An Insider's Guide To Trading The Global Oil Market

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SAMPLE

Why Trade The Oil Market?

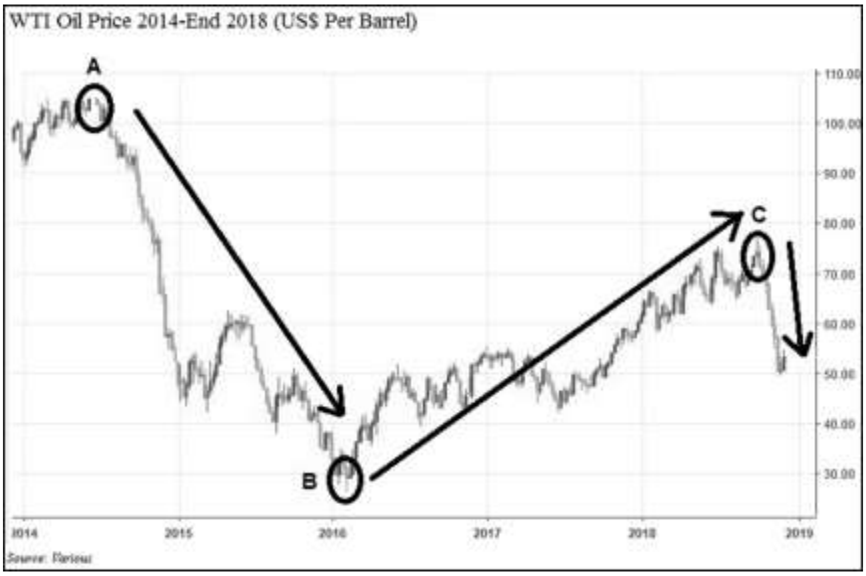
Macroeconomic And Political Factors Generate Big Trend Plays

All of the major asset markets have a slightly different balance of the key drivers that move all financial markets: macroeconomics, politics, technical analysis, cross-asset sensitivity, big name flows, company specific considerations and so on. **The oil market,** though – a term used here as a synonym for the petroleum market, which covers both naturally occurring unprocessed crude oil and petroleum products that are constituted from refined crude oil – **is so important to virtually all of the world's economies that it is subject to macroeconomic and political factors to a much greater degree more often than other markets, in addition to the usual dynamics of supply and demand.** As a corollary of this, the degree of manipulation – overt and covert – that is brought to bear on oil prices is much greater than in any other market, be that FX, equities, bonds or other commodities. This is done indirectly through verbal intervention and through altering supply levels, for example, and directly, through price manipulation in the marketplace.

Although theoretically this might be regarded as a negative for investors, in **reality once the basic elements of these macro factors are understood, then working out the direction that the market will move over time is relatively straightforward.** There will be other factors, as mentioned above, that will complicate this overall picture, but the fact is that the big macro factors will ultimately find resonance in the trading direction of the oil market. It also means that once a major macro theme has established itself it can dominate the direction of trade for much longer than similar factors can in other asset markets.

At any **time in the history of the oil market, one or two major macro factors have been dominant and have allowed investors to profit consistently from unidirectional trades over relatively long periods, running sometimes for years.** There will be detailed analysis of the recent history of the oil market later on in this book but the last few years highlight this big trend play scenario as well as any other.

The Oil Market Has Been Dominated By Long-Running Key Trends



[Chart Key:
A = Saudi Arabia embarks on its strategy in tandem with other OPEC members to oversupply the oil market in order to drive the oil price down, making production uneconomic for shale oil producers, ultimately forcing them out of the market or into bankruptcy
B = After two years of lower prices, it becomes clear that many shale oil producers have changed their operations in order to be able to generate profits at much lower oil prices than the Saudis had thought and, at the same time, lower oil prices are wreaking havoc on the economies of both Saudi and its OPEC allies, so Saudi decides to stop the oversupply and move oil prices back up again
C = US President Donald Trump tells Saudi Arabia to bring oil prices down, as higher levels are holding back the US economy from achieving its full growth potential]

Recent History Illustrates Oil Market Dynamics Overall

In broad terms, 2014 saw Saudi Arabia – at the time, the big 'swing producer' of the global oil market and the de facto head of the oil cartel OPEC – decide that it had to deal with the existential threat to its position in the global oil market by destroying the nascent shale oil industry. This was, and is, predominantly, based in North America, with the most dangerous threat to Saudi coming from US shale oil producers.

Saudi, therefore, rallied support from fellow OPEC members to instigate rolling increases in oil supply in order to push the oil price down, which, it assumed, would mean that shale producers would be left holding uneconomic fields and would go bankrupt. As a result of this over-production, the oil price trended down and stayed in that overall trajectory for a very long time in trading terms. This **downtrend only reversed when it became clear that, in fact, many US shale producers had effected changes in their operations that meant that they could generate profits at much lower levels that the Saudis had thought possible.** At the same time as this fact was becoming clearer, Saudi itself – and all of its OPEC supporters – were foregoing enormous profits in the lower oil price environment, to such a degree in fact that the Saudi strategy was seriously damaging their economies.

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Published by ADVFN Books

Available in paperback and for the Amazon **Kindle**.