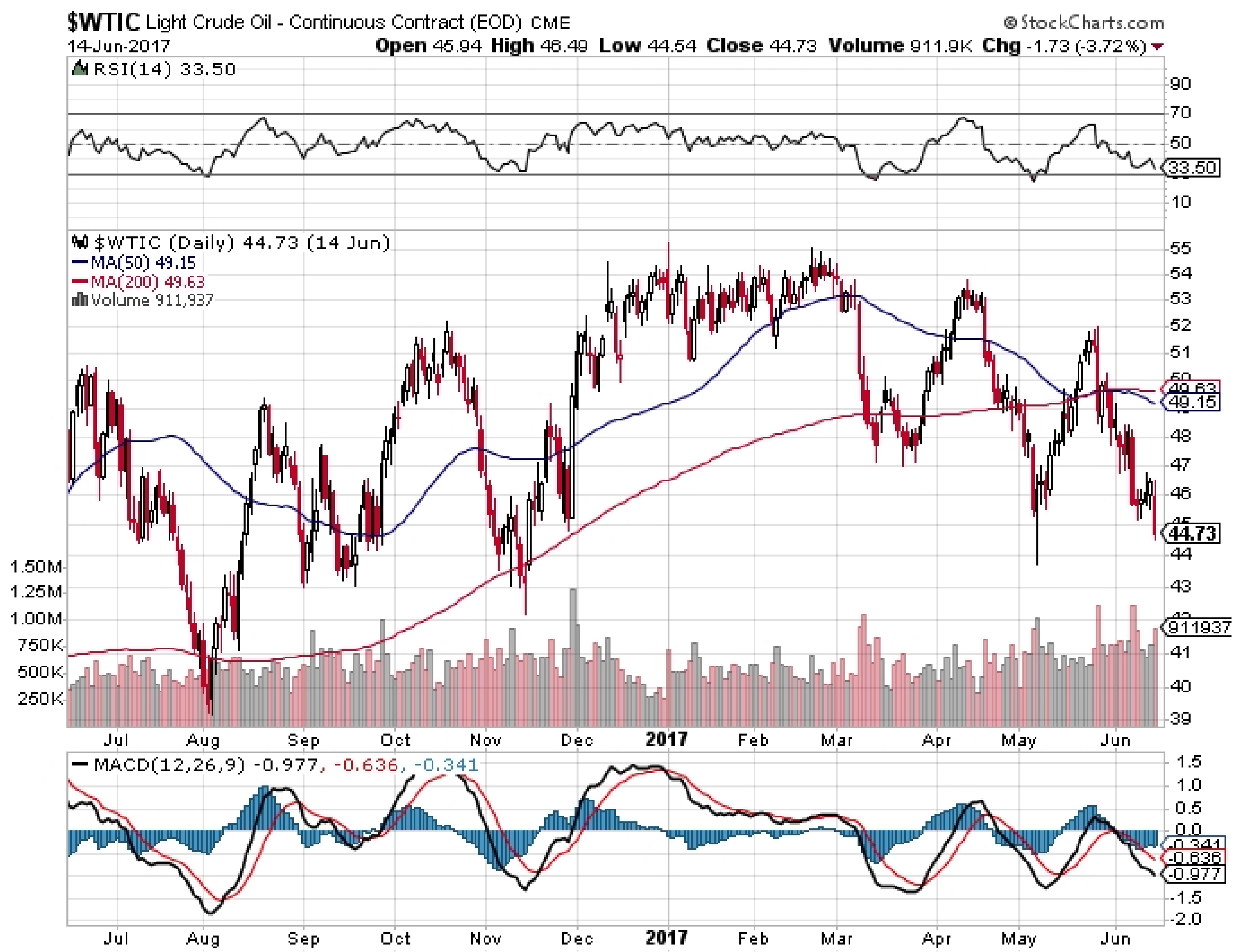
Analyst: Oil Could Slip to $30 this Year

Oil could fall to $30 a barrel.

At least, that’s the fear, as supply still outpaces demand.

As it turns out, that OPEC agreement to extend the 2016 supply reduction isn’t likely to do the trick either. In fact, if OPEC doesn’t address the need for further cuts, $30 oil isn’t out of the question, especially with heavy supply from the U.S., Libya and Nigeria.

While the current OPEC agreement extends the 1.8 million bpd cuts, it’s not enough. Some analysts believe we need another 700,000 bpd added to that. If not, there’s good chance oil could plunge to $30 to $35 from its $44 handle.



Oil bulls can’t be happy with this at all.
At one time, they had hoped for $60 a barrel, and supply-demand balance.

In fact, Algerian Energy Minister Noureddine Bouttarfa once noted that oil prices could move above $55 on the idea that a supply glut could be gone by year-end. Even Russia and Saudi Arabia argued for a near-term rebalancing.

The reality is – that won’t happen. At least, not any time soon.

Already, since the middle of 2016, U.S. oil production has jumped about 10% to 9.3 million barrels per day (bpd). Worse, in the months ahead, the U.S. was expected to add another 950,000 barrels per day (bpd), overshadowing OPEC cuts even more.

Libyan output is also expected to rise above 800,000 bpd for the first time since 2014. Nigeria is expected to return to 2.2 million barrels this year, and 2.5 million bpd by 2019.

Worse, according to the IEA, supply could outpace consumption in 2018, too. "In 2018," they noted, per Reuters, "we expect non-OPEC production to grow 1.5 million bpd, which is slightly more than the expected increase in global demand."

Traders have been using this as an opportunity to short oil.

Some are buying the Pro Shares Ultra Short Oil & Gas ETF (DUG), which caught its 50-day moving average – which it has held since February. As long as that support line holds with continued weakness in oil prices, DUG could potentially retest a previous high of $49.69.

Another way traders are playing the short side of oil has been with put options using the Chevron (CVX) August 2017 105 puts for example, as well as the July 2017 105 puts. Technically, CVX is due for a pullback to about $102 a share after finding heavy resistance at $108 a share. Trade accordingly.


CVX Chevron Corp. NYSE + BATS
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15-Jun-2017 10:33am
Open 106.50 High 106.71 Low 105.94 Last 106.18 Volume 738.9K Chg -0.42 (-0.39%)
RSI(14) 53.35
90
70
53.35
30
10
CVX (Daily) 106.18
MA(50) 105.39
MA(200) 106.37
Volume 738,893
116
114
112
110
108
106.18
105.39
104
102
100
98
96
20M
15M
10M
5M
738893
Jul
Aug
Sep
Oct
Nov
Dec
2017
Feb
Mar
Apr
May
Jun
MACD(12,26,9) 0.328, -0.009, 0.336
3
2
1
0.328
-0.008
-1
Jul
Aug
Sep
Oct
Nov
Dec
2017
Feb
Mar
Apr
May
Jun