



Written by [Bob Adelman](#) on November 16, 2015

World Oil Glut Swells to 3 Billion Barrels, Driving Prices Down Further

Friday's [November report](#) from the International Energy Agency (IEA) confounded so-called experts who have repeatedly predicted a bottom in oil prices. After West Texas Intermediate (WTI) briefly dropped below \$40 a barrel in August, bulls were delighted to see prices for crude bounce up over \$50 and stay there — right up until October.

The IEA report tried to corral all the complexities of the oil market into its two-page report: Demand growth is slowing (i.e., the global economy is slowing) while supplies are increasing (i.e., OPEC continues its reckless and relentless policy of pumping for all it's worth, in order to maintain market share).



But the simple supply/demand equation says it all: The combination of a decline in demand from China and the Eurozone, the unwillingness of OPEC members to rein in production to keep prices high, and the ability of American producers to continue to pump oil at record levels despite laying off workers and stacking oil rigs, have resulted in a record-breaking glut that isn't likely to end — or “balance” in oil patch terminology — anytime soon. Noted the report, “... As refineries ran flat out to meet soaring demand for gasoline in top consumers in the United States and China ... inventories ballooned ... while motorists are responding to cheaper gasoline by purchasing bigger cars and taking to the roads.”

There's the conundrum: Demand across the globe is estimated to slow in 2016 while supplies continue to flood the market. With a mild winter predicted for Europe and the United States, and little incentive by producers to cut back either for political or economic reasons, “bulging stock levels will add further pressure and oil market bears may not choose to hibernate.” In other words, prices for crude are likely to go lower.

Russell Gold, the *Wall Street Journal's* senior energy reporter and author of *The Boom: How Fracking Ignited the American Energy Revolution and Changed the World*, was one of the first to see that the glut was not going to end anytime soon. According to Gold, “While it might make sense for producing countries or companies to cut back and erase the glut, there is no political will or business rationale to do so ... as all the participants need to keep the cash coming in.”

The tyrant running Venezuela has been screaming for OPEC to hold a special meeting before its regular meeting in December in order to persuade the members to cut production and stabilize prices. Venezuela's deficits following oil's price decline are being financed with central bank printing, and inflation has been roaring at triple-digit levels, causing unrest among increasingly unhappy citizens. Iraq, despite its troubles with ISIS, has been able to increase its production of crude significantly. U.S.



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producers have stacked half of their oil rigs with little change in overall production, which remains at record highs.

As Jamie Webster, a senior director at IHS Energy consultancy, put it, “Everyone is in the mode of: ‘Oil prices are down and I need to produce as much as I can to make up for it.’ That makes a lot of sense on a micro level, but on a macro level it brings us to the situation we are at right now.”

One measure of that “situation” is the congestion of vessels waiting offshore to unload at coastal refineries all across the world. Matt Smith, director of commodity research for OilPrice.com, was caught off guard. He saw the backup as being only temporary, and nothing to worry about:

Fears of running out of storage space in the U.S. during the refinery maintenance season have retreated. Instead, a much scarier specter is haunting the oil markets: that of global storage [facilities] topping out.... Hints of congestion [in the oil shipping lanes stretching from U.S. coastal refineries to the Persian Gulf] has morphed into a body of evidence for swelling floating storage. [I interpreted] a rapid spike in freight rates in recent weeks ... as a bullish phenomenon....

But the spike in freight rates is not due to a ramp up in demand, but instead due to over-congestion.... wait times outside Chinese ports have lengthened considerably while vessels in the U.S. Gulf ... have been sitting at anchor for longer before off-loading.... What started as congestion in China now appears to be a traffic jam stretching halfway around the world to the Persian Gulf.

The consequences of oversupply and slowing demand are predictable. Earlier on Monday, West Texas Intermediate (WTI) touched \$40 before rebounding slightly. The real consequence, however, is that thanks to technology, private markets, and the free market in oil in the United States, the traditional world oil markets are being turned on their heads with all manner of benefits to consumers and all manner of difficulties for those trying to control it for their own benefit.

It’s a beautiful thing to watch.

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelman@thenewamerican.com.



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