



Written by [Bob Adelman](#) on July 3, 2017

Crude Oil's Bear Market Is Crushing OPEC

The world's price of crude oil [fell farther](#) in the first six months of 2017 than in any six-month period in the last 19 years. From its peak in January it dropped by more than 21 percent by the middle of June, qualifying it in Wall Street jargon as a "bear market."

This isn't part of OPEC's plan. The once-influential cartel was sure that by taking 1.8 million barrels a day of crude oil production off the world markets, the world price of oil would shortly hit its target of \$60. And it almost made it, rising to \$57 a barrel before beginning its long and crushing decline.



OPEC was sabotaged not only by noncompliance among its members and production from those to which it gave a pass (Libya and Nigeria), who produced more than was expected, but also by the American oil industry. Thanks to fracking technology and the ever improving ability to drill horizontally into vast reservoirs of oil trapped in shale, American oil producers have doubled their output in the last six years.

This is especially painful to Saudi Arabia, the leader of the pack, which is planning to sell part of its precious Saudi Aramco oil company. It has expressed hopes that oil at \$60 a barrel would price the company at \$2 trillion or even higher. Selling just 10 percent of the company would raise \$200 billion, enough to drive the planned diversification based on the Saudi's "Vision 2030." As Mohammad bin Salman bin Abdulaziz Al-Saud, the nation's chairman of the Council of Economic and Development Affairs, wrote:

The first pillar of our vision is our status as the heart of the Arab and Islamic worlds. We recognize that Allah the Almighty has bestowed on our lands a gift more precious than oil. Our Kingdom is the Land of the Two Holy Mosques, the most sacred sites on earth, and the direction of the Kaaba (Qibla) to which more than a billion Muslims turn at prayer.

The second pillar of our vision is our determination to become a global investment powerhouse. Our nation holds strong investment capabilities, which we will harness to stimulate our economy and diversify our revenues.

The third pillar is transforming our unique strategic location into a global hub connecting three continents, Asia, Europe and Africa. Our geographic position between key global waterways, makes the Kingdom of Saudi Arabia an epicenter of trade and the gateway to the world.

That, of course, is going to take billions of dollars. As the world price for crude drops, so does the market value of Aramco. If the world price drops to \$30 a barrel, the dream of raising those billions fades.

At bottom, OPEC's problem is that it cannot control the world's price of oil. There was a time when it could (and did) — but no longer. As Robin Wehbe, managing director of the Dreyfus Natural Resources Fund, put it: "It's alarming to people because this cycle has played out very fast. The oil market has



Written by [Bob Adelman](#) on July 3, 2017

gone from a cartel-managed business to an open-market-driven business.”

OPEC isn't getting any help from Dennis Gartman, a commodities trader and editor and publisher of *The Gartman Letter*. In an interview with CNBC's *Power Lunch* last week, he said:

There's a real problem out there in the crude oil market. You're going to get a rally and the market is rallying today [Wednesday, June 28]. It's been rallying for the past 4 or 5 days. [But] it is nothing but a dead cat bounce.

I'll go with the Deputy Crown Prince of Saudi Arabia, Mohammed bin Salman, who has made it abundantly clear that he thinks crude oil over the course of the next 20, 30 years is going to be essentially worthless.

Perhaps that's hyperbole, but he has a friend in Goldman Sachs, which just reduced its forecast of \$55 a barrel for the next three months down to \$47.50 a barrel. In a note to clients, Goldman said that the resurgence of production from Libya, Nigeria and the United States “creates risks that the normalization of inventories [i.e., the long-awaited “balancing”] will not be achieved by the time the OPEC's [production cut extension] ends next March. We expect this will leave prices trading near \$45 a barrel until there is evidence of a decline in the U.S. horizontal oil rig count, sustained stock draw[downs], or additional OPEC production cuts.”

Adding to OPEC's woes was the announcement from the International Energy Agency (IEA) last week that crude oil stockpiles of the 35 countries comprising the Organization for Economic Cooperation and Development (OECD) were higher in April than they were before OPEC agreed to its first production cut agreement. To this was added the U.S. Energy Information Administration's (EIA) report that crude oil stocks increased by 118,000 barrels last week.

Another piece of bad news for OPEC was the report from the *Wall Street Journal* last week that, according to its poll of 14 investment banks, the price of crude oil forecast for the rest of 2017 dropped two dollars from its May survey.

And then there's compliance, or lack of, among the cartel's members. Wrote Carsten Fritsch, an analyst at Germany's second largest bank, Commerzbank, “OPEC's compliance will crumble soon. Low prices are causing them a lot of pain and some members will ramp up output to compensate.”

There could be a temporary reprieve for the fading cartel as record numbers of Americans are taking to the road for the Independence Day weekend. In addition, July is usually a big month for drawdowns from inventories as demand typically exceeds production briefly. So observers are watching particularly for reports from the EIA to see if those inventory reductions are temporary or permanent. David Thompson, executive vice president at Powerhouse, an energy commodities broker in Washington, D.C., noted: “Typically June/July represents the seasonal peak in refinery demand for crude. It gets tougher to use up all that crude as refinery utilization starts to ease off as we move past the peak of summer driving season.”

There is another factor many observers haven't factored into their forecasts: DUCs, or “drilled but uncompleted” wells. Consider DUCs as inventory ready to be pulled off the shelf in a retail establishment. The wells have already been drilled, the development and proving costs have been borne, and the companies are waiting for the right price to complete them. In accounting terminology, when those drills can be completed at costs less than the world's current oil price, they will come online. Those variable costs are far less than today's prices, and there are, according to the EIA, nearly 6,000 of them.



Written by [Bob Adelman](#) on July 3, 2017

All of this continues the story of OPEC fading into irrelevancy. As Wehbe said, “the oil market has gone from a cartel-managed business to an open-market-driven business,” leaving OPEC in the dust of history — an unlamented footnote.

Photo: Thinkstock

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at [LightFromTheRight.com](#), primarily on economics and politics. He can be reached at badelman@thenewamerican.com.

Related article:

[Enjoying Record Low Gas Prices? Thank a Fracker!](#)



Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.

Subscribe