Hurricanes Hammer OPEC as Well

Estimates are that Hurricane Irma knocked out the power to nearly six million Floridians' homes and businesses, while both Harvey and Irma have either destroyed or heavily damaged 300,000 homes in Texas and hundreds of thousands more in Florida. Further estimates are that these two massive storms have reduced demand for oil by nearly a million barrels a day.

This is being reflected in the price of NYMEX (New York Mercantile Exchange) crude oil dropping to $47 a barrel early Monday. Last Wednesday crude was selling at more than $49.

Part of the problem facing OPEC and its grand plan to cut production to raise oil prices was its assumption that increased demand would help close the gap and obtain that elusive "balance" between supply and demand. That magical and mythical "balance" would be reached when world crude oil supplies stored in refineries' tanks, empty salt mines, and ocean-going tankers would drop below three billion barrels. Instead, OPEC non-compliers and American producers have pushed world supplies higher.

At the peak of the storms, some 20 percent of American refining capacity was offline, but producers continued to take advantage of prices that kept their operations profitable.

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The New American has suggested that OPEC has run out of options. If the cartel extends its production-cut agreement from March 2018 to June, it will only inflict more pain on its members who need much higher oil prices to pay for their welfare states and military adventurism. Noncompliance is already a problem, and extending the agreement isn't likely to help that. Efforts to bring Nigeria and Libya into the cartel's fold (they are exempt from the present agreement) will likely fail as each is enjoying the freedom to produce all they can, unfettered by limits demanded by OPEC.

If the cartel ends the agreement in March, it will be perceived as a de facto surrender to the free market and American frackers, and it will be "every man for himself." Lower prices will inflict even greater pain on cartel members while giving American frackers even more incentive to cut costs to remain profitable.

There is a third option, which the cartel exercised over the weekend: denial of reality. Following the meeting of four of the cartel's oil ministers in Astana, the capital of Kazakhstan, on Sunday, they issued the following statement:

> [Oil ministers from Saudi Arabia, the UAE, Venezuela, and Kazakhstan] expressed satisfaction with improving market fundamentals, accelerated by the collective efforts of OPEC and non-OPEC producers under the Vienna Declaration of Cooperation [the oil production cut deal]….
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> [We] agreed that an extension of the declaration beyond March 31, 2018, may be considered in due

course as fundamentals unfold.

Texas and Florida and the other surrounding states will recover from the damage inflicted by the hurricanes. For OPEC, such a rebound isn't nearly as certain.

Photo of damage after Hurricane Katrina: FEMA

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