The Nation

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BIZ INSIGHT

Oil market still volatile despite slight signs of recovery

SPECIAL TO THE NATION

THE OIL market has tumbled through sluggish demand and flowing supply of crude. The price of the New York Mercantile Exchange WTI crude had fallen from US$100 (Bt3,500) per barrel in June 2014 to the 13-year low of $27 per barrel in February this year. However, In April there were some indications of a recovery in the oil market as the price rose to over $40 following production disruptions in Iraq and Nigeria, together with a decline in non-Organisation of the Petroleum Exporting Countries production and US shale.

A strike by Kuwaiti oil workers, which cut supply by 1.7 million barrels per day, was another factor supporting the global recovery in prices. This showed that market sentiment has turned upwards amid signs of easing in the global over-supply. Moreover, at the end of April, the World Bank has also raised its 2016 crude oil price forecast to $41 per barrel, up from $37 earlier, stating that the oversupply situation has been expected to recede with improving market sentiment and a weakening dollar.

More importantly, the oil market continued its rally early this month, driven by the weakening US dollar after the Federal Reserve kept interest rates unchanged. There have been signs that the Fed would not act in the near future due to concerns over volatility in the financial market and weakness in global growth. In addition, the oil market was also driven by the attack by militants on Nigeria's Bonga oil field and the wildfire near Canada's main oil hub, which is likely to cut off supply of at least 645,000 barrels a day, or 25 per cent of the country's overall output.

However, there has been a big change in the Middle East that may have a great impact on the global oil market. We could enter a new age of uncertainty with the removal of Saudi Arabia's 20-year veteran oil minister, Ali al-Naimi, and the appointment of Khalid al-Falih as his successor. Naimi was the sole player with the policy of forcing the oil price lower by pumping more supply of crude, while Falih is chairman of Saudi Aramco together with Muhammad bin Salman, the deputy crown prince who calls the shots these days.

Though there is no clear indication that there will be changes in the policy, the new oil minister will probably continue the strategy of pumping near-record amounts to squeeze high-cost producers in America and elsewhere out of the market. Meanwhile, it is clear that Falih will be the most powerful voice in the world of oil.

There are, however, others factors and developments that could affect the oil market. Investors should be concerned about and closely monitor US production, the attack in the Niger Delta, the dispute between the Libya National Oil Corporation and the major factors such as global economic growth and the balance of oil demand and supply.

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