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Geopolitical Reverberations of Low Oil Prices

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Key Points:

- ***The world oil market has transitioned over the past year from a situation characterized by concerns about scarcity based on disruption events to one defined by substantial oversupply.***
- ***The shift toward substantial oversupply has drawn the market focus back to the question of cartel behavior and the policy preferences of Saudi Arabia and OPEC.***
- ***Going forward, the chief determinant of production restraint within OPEC, or the lack thereof, will be the policy preferences of Saudi Arabia and its core Gulf Arab partners—so-called core-OPEC—rather than the membership of the cartel as a whole.***
- ***Given the lack of OPEC cohesion, Saudi policy preferences are what truly matter. The Saudis have announced that they intend to maintain current production levels to preserve their market share.***
- ***Saudi Arabia's ample financial reserves should get them through a few years of low prices, but running down their reserves could constrain their financial options in the longer term.***
- ***In this current market environment in which severe price pressure is beginning to constrain supply growth, geopolitical event risks could play a key role. Prominent among these risks are possible oil supply disruptions or additions by Iran, Iraq, and Libya.***
- ***While a number of countries will see negative impacts on their economies or political stability as a result of lower oil prices, two stand out—Venezuela and Russia. Venezuela's problems will be the more immediate and could include social upheaval.***

Global oil market transitioning

The world oil market has transitioned over the past year from a situation characterized by concerns about the potential for scarcity based on disruption events to one defined by substantial oversupply and the need for a major slowdown in the rate of supply growth. Still, several geopolitical risks have the potential to significantly affect the extent to which the market is oversupplied.