

## An Oil Price Rally Is Likely?

By [Nick Cunningham](#)

Global Research, April 03, 2018

Theme: [Economy](#), [Oil and Energy](#)

*Oil prices seesawed at the start of the week before jumping close to multi-year highs on geopolitical concerns, with Brent hitting \$70 and WTI at \$65. However, geopolitical pressure is only able to influence oil prices to such a degree because the market is fundamentally getting tighter.*

Ongoing declines in Venezuela and concerns about heightened tension between the U.S. and Iran have significantly raised the risk premium for oil, even as some short-term factors recently pushed up prices.

The weekly [EIA report](#) was a bit mixed. U.S. oil production jumped again by 26,000 bpd in the week ending on March 23, putting output at 10.433 million barrels per day (mb/d), yet another record high. Still, the report wasn't exactly bearish. Although crude stocks rose, they increased by a modest 1.6 million barrels, and much of that is largely the result of a big jump in imports. More glaringly, gasoline stocks fell sharply by 3.5 million barrels.

In other words, U.S. production is indeed soaring, but it doesn't appear to be swamping the market, at least as of now. A variety of analysts have argued that oil demand is so strong that the market will continue to tighten, even after considering the explosive growth of U.S. shale.

"This year will be the eighth year of continuous growth since the Great Financial Crisis; and the seventh consecutive year of annual growth of more than 1 million b/d," **Wood Mackenzie** said in a note. "Our latest forecast suggests that demand will grow by 1.7 million b/d in 2018, the fifth-highest this century."

In fact, some of the recent weakness in oil prices lately can be chalked up to [fears of a trade war](#), which could upset economic growth projections.

"The biggest risk to oil demand's winning growth streak is a trade war undermining the global economy," Wood Mackenzie said.

However, the uptick in oil prices at the end of this past week, some analysts say, are at least in part a result of those trade fears subsiding.

"Worries about demand being affected by a possible trade war kind of receded," **Gene McGillian** manager of market research at Tradition Energy, told Reuters.

At the same time, some attribution for the oil price increase belongs to a rebound in global financial stocks after a recent selloff.

“The equities market is rallying and that’s lending support to oil,” **Philip Streible**, senior market strategist at RJO Futures, told [Reuters](#).

The flat dollar also lent some support to crude.

With trade war concerns on the wane, and global equities on the rise, oil prices rebounded. While these short-term factors no doubt played a role in pushing up crude benchmarks, they are occurring against a backdrop of a tighter oil market. The surplus of OECD inventories is now below 50 million barrels, whereas it was above 300 million barrels a year ago.

Indeed, the IEA sees the oil market tipping into a supply deficit as soon as this quarter, and inventory drawdowns will pick up pace in the second half of the year.

“The voluntary production cuts are only playing one part in this,” Commerzbank said in a note. “The involuntary production outages in Venezuela are weighing more heavily, as they mean that OPEC is reducing its output by considerably more than originally intended.”

As long as OPEC keeps the current production limits in place, the oil market will continue to tighten, even after taking into account U.S. shale growth. And OPEC has even signaled that it is considering [extending the cuts for another six months](#), pushing the expiration date to mid-2019. If they follow through on that, there is a pretty decent chance that there is a lot more room on the upside for oil prices.

Still, there are a handful of uncertainties that would completely upend any reasonable oil forecast. On the bearish side, if OPEC somehow abandons its cuts, begins a phase out sooner than expected, revised the deal to account for sharp declines in Venezuela, or members simply started cheating, then oil prices could slide significantly.

But, arguably, there are more upside risks. The most dangerous is the likely return of sanctions on Iran from the U.S., which could curtail a significant chunk of supply. Worse, the Trump administration could head down a dangerous road that ends in war. Meanwhile, Venezuela’s oil production continues to fall off a cliff.

In short, because U.S. shale growth is already baked into the current oil market projections, the risk to oil prices is probably skewed more towards the upside due to the variety of geopolitical ticking time bombs.

\*

*This article was originally published on [OilPrice.com](#).*

The original source of this article is Global Research  
Copyright © [Nick Cunningham](#), Global Research, 2018

## [Comment on Global Research Articles on our Facebook page](#)

## [Become a Member of Global Research](#)

Articles by: **[Nick  
Cunningham](#)**

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)

[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)