Market Analysis

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Global Oil Markets in 2019-2020

Part I: A World (Dis)Order Providing Fertile Ground for Risks

This report kicks off a 5-part series of Energy Advisory Service reports that will present our comprehensive assessment of the key drivers and dynamics at play in global oil markets in 2019-2020. This report will be followed by a report on structural oil price volatility in the age of shale, followed by a detailed assessment of the global fundamentals and our latest supply, demand and price forecasts. We will then focus on the debate between value and growth for US E&Ps, and its impact on the competitive landscape, before ending this series on a detailed review of the impact of rising US light sweet crude exports on infrastructure and refining in the context of the looming implementation of IMO 2020 bunker fuel regulations.

Key Question: Does the Trump Presidency increase systemic risks?

- The world is entering 2019 navigating a host of financial, economic and political fault lines, the deepening of any of which could severely impact oil markets. Oil remains enmeshed in financial markets, the global economy and of course in the geopolitical battles in the Middle East. **Importantly, the turbulent environment seen in 2018, wherein external shocks beyond oil market fundamentals spurred wild swings in oil prices, appears to be growing even more tumultuous in 2019.**
- **What's unique about 2019 is that so much of the uncertainty and proliferation of risk is emanating from the White House.** President Donald Trump's efforts to remake the global trading system have cast a shadow over economic growth. Moves to reorder the post-Cold War system of international alliances and institutions have emboldened authoritarians to act more aggressively in pursuit of their interests, creating outsized risks of geopolitical upheaval. In the Middle East, Trump is on the one hand playing to his isolationist instinct by swiftly removing US forces from Syria and Afghanistan, leaving power vacuums to be filled by those with regional ambitions, and on the other creating new and unpredictable battle lines. At the same time, the Administration has moved to assemble a coalition to aggressively confront Iran – with no clear end game as tensions escalate.
- Of course, benign scenarios exist for 2019, where trade wars subside and an agreement with China stabilizes economic and financial prospects, where Middle East crises are once again averted, and the Trump presidency manages to find calmer waters. However, the transformation of the global environment amplifies risks. In such an unsettled landscape, even a modest economic downturn resulting from cyclical factors and/or quantitative tightening could prove difficult to manage and risks spiraling out of control.
- **Temporary geopolitical premiums in oil prices are nothing new, but this toxic brew of financial, economic, political and institutional risks is likely to be a key factor in the formation of prices in 2019.** Even if the Vienna Alliance is able to effectively manage physical markets, it will likely fall short of mitigating the price volatility created by this new world (dis)order. This will increase the amplitude of crude price fluctuations over the course of the year, even if annual average prices in 2019 do not stray far from 2018 averages. Fundamental price signals are being drowned out by a lot of noise, and a more complex set of factors have now become key drivers of oil prices.