OPEC Price War Signaled By Saudi Move Risks Deeper Drop

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by Larry Diffey , October 3, 2014

OPEC

A word of caution to our readers. If Bloomberg gives a reason, or cause, for an action, look at it very carefully, and do your own research.

As soon as I saw this article, I asked myself: Why? Why would Saudi Arabia want to start a price war that might possibly splinter OPEC? I don't believe the motivations given in the Bloomberg article. Something else is behind it. I don't know, yet, what it is, but I'll watch it closely to see if it is a distraction from the slow death of the Petrodollar. – Shorty Dawkins, Associate Editor

This article comes from Bloomberg.com.

By Grant Smith and Dan Murtaugh

Crude oil is poised to extend the biggest slump in more than two years after Saudi Arabia signaled it's ready for a price war with other OPEC members, according to Commerzbank AG and Citigroup Inc.

Saudi Aramco, the state-run oil producer of the world's biggest exporter, cut prices on Oct. 1 for all its exports, reducing those for Asia to the lowest level since 2008. The move suggests that the biggest member of the Organization of Petroleum Exporting Countries is prepared to let prices fall rather than cede market share by paring output to clear a supply surplus, according to Commerzbank.

"There is no indication whatsoever that the Saudis are going to put a floor into this market," Seth Kleinman, head of European energy research at Citigroup in London, said by e-mail. "Saudi market share in Asia is really under assault. It is a price war. The Saudis will win, but it won't be painless."

Saudi Arabia has acted in the past to stop a plunge in prices. It made the biggest contribution to OPEC's production cuts of almost 5 million barrels a day in 2008 and 2009 as demand contracted amid the financial crisis. The kingdom would need to reduce output about 500,000 barrels a day to eliminate the supply glut now stemming from the highest U.S. output in three decades, Citigroup and Barclays Plc estimate.

Slump Continues

While the banks said Saudi Arabia's strategy may weaken prices in the short-term, they forecast a recovery later. Commerzbank projects Brent will average $105 a barrel in 2015, Citigroup predicts $97.50. Brent for November settlement traded for $93.54 on the London-based ICE Futures Europe exchange as of 10:07 a.m. local time.

Aramco reduced official selling prices, or OSPs, for all grades of crudes to all regions for November. It lowered the OSP for Arab Light to Asia by $1 a barrel to a discount of $1.05 to the average of Oman and Dubai crude, the lowest level since December 2008. OSPs are regional adjustments Aramco makes to price formulas to compete against oil from other countries.

"OPEC appears to be gearing up for a price war," Eugen Weinberg, head of commodities research at Commerzbank in Frankfurt, said in a report yesterday. "We therefore do not expect prices to stabilize until this impression disappears and OPEC returns to coordinated production cuts."

Read more here.

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