Oil Supplies Are Threatened

The West Texas Intermediate (WTI) oil price has gone over US$70 a barrel again (graph 1). This increase was propelled by fears about oil supplies, despite the announcement that the Organization of the Petroleum Exporting Countries (OPEC) and Russia would boost production by 1,000,000 bpd (barrels per day). Several experts doubt this will be possible, since spare capacities are limited. The increase may not be enough to cover decreased production from the other members, although both Canada and the United States have stepped up production (graph 2). Venezuela’s production has gone down since 2016, losing close to 950,000 bpd. The economic and political crisis that triggered that decline is nowhere near resolution, and production may go down even more. Libya’s oil production plummeted 300,000 bpd in June, as four of its oil ports were attacked by various military factions. Lack of investments and maturing oil fields in Mexico and Angola have slowed down their production too.

Other factors are also putting upward pressure on prices. Inventories have been substantially depleted internationally. In Canada, a power outage stopped production for at least the whole month of July in an oil sand mine that produces 350,000 bpd. But the greatest risk is still the return of sanctions on Iran. The U.S. Department of Commerce has announced that countries that do not bring down their Iranian oil imports to zero by November 4 will also be subject to sanctions.

**IMPLICATIONS**

There is still great uncertainty about oil prices. The other countries’ response to the threat of U.S. sanctions and the outcome of trade conflicts will be determining factors. Recent developments have prompted us to revise our short-term projections. If the oil market is hit with more disruptions, it would not be impossible to see a WTI price over US$80 in the short term.

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**NOTE TO READERS:** The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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