



DUKASCOPY
RESEARCH PRODUCTS

14/01/2016



Expert Commentary

Jan Von Gerich, Chief Strategist at Nordea Bank AB, on oil

”

We can see that they have taken some precautionary measures at the moment, since Saudi Arabia does not want to run down the reserves at full speed.



***Jan Von Gerich
Chief Strategist
Nordea Bank AB
Finland***

At the beginning of this year, Saudi Arabia announced a sharp reduction in its 2016 budget to control a worsening deficit which is steadily draining the kingdom's financial reserves. How long can Saudi Arabia's budget withstand the period of low oil prices?

It would be worth mentioning that Saudi Arabia does not stand this price level already. I believe that the real question is – how long the reserves will last? We can see that they have taken some precautionary measures at the moment, since Saudi Arabia does not want to run down the reserves at full speed.

On the other hand, they have illustrated that they are going to stick to the strategy of pumping as much oil as the market can take, that way maintaining the market share. Hence, there is a little risk to think that a big change in the stance of Saudi Arabia would be what will eventually turn the oil market around.

OPEC's biggest producer has led the group in a strategy to defend its market share to push higher-cost rivals such as U.S. shale oil explorers out of the market. Nevertheless, economists mention that the main reason behind it is to inflict pain on Iran, since their reserves are the closest in the area that can compete with Saudi Arabia eventually. At the same time any collateral damage to US shale producers is secondary. What do you believe is the main reason behind this aggressive policy?

I believe that it is probably a combination of many factors. Traditionally, Saudi Arabia remains the producer who has the spare capacity to adjust production based on the market environment. Hence, you could also see their strategy as part of that. In case OPEC decides to lower the production, Saudi Arabia would probably suffer the most in this situation. OPEC has not strictly followed the quotas anyway; therefore, the whole OPEC future is being questioned by the fact that they will not be able to agree on the quota. Even the quota that Saudi Arabia has been able to previously agree on – other countries have not strictly followed their levels. Saudi Arabia is still the major swing producer and going forward, if prices are low and they still lose the market share, it will definitely put them on serious risk.

Also, some of the alternative sources of energy coming to the market or the cost of producing are much higher compared to the Saudis.

Jan Von Gerich, Chief Strategist at Nordea Bank AB, on oil

”

In the near-term we are expecting prices to drop a bit, but nevertheless, I do not foresee \$20 to be reached.



***Jan Von Gerich
Chief Strategist
Nordea Bank AB
Finland***

Hence, it has something to do with the fact that they are hoping to push these producers out of the market, whilst it has not happened the way they were expecting it too, so far.

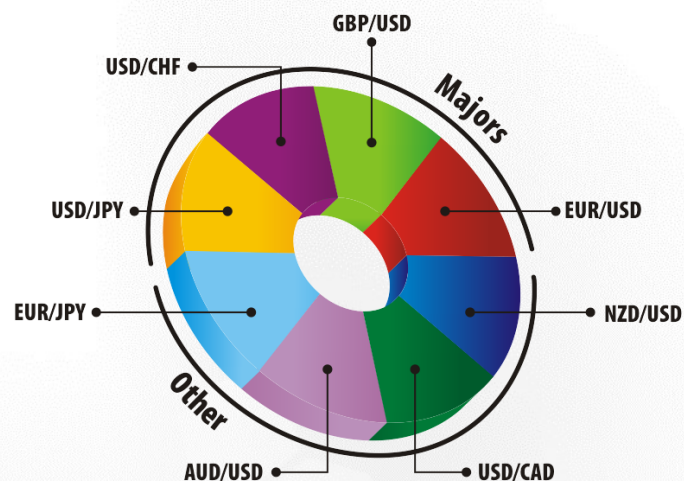
Analysts from Morgan Stanley alongside with Goldman Sachs have said that oil prices in the \$20s are possible, especially if the Dollar surges more against other currencies. Do you anticipate this price to be reached in any foreseeable future? What is your forecast for oil price in Q1 2016?

I do not expect oil to trade in the \$20 per barrel level. Actually, I think that we are in that phase where different analysts are having a competition on the lowest price for oil. Given the way and the speed that prices have been developing, we probably could be there within weeks.

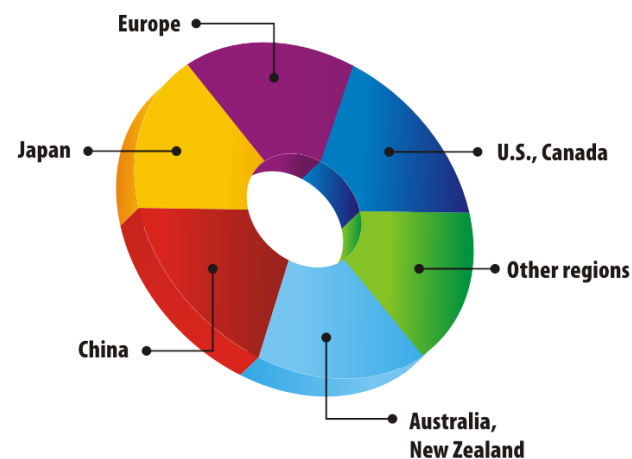
However, I believe that the current prices are already low enough. That being said, in the near-term we are expecting prices to drop a bit, but nevertheless, I do not foresee \$20 to be reached. I think if we talk about the January oil estimate, it should be slightly closer to \$30 than \$20. The same concerns the price for oil in the first quarter this year.

Recent Expert Commentary on...

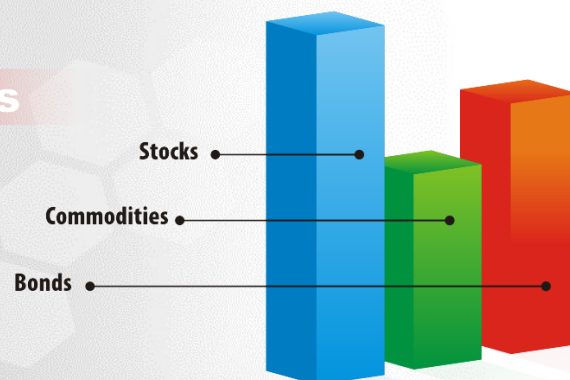
...FX Pairs



...Economics



...Other asset classes



Just click on a subject you are interested in
and see what experts have to say



Newest releases and archive:

Fundamental Analysis
Technical Analysis
Press Review
Market Research
Expert Commentary
Dukascopy Sentiment Index
Trade Pattern Ideas
Global Stock Market Review
Commodity Overview
Economic Research
Quarterly Report
Aggregate Technical Indicator

Additional information:

Dukascopy Group Home Page
Market News & Research
FXSpider
Live Webinars
Dukascopy TV
Daily Pivot Point Levels
Economic Calendar
Daily Highs/Lows
SWFX Sentiment Index
Movers & Shakers FX
Forex Calculators
Currency Converter
Currency Index
CoT Charts

Social networks:



Disclaimer

Everything in this article, including opinions and figures, is provided for informational purposes only and may not be interpreted as financial advice or solicitation of products. Dukascopy group assume no responsibility for the completeness or the accuracy of any data contained in this article. Financial figures indicated in this article have not been verified by the Dukascopy group. Views, opinions and analyses are those of the author of the article, and are not endorsed by the Dukascopy group.

Dukascopy group waive any and all warranties, express or implied, regarding, but without limitation to, warranties of the merchantability or the fitness for a particular purpose, with respect to all information in this article. Dukascopy group shall under no circumstances be responsible for any direct, indirect, consequential, contingent or any other damages sustained in connection with the use of this article.