Investments - Flash

M. Alain Freymond - Partner & CIO

OPEC SETS THE TONE: $100 TARGET

Trend change for crude oil prices

The decline in crude oil prices from their June 2022 highs above $120 to $70 was interrupted by the expectation that China would reopen and recover its demand for crude oil. As this was not forthcoming, inventories rose, while the crude oil market was still in a stabilization phase between $70 and $80 a barrel, awaiting confirmation of this Chinese demand to allow a return of the upward trend. The recent risk off episode did not spare oil, which had also fallen by 20% before recovering its $80 level with OPEC's intervention. It should be noted that in the meantime the US government had announced that it did not want to quickly replenish the strategic reserves previously used to curb the impact of energy prices on inflation measures. During this period, short sales had accumulated to nearly 30 billion.

Speculative positions at a four-year high weighed on crude oil prices until OPEC's surprise announcement over the weekend. The 1 mbpd cut reversed this wave of bearish speculation, causing a massive short covering and the price now rising back above $80. OPEC wants to set the tone again and is committed to stabilizing the market, while Russia has cut its production by 0.5 mbpd and Iraq's is also down by 0.4 mbpd. This should be enough to cause a rapid decline in inventories and change the supply and demand parameters. OPEC+ is targeting $90 to $100 and may well be able to achieve this target if global demand proves to be close to current forecasts suggesting that it will exceed the 100mb mark for the first time in 2023.