

How much lower for Oil? Source: ACFX Forex Broker (Review and Forex REBATES UP TO 85%) Yesterday, the price per barrel of Light Sweet Crude continued to drop to new lows. The price of crude has collapsed due to considerable downward pressure being exerted by Saudi Arabia and other OPEC nations. The downturn in the global economy which has seen both China and the European Union experience contractions has led to the demand of Oil decrease. The Saudi's are concerned that production from non-OPEC nations eats away at its market share. Saudi Arabia has two main targets in its sights. The new upstarts being the United States shale producers and the other be oil pumped from the vast Russian fields. The production of Oil from US shale fields has pumped at a much higher cost than that from crude that is extracted by the Saudi's. Therefore, Saudi Arabia has effectively used oversupply as a policy tool to curtail the production of shale oil by producers who in many cases have to service high debt burdens. In the case of targeting Russian production, the benefit for Saudi is twofold. Not only can the Saudi's draw market share away from Russian producers, but it can also be used as a financial penalty limiting Russia's involvement in Syria. Using Oil as a political tool is not something that is new. We had a glimpse of what can be achieved during the Oil crisis of the early 1970's when OPEC cut off supply to the West in protest against unaligned policy interests. It would appear that the price of Oil will continue to decline due to reasons outside the control of the Saudi's. Iran having come to an accommodation over its nuclear programme



is now free to ramp up production. Furthermore, production from Russian fields continues to increase. Finally, the United States has now ended a 40-year ban on the export of Oil. With the demand of oil not increasing, the only limiting factor to production being ramped up is where will all this excess supply of crude be stored? Refineries are limited to how much crude can be processed and land-based storage is already at full capacity. Therefore, there is a need to begin storing oil offshore within tankers. With so much pessimism over the downward direction of the price of Oil, one would most probably contemplate levels of US\$30, US\$25 or even US\$20 per barrel. However, moods can sometimes change very quickly. Searching for clues for when Oil will eventual begin to form a base is not an easy task. I am however looking at two areas of interest. **Gold / Oil Ratio** The Gold to Oil ratio is currently moving around the US\$29.00 level whereas back in July 2014, the ratio was placed in the region of US\$13.00. At the current level of US\$29.00, the Gold to Oil ratio is at an extreme. Either Gold is too expensive or Oil is too cheap however for what is certain, these extremes will at some stage in the medium term be rectified. **Big Oil** Big Oil is the major Oil companies such as Exxon, BP, Shell, Total and Eni. Exxon has experienced a torrid time as share value has collapsed in step with the decline in the price of Oil. However, during the latest leg down in the price of WTI, there has been a noticeable price divergence with Exxon is now attempting to print a higher low on the weekly time frame. If Exxon can now retest and breach the 87.42 level a weekly higher low and higher





high formation would be out in place. Would this signal that the days of cheap oil is final over?