Prime Minister 2
John Wybrew's earlier bearishness about the oil price has been proved right.
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THE OIL MARKET

The game of poker being played out by the world's oil producers shows little sign of reaching a quick and painless end.

Saudi Arabia is still producing more than 4 million b/d - close to its nominal share of the OPEC ceiling of 16 million b/d. Moreover, the Saudis have concluded contractual arrangements with the major oil companies to secure firm outlets for this level of production, irrespective of how the oil price moves. Other OPEC members, especially those able to entice the oil companies with long-term relationships, are busily making similar arrangements.

The world's producers are estimated currently to be producing 1½-2 million b/d in excess of world demand. Oil stocks have begun to rise. The northern winter has not been severe. Sellers of oil without secure outlets are beginning to have difficulty in finding buyers.

The scene is set for a rapid slide of oil prices. The market is edgy. Any time bearish sentiment could build up. Buyers will hold back anticipating lower prices. Those sellers without firm outlets - not least in the North Sea - will be forced to cut prices and scramble for what little business there is. Mexico and its bankers are potentially exposed when such a scramble develops.

My guess is that oil prices will quickly fall below $20 per barrel. Alarmed OPEC members will sink their differences, curb production and reassert a grip on the market. When prices fall below $20 per barrel, OPEC should be helped by the switching of electricity utilities and some heavy industry from coal and gas into fuel oil. We must fasten our seatbelts and let this process work itself out. Any hint of intervention by HMG will be counter-productive.

JM

JOHN WYBREW