

MARKET COMMENT

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Bob Weir, CFA
Director of Research

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Is Oil on Its Way Back to \$100?

June 27, 2018

Oil prices are poised to head higher and are likely to spike in the years ahead, Robert Rapier, a chemical engineer and director of alternative-fuels technology for Advanced Green Innovations LLC, recently said on [Financial Sense Newshour](#).

Rapier discussed the big move in oil last week, building concerns over supply with Venezuela coming offline, and why peak oil *demand* is much further off than many commentators believe.

What Is OPEC Up To?

Though OPEC announced a production increase of a million barrels, some of the producers are not going to be able to meet that and, in reality, we are probably looking at closer to 600,000 to 700,000 barrels a day of increased production. This is going to be short of what is needed to balance the market, according to the IEA, Rapier commented.

“Of course, Saudi Aramco is still planning its IPO, so they would like oil prices to remain elevated,” Rapier said.

“I think this move was designed to keep President Trump a little bit happier while keeping oil prices elevated. ... (OPEC) did not want to flood the market again and they do not want to cause prices to crash either. I think they met their objectives.”

Venezuela Coming Offline

We are seeing ongoing production declines in Venezuela which, on paper, has the largest oil reserves in the world. However, by the end of the year, its crude oil production is projected to fall to around a million barrels a day.

At the current rate, by the first part of next year at the latest, Venezuela will not have any oil left to export, Rapier noted.

Other producers are constrained in their ability to increase production as well. The recent political issues that Iran is facing, for example, are likely to curtail production from that country.

There are not a lot of major players left, with Saudi Arabia, the United States, and Russia being the largest capable of meeting production increases.



Price Spike to \$100

While shale oil production is up in the United States, some reports have suggested supply issues have prevented producers from moving oil to market. Until pipeline capacity catches up, which will take some time, Rapier said, we may see supply issues remain. However, we should note that this is really only a problem in the Permian Basin.

Shale oil has done a lot to ease supply fears based around the concept of peak oil, but now the concept of peak demand is coming into play, Rapier noted. This has to do with some seeing the inevitable decline of oil's importance in the energy space, with energy needs shifting toward electricity.

However, declining demand is not really in the cards, Rapier noted. Electric vehicles are still a ways off from taking significant market share, Rapier stated and, over the last 5 years, even though we have seen an order of magnitude increase in electric vehicles on the road, oil demand went up regardless. The IEA is forecasting another 1.4 million barrel a day increase in demand next year.

Oil companies will still have to find and produce that oil, and as long as companies are being punished for making long-term investments, we will likely see a shortfall down the road and a possible return to \$100 oil.

"You cannot turn on the taps overnight," Rapier said. "Once oil prices start to rise, companies scramble and they will make those investments then. But there is a multi-year lag. So, what we are looking at is the potential for a significant oil price spike in 3 to 5 years."

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Financial Sense: **Primary Tel:** 858.487.3939

fswebmaster@financialsense.com
<https://www.financialsense.com/>

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