

# OILS AIN'T OIL THEY USED TO BE



**MATT SHERWOOD**  
Head of Investment Strategy, Multi Asset  
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With China, Greece and the US Fed all there to distract us, one of the key developments this year has been camouflaged - the rise and fall of global oil prices.

Over the past year oil prices have:

- declined by 55%
- rallied by 20%
- declined by 18%
- increased by 42%
- and are recently down by 30%.

Three things have kept oil prices contained this year: increased production from Saudi Arabia, increased exports from Iraq and the continued activity in the US shale industry. When prices fell from USD100 per barrel this time last year to USD42 recently, many market watchers thought the US shale industry would now be on its knees.

Yet while these companies' earnings reports have recently been blotted in red ink, they have been very successful at managing costs, boosting productivity and raising capital and last week the number of US rigs started to rise again.

## **A whole new energy**

This volatility is symptomatic of a radically changed global energy market. Today the

cycle moves much faster:

- lower prices lead to cuts in production
- this leads to higher prices
- higher prices lead to more exploration, drilling and supply
- more supply sends prices down again.

All of this occurs in a matter of months, not years or decades. And so the days of USD100 per barrel are nothing but a memory for the foreseeable future.

### **The new geopolitics of oil**

World oil demand *is* growing strongly, but supply is increasing even faster and shale has transformed the supply dynamics. Now other players must adjust.

For those of us who remember how OPEC and rising oil prices reshaped the globe in the '70s, the new oil order is fascinating to watch.

Russia is in recession and Saudi Arabia is selling bonds for the first time in nearly a decade. The great energy powers are feeling the heat of oscillating prices and increased competition. More importantly, they are finding out that their international currency reserves are a finite resource. They live in a world where petro dollars are not the impenetrable economic shield they once were.