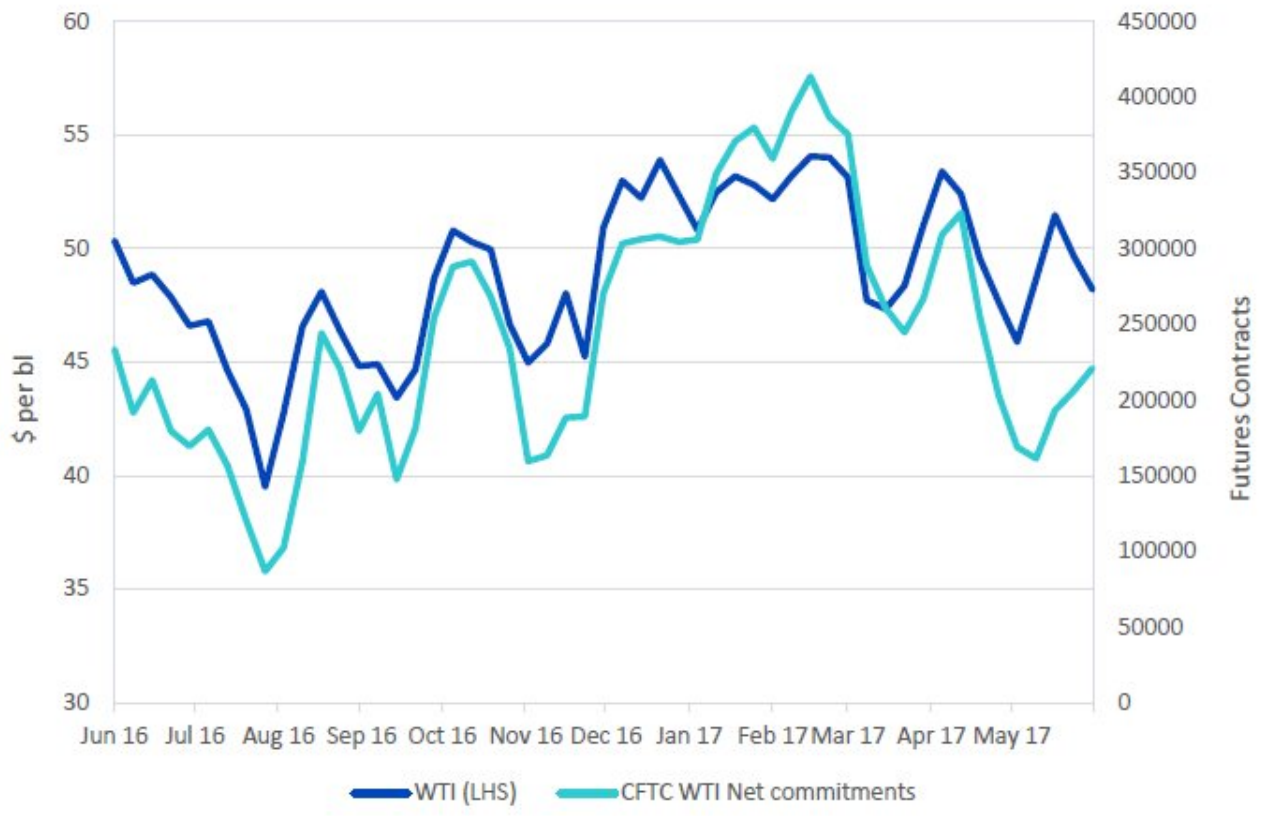
Figure 1: US Oil Inventories and price of WTI



Source: WisdomTree

These substantial changes in the oil market have had a direct impact on the overall positioning by investors in oil futures. Looking at the Commodity Futures Trading Commission (CFTC) data reveals how the net positions of non-commercial traders have changed over time and how these have tended to track moves in the oil price. After the 171st OPEC meeting on 30 November 2016 and ahead of the Declaration of Cooperation between OPEC and non-OPEC producers on 10 December 2016, traders' commitments picked up from close to 160,000 contracts to over 300,000. This coincided with an 18% increase in the oil price from around $45 p/bl to $53.

Figure 2: Traders Net Oil Positions and the price of WTI



Source: WisdomTree

Ahead of the most recent OPEC meeting on 25 May 2017, traders' commitments fell dramatically to almost the same low levels as in November 2016. Whilst these then picked up after the announcement of a lengthening of the production adjustments, there was only a modest pickup in long positions. Instead traders have been impacted by other factors such as the rise in inventories.

Overall the outlook for oil remains dominated by a number of variables rather just a focus on OPEC and production cuts. Even within OPEC there are likely to be issues with respect to adherence to production limits whilst some OPEC members, such as Libya and Nigeria, remain potential swing factors due to their more volatile production environment. Equally notable has been the continued recovery in shale rigs in the US. This has become an increasingly important component of the supply side equation, especially as

any sustained rally in the oil price serves to encourage greater participation bringing new shale rigs into production.

Finally, at a macro level, the OECD has recently raised its growth forecasts at a global level with 2017 growth expected to reach 3.5%, rising to 3.6% in 2018. Within this Chinese growth is expected to grow at 6.6% in 2017, declining to 6.4% in 2018, compared to the 6.7% achieved in 2016.

As the market moves away from focusing on production cuts it is likely that the outlook for global growth becomes a more important determinant of oil prices.

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+ Boost WTI Oil 3x Short Daily ETP (3OIS)

+ Boost WTI Oil 2x Leverage Daily ETP (2OIL)

+ Boost WTI Oil 2x Short Daily ETP (2OIS)

+ Boost WTI Oil ETC (WTID)

+ Boost WTI Oil 1x Short Daily ETP (OILZ)

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+ Boost Brent Oil 3x Short Daily ETP (3BRS)

+ Boost Brent Oil ETC (BRND)

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