An Insider's Guide To Trading The Global Oil Market

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SAMPLE

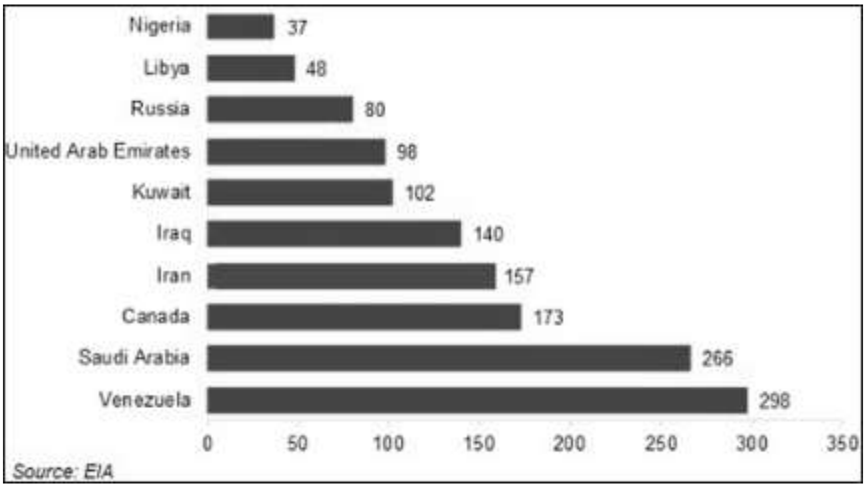
The Key Players In The Global Oil Market: OPEC

Foundation

In 1960, the Organization of the Petroleum Exporting Countries (OPEC) was specifically founded to 'co-ordinate and unify the petroleum policies' of all of its currently 14 member states. These are – in alphabetical order, not that of oil output – Algeria, Angola, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, the Republic of the Congo, Saudi Arabia, the United Arab Emirates and Venezuela. Countries commonly thought to be members but which are not include Indonesia, Qatar and most notably perhaps Russia.

This 'coordination' means aligning the production, sales, and pricing policies of its members: in other words, doing its utmost to fix the global oil price one way or another. Given that its **members account for around 40% of the world's crude oil output, about 60% of the total petroleum traded internationally from their oil exports and just over 80% of the world's proven oil reserves,** OPEC's influence on the global oil market has been profound.

World's Largest Proved Reserve Holders Of Crude Oil, Current (billion barrels)



Cartel

For nearly 55 years, what OPEC did (in terms of collective output, geographical sales policies and pricing) and what it said (in terms of future projections for each of these factors) played the key part in determining the global price of oil and related products, such as natural gas, liquefied natural gas (LNG) and all other petroleum products. Obviously, in the most basic terms, if OPEC decreased oil production, all other factors remaining equal, then the price of oil and related products rose, and if it increased production then the price fell, according to the usual laws of supply and demand.

Additional influence was brought to bear on the oil price when OPEC started to set production targets for its members as well, in that at that time – even if production was running at the high end but comments from key OPEC figures pointed to lower production targets to come – then the price would still be held up to a greater degree than otherwise would be the case.

So, in effect, **this move in the 1980s allowed OPEC to have the best of both worlds: high production but also higher prices than the supply/demand balance would otherwise imply.** This situation continued until Saudi embarked on its shale oil destruction strategy in 2014 – which will be gone into in great depth, along with all other key oil market fixes, in the next section of this book – although at all times along the way there has been divergence on individual OPEC members sticking to their production quotas.

Production Reversal After Disastrous Saudi Strategy (LHS, in 000 barrels per day)

Existential Crisis

Right now – and again this will be examined in detail in the next section of this book – **OPEC faces a number of actual existential challenges.** These most notably include: the role of Saudi as its de facto leader; the possible defection of other members following that of Qatar in January of this year (2019); the increasing importance of Russia, a non-OPEC state, in determining the oil price; the ongoing threat from US shale; and President Trump's threat to effectively dismantle OPEC via the 'NOPEC Bill' (which challenges the very legality of OPEC, given that it is a cartel).