

Post 22nd August, 2015

I was in Houston this last week and so got the opportunity to chat with some people from our industry and tried to gauge what their perception was about the future of the price of oil. I was quite surprised to hear a couple of individuals say, it will dip to below \$20 over the next few to several months. Remember, sometime back OPEC had said that it had no intention of cutting down its production from 30 million barrels a day (which is their quota), even if oil fell to \$20 a barrel. I remembered the number \$20 from there. If that happens, it is going to create serious chaos, though then OPEC will be forced to cut production.

The drop in the oil price last week is a result of a small increase in the US drilling rigs last week. Slump in the manufacturing sector in China has added to the slowdown in the demand for oil. Though this should have raised an alarm within OPEC, but there are no visible signs that they would be curtailing production. Algeria has written to OPEC office recently about the sharp decline in prices, but apparently there has been no action on that request. Nigeria and Venezuela are the two OPEC countries on the brink of bankruptcy. Russia has been feeling the heat as well. Apparently, there seems to be no way out for them.

Oil companies in North America that are also engaged in refining and marketing (downstream activities) are doing okay in the present scenario, as the falling oil prices have seen their profits rise to 4 or 5 times, sufficient to balance some of the drop in the upstream activities.

This column is short as I have not had much time to devote. May be I will get back to the usual length next week.

Till then, be good and happy!