The Tensions in Syria and Libya Push the

Price of WTI to its Highest Level in Two Years

On 28 August, when this edition of AOG went to press, the price of North Sea Brent for October contracts on ICE Futures in London reached over $117/barrel during trading. At the close it stood at $116.61/b, a rise of $2.25/b from the day before. On the other side of the Atlantic, the price of light sweet crude (West Texas Intermediate) on the New York Mercantile Exchange (Nymex), part of CME Group, gained $1.09/b to $110.10/b, also for October, its highest level in two years. The differential between these two reference crudes thus stood at $6.51/b.

There is no doubt about the reasons for the sharp jump in oil prices in recent days. Prices are once again subject to acute political tensions, and the causes of the markets' nervousness are mainly to be found in the Near East – in Syria – and in North Africa (Libya). That said, Egypt, Iraq, Iran, Sudan and South Sudan have also quite unintentionally contributed to this agitation, since they are all experiencing political problems that often have an adverse impact on oil production and/or exports.

Unquestionably the most important factor is the situation in Syria and the very high probability and imminence of western military action against the regime of President Bachar al-Assad. The other elements are certainly putting upward pressure on oil prices but they are not new, even though, in some cases, the situation has worsened recently. On the other hand, since the killing of at least several hundred civilians near Damascus on 21 August in what was very probably a chemical weapons attack, all eyes are turned towards Syria, the United Nations and the world's major capitals.

The markets do not like uncertainty, and there are no greater uncertainties than those connected with the use of armed force. This is particularly true insofar as we are speaking here of an extremely unstable region and that, since the onset of the Arab Spring, the markets have been afraid that serious unrest in one country might spill over into other countries, some of which are major oil producers and exporters. Oil prices thus began to rise sharply before any military action was taken, although this was considered a virtual certainty at the time AOG went to press.

The substantial fall in Libyan oil production has also cast fuel on the fire. It has occurred as a result of political and social demands, especially on the part of the guards responsible for protecting oil facilities and infrastructure. The country's production slumped to between 300,000 and 700,000 barrels/day at times, whereas it has a capacity of 1.4-1.5 million b/d and the Libyan government is clearly having trouble regaining control over the situation. Moreover, the proliferation of terrorist attacks in Iraq has not helped improve prospects.

Oil prices appeared to stabilize during trading on 28 August, after the Energy Information Administration (EIA), an arm of the United States Department of Energy, announced that U.S. crude oil stocks had increased by nearly 3 million barrels to 362 million barrels in the week ended 23 August (in terms of working days). But traders also noted that oil stocks at Cushing, Oklahoma - the theoretical delivery point for contracts concluded on the Nymex - had declined for the eighth week in a row, that the capacity utilization rate of American refineries had risen by 0.2% to 91.2%, and that stocks of distillates and gasoline had declined (by 0.3 million barrels to 129 million barrels and by 0.6 million barrels to 217.8 million barrels respectively).

To return to Syria, the paradox is that the country is of absolutely no significance in oil terms. It was a minor oil producer up to 2011 and now plays no role at all in the world market, since the escalation of the civil war, the withdrawal of western companies and the sanctions imposed by the United States and the European Union in particular have reduced Syrian crude oil output to only 50,000 b/d perhaps. We would point out that the International Energy Agency (IEA) estimated world oil supply at 91.85 million b/d in July.

More important still, the cumulative problems of Syria, Libya, Iraq, Egypt, Iran and the two Sudans have not prevented global oil supply from increasing in recent months, according to the same source. In the latest edition of its monthly Oil Market Report, the IEA indicates that supply rose from an average of 90.98 million b/d in 2012 to 91.39 million b/d in May and 91.85 million b/d in July. The level of oil production remains high at a world level, therefore, and this would obviously not change in the event of a military strike against Syria, for the reasons outlined above. While Saudi Arabia is prepared to intervene, as it always is, the growth in world supply continues to be driven by North America, whose oil production increased from 15.86 million b/d in 2012 to 17.09 million b/d in July this year despite a decline in the output of Mexico. Thanks to unconventional oil, Canada and the United States are on an upward dynamic, and this trend is far from over.

The world does not lack oil, and there is no risk of a shortage in the short and medium term. But as everyone has been able to observe on numerous occasions, the sound of jackboots in the Near and Middle East can only heighten tensions on the world’s oil markets. Fears that the situation in Syria might engender a regional crisis – which is already the case, in fact – or indeed an international one with incalculable consequences, dominate the cold calculations about the state of the world oil market’s fundamentals.

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