Our View: Markets – No Confidence in OPEC+

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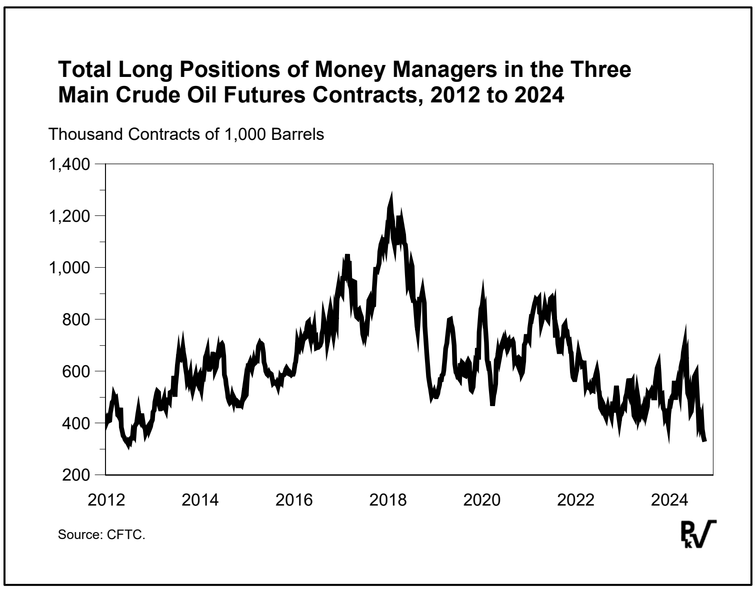
Many who focus on OPEC or OPEC+ are missing the indications of the market's diminished confidence in the organizations' ability to sustain higher prices, possibly because they have not studied economic collapses. Those who follow oil seemed confused regarding the accelerating change in the world market's structure. Take the discussion of inventories held in Cushing, Oklahoma, for example.

Regarding Cushing, a September 19 *Energy Intelligence* article noted the following: "Low crude inventories in Cushing, Oklahoma, the main delivery point for WTI volumes, can still create physical tightness and spur price backwardation. Insufficient crude supplies around Cushing, where contracts are physically settled, can create temporary price dislocations."

To the contrary, Cushing inventories are not having that effect. While stocks there are at record lows, price spreads, while negative, are well above record levels. The backwardation, for instance, is not nearly as extreme as it was in 2022. We attribute this to the availability of alternative supplies to Midwest refineries, principally from Canada, and low refining margins. The low margins are an important contributor to the lost confidence in OPEC+ among key market participants.

As I observed in the September 9 and September 23 *Notes at the Margin*, one needs to look no further than the commitments of traders to quantify the lost confidence in oil. For weeks, I have shown the net long position of money managers in crude. This week in *Notes*, I included the graph presented here, which shows the *total* long positions of money managers from 2012 to 2024, almost thirteen years.



From the graph, one can see that this position is now very near its low for the period. As of September 17, money managers were long 336,883 contracts in WTI and Brent. Five months ago, they were long 700,610 contracts. The fifty-two percent decline clearly indicates the collapse of trader confidence.

The speculative caution is reflected in consumer unwillingness to bid up crude prices. Many oil buyers are refusing to add to inventories, even as prices fall. This reluctance to stock up can be attributed to low margins, uncertainty regarding future oil consumption, and costs associated with holding inventories. However, it is OPEC+'s inability to take definitive action that has convinced customers that producers do not understand the changing market situation.

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Some have suggested that a central bank of crude oil exists. Were the late Paul Volcker or Jerome Powell, both US Federal Reserve chairs, asked whether that is true today, they would have a three-word answer: “Are you kidding?”

Given their reservations about OPEC+, refiners and large product consumers are being parsimonious about filling their tanks. From my vantage point, oil market customers are apparently signaling the oil-exporting group to “put up or shut up.” To date, there has been no response.

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