30 September 2016

Heartwood Investment Management

Investment Insight

Weekly Insight

OPEC's announcement is not a game changer

OPEC's (Organisation of the Petroleum Exporting Countries) surprise announcement to cut production – the first cut in eight years – has been taken positively by financial markets. Oil prices rose 6% on the announcement and energy stocks also led US and UK equities higher. At the informal meeting in Algiers, OPEC countries committed to production cuts in the range of 32.5-33 million barrels per day.

While the agreement is a positive signal for the energy sector as a whole, we think it is too early to tell what the actual impact will be on supply and demand, given no details have been announced yet. Countries have to agree on how to implement the quota and by how much each individual country will cut their supply. This will be determined at the formal meeting in Vienna at the end of November.

Negotiations will be challenging. The agreement excludes Iran, which is trying to increase market share having returned to the world oil market after years of economic sanctions. However, other countries are also trying to increase their market share, such as Iraq and Libya, which may lead to potential areas of contention.

Overall oil supply remains at record levels, having increased markedly over the last 5/6 years. Even when factoring in the announced production cut - expected to be around 1.6% of current production per day - production levels today are higher than at the end of 2015. Moreover, Iran's exclusion from the agreement means that it still has the capacity to increase production.

Oil prices should remain underpinned in the near term; the supply/demand outlook has seen steady improvements and this is likely to continue into 2017. At the same time, though, we are likely to see some volatility going into November's meeting. We are not taking any investment action in portfolios as a result of OPEC's decision. However, we continue to maintain reasonable exposure to energy through commodity-related sectors, such as US high yield and private equity.

Jade Fu
Investment Manager

Clear Thinking

Contact

To find out more about the Heartwood strategies, visit our website or contact your local representative.

Important Information

Registered Head Office: No.1 Kingsway, London, WC2B 6AN | Registered in England Number: 4132340
020 7045 2600 | heartwoodgroup.co.uk | Part of the Handelsbanken Group