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THE OIL MARKET

It is less than a week to the OPEC meeting, and the oil markets are a good deal more calm and settled than our weather. North Sea oil and the most widely-traded US blend of crude are selling at around $27 per barrel. Does this imply market confidence in a stabilising outcome of the OPEC meeting?

It certainly doesn't imply an easy meeting. With the underlying demand for OPEC oil still trending gently down and the sharing of the misery now far removed from the official production quotas, there is a pressing need to realign quotas around a lower total. That will also entail some adjustment of the price differentials between light and heavy crudes. Resolution will be difficult, with long-suffering "haves", like Saudi Arabia, arguing that the burden is intolerable and "have nots", like Nigeria, pleading economic necessity. Agreement is unlikely to be attainable at the first meeting. A series of meetings may be necessary before such differences can be reconciled.

Normally, this type of stalemate would induce nervous buyers to hold back and wait for an outcome. Such a stand-off is usually reflected in sharply-falling oil prices with doomsters foreseeing an oil price collapse. Currency markets have a nasty habit of picking up the same jitters.

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This time round the traders' instincts will be similar, but the underlying physical reality should be more of a stabilising factor. Of late, world oil production has not exceeded demand - mainly because the high-priced OPEC crudes have not attracted customers. World oil stocks are exceptionally low, making it difficult for a prolonged stand-off of would-be buyers. In the dominant US market, supply, demand and stocks of oil products have been nicely in balance.

OPEC watchers see them reaching a workable outcome - with difficulty. Oil markets will shudder, but not as badly as last winter. In any event, sterling should be less jittery.

JM

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