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OIL PRICE AT 1-YEAR HIGH

After its tremendous recovery, the price of crude oil is currently back at the level it was at before the pandemic. Both Brent and WTI crude oil prices recently hit a one-year high of over $70 and over $66 per barrel, respectively. There are some indications that prices will continue to rise in the foreseeable future. However, the occasional setbacks that have characterised the rise in the price of crude oil to date are evidence of the ongoing nervousness on the market.

A look back: As a result of the Corona crisis, the lockdowns and travel restrictions imposed in many places, global demand for energy resources fell significantly in the first few months of 2020. Then a price war between the producing countries, especially between Russia and Saudi Arabia, led to unprecedented lows in April: WTI crude oil fell to around minus $37 per barrel. Prices below zero – that had never happened before with black gold.

The sharp reduction in oil production by OPEC in connection with a renewed increase in demand helped the energy market out of its lows in the weeks and months that followed. The fact that, in the spring, many citizens already thought the end of the pandemic was near – probably due to the easing measures – might have contributed to the recovery. The price of oil fell slightly when the number of infections around the world rose again in the autumn and economic optimism proved premature, but the announcement and finally the approval of vaccines towards the end of the year gave the price new impetus.

The strong upward trend, which has continued so far in 2021, is based one hand on the successful measures taken by OPEC to stabilise and increase the oil price and on the other hand on the principle of hope. The discipline of the OPEC cartel, driven primarily by Saudi Arabia, led to a concrete reduction in the amount of oil in the warehouses, which were temporarily full to capacity. And the vaccination programmes, which are now running worldwide, are fueling confidence that social life and the economy will return to normal in the course of the year, which would not least lead to an increasing demand for kerosene in the aviation industry. This combination of statistics and wishful thinking can also be found in the relevant statements of the US Energy Information Administration (EIA). The authority is particularly optimistic for the second half of the year.

However, how fragile these and other positive assessments are became clear once again in the first half of February: After the oil price had risen sharply for several days, it promptly fell due to reduced demand forecasts by the US government and the International Energy Agency (IEA). They justified their cautious outlook with the spread of Corona virus mutants and the restrictions on public life.

In the past, the oil price has always been a helpful indicator of future economic developments. In that respect, its current level – but above all its enormous increase over the past ten months – indicates an imminent rapid economic recovery. But the uncertainty factors are omnipresent, both for the oil price and for the economy: Will OPEC stick to its production discipline in the future so that the oil volume remains relatively scarce? Will the vaccines also work against the increasing number of virus variants? When can public life take place again without restrictions worldwide, especially in the catering and tourism sectors? Will the US dollar remain weak so that crude oil will be cheaper for investors from other currency areas (which supports the oil price)? And how will US President Joe Biden's climate policy affect the price of oil?

With so many unanswered and complex questions, predictions of oil price developments remain difficult and at least occasional corrections are likely. Traders who want to take advantage of the fluctuations will find corresponding products on the underlyings Brent Crude Oil Future and WTI Crude Oil Future on Spectrum. Our trading platform enables easier market access and more cost-efficient trading of securitised derivatives on indices, currency pairs and commodities for financial institutions and their private investors – 24 hours, 5 days a week.

Get in touch today to discuss how we can help you to grow your retail client business.

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