$100 per barrel oil prices soon?

Crude prices facing continued upward pressure

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A scarcely covered event late last month offers a blunt insight into the status of our domestic oil supply.

The Department of Energy borrowed 13.4 million barrels of crude from the Strategic National Petroleum Reserve in an effort to stem rising fuel prices. This was the second-largest volume tapped from the reserve in its history.

Many industry observers are predicting oil crossing the $100 per barrel price mark this summer or sooner.

The price of a barrel of Brent crude — the global standard — has recently breached the $93 threshold (another seven-year high). West Texas Intermediate, the U.S benchmark for crude, recently crossed the $91 mark. Forecasts persist that energy demand will remain strong through the year, while the supply of oil looks to be sporadic. Geo-political pressures, constrained Organization of Petroleum Exporting Countries (OPEC) production policies, supply-chain problems, and increasing gasoline demand as the pandemic wanes, all remain issues impacting the price of oil.

Here is some quick context on a few factors that are apparently lining up to push energy prices upward:

Geo-political tensions: Russia's recent threats to invade Ukraine could disrupt global energy markets in general. For instance, if a military incursion into Ukraine occurs and the United Nations responds with economic sanctions on Russia, the Russians could retaliate by limiting natural gas shipments to a much-dependent Europe during the winter. Further, as the world's second-largest oil producer able to move global markets, Russia could simply throttle back oil production, causing a worldwide spike in oil prices. Europe would bear much of the brunt during any upheaval as it will feel pressure from decades of adopting green energy policies (e.g., mothballing nuclear plants, coal plant shutdowns, bans on shale fracking).

OPEC: OPEC and its allies have struggled in recent months to meet targets for higher production. One of a number of reasons oil production targets have suffered is because of unrest in Kazakhstan and Libya, causing U.S. oil prices to gradually rise from the $50 per barrel range of a year ago.[1] Saudi Arabia, among the few exporters capable of raising production quickly, has so far refused to make up for its OPEC partners unmet quotas. President Biden has been imploring OPEC to raise production to bring relief, but OPEC appears to be in no hurry to make meaningful increases.

Supply chain problems: As mentioned in geo-political tensions, if a Russian natural gas embargo occurred, it would likely exacerbate regional energy supply chain issues in a world already beset by stubborn supply chain issues. Gas could be rationed. In turn, manufacturers who rely on Russian gas could be forced to shut down, further damaging local economies. Spillover effects could constrain petroleum supplies that power factories or affect aviation, rail and road transportation.

Pent-up gasoline demand post-pandemic: Strangely, the current high pump prices have not dented demand. Populations will likely resume more and more regular activities and usage will accelerate as the omicron virus appears to be peaking.

U.S. oil frackers have not completely jumped back into the market just yet although drilling rig counts in the Texas Permian Basin have risen slightly late last month.[2]

Many observers of the petroleum industry will recall that in 2014, with oil prices well over $100, OPEC and U.S. shale producers dueled in a titanic struggle over market share that eventually increased supply, forcing prices well below the $100-mark.

But for the moment, it appears that a stage for vulnerability to high oil prices is in place as stockpiles are stressed and capacity is not meeting demand.

[1] Reuters, Jan. 12, https://www.reuters.com/business/energy/us-oil-producers-ramp-up-fracking-sign-stronger-output-gains-2022-01-12/

[2] Oilprice.com, Jan. 28, https://oilprice.com/Energy/Energy-General/US-Rig-Count-Rises-Along-With-Crude-Prices.html

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Chuck is a senior vice president and senior portfolio manager within the family office services group of Commerce Trust Company. Upon gaining a thorough understanding of a client's needs and goals as well as assessing the client's entire financial situation, he works with our investment research team to construct a portfolio to help clients achieve their long-term goals. Chuck comprehensively represents our research- and goals-based investment process, starting with the initial assessment and creation of an investment objective to ongoing evaluation and adjustments based on changing market and life circumstances. With a deep knowledge of the market and experience in investment management, he serves clients with thought leadership, insight, and consulting services. Prior to joining Commerce in October 2011, he was a senior vice president and the lead senior portfolio manager for U.S. Trust, Bank of America Private Wealth Management in Atlanta. In that role, Chuck was responsible for managing investment portfolios for high net worth individuals and for families, trusts, foundations, and other tax-exempt entities. In total, he has more than 30 years of financial and investment experience, developing creative solutions for complex financial situations. More recently, he has specialized in managing significant individual equity portfolios as well as implementing complex financial strategies that included the use of alternative investments. Chuck holds the Chartered Financial Analyst and Chartered Alternative Investment Analyst designations. He has also successfully completed the Certified Public Accountant exam. He earned his master of business administration degree from the Kenan-Flagler Business School at University of North Carolina.

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