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No long-term consequences after brief panic in oil market

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A drone attack on the refineries of Saudi Arabian oil company Aramco last week caused a stir in the oil market. At the start of the week, crude oil prices jumped to their highest levels in months. The attack, behind which the US government suspects Iran-supported Houthi rebels from Yemen, resulted in the loss of 5.7 million barrels of production, making it one of the biggest production losses of all time. The fact that oil prices nevertheless fell again quickly in the course of the week is due to several factors.

Oil market is generally well supplied

The temporary price increases can be explained by risk premiums. Saudi Arabia is regarded as one of the most stable producers: "If even a relatively simple drone attack can eliminate five per cent of the world's supply, there will naturally be a fear of major supply shocks," explains Erste Group commodities expert Alexander Weiss. According to Weiss, the market's reaction has been very focused, it has not affected other sectors, and investors do not need to fundamentally revalue the oil market due to recent developments. This is mainly due to the fact that the market is currently basically very well supplied, with the International Energy Agency (IEA) even expecting a surplus supply on the oil market in the coming year.

The most important oil producing countries, which coordinate themselves in and with the Organization of Petroleum Exporting Countries (OPEC+), are trying to curb production and thus keep prices stable, but other countries are increasing their oil production further. According to IEA estimates, the demand for crude oil from the OPEC member states in the first half of 2020 will therefore lie around 1.4 million barrels below the production of the OPEC countries in August.

Oil market experts optimistic

Another reason for the limited impact following the production loss is the accumulated stocks. The USA, for example, agreed to release its strategic oil reserves should bottlenecks occur after the drone attacks on the oil plants in Saudi Arabia. This also reflects how much the United States has become more important on the oil market: In June, the USA even temporarily overtook Saudi Arabia as the world's largest oil exporter thanks to its massive shale oil production.

According to IEA estimates, the global economic slowdown will not result in decreased demand for oil. The authorities stand by their forecasts for this and next year. As a result, global demand is expected to rise to 1.1 million barrels (1 barrel = 159 litres) per day in 2019 and 1.3 million barrels in 2020. The prerequisite for this, however, is that the trade talks between the USA and China do not fail and that the tensions regarding Iran subside.

In conclusion, Alexander Weiss sees no long-term threat to the oil supply, and the dramatic attack on Saudi Arabian production sites has not changed this: "On a geopolitical scale, we do not see any escalation at the moment. So far, everyone has kept a cool head," Weiss sums up the situation. Last week, the oil company Saudi Aramco reported that about 40 per cent of the oil production in the attacked large plants had already resumed. Full capacity should be available again by the end of September.

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A blog post by APA Finance together with Erste AM Communications.