

Will oil rally in 2016?

Stockholm (HedgeNordic) – Franck Nicolas, head of investment and client solutions at Natixis, believes that there is light at the end of the tunnel for oil and in a recently published market commentary he writes that “oil may have bottomed out”.

Nicolas argues that the price per barrel is suffering from weak global trade and Iran’s return to the group of oil-producing countries, but also from the particularly mild climate since the end of last year. He also sees correlation building between equities and energy prices.

“Accordingly, financial markets are reducing risk, taking this fall in the oil price as the self-fulfilling prophecy of a sluggish global economy lacking momentum. Strong correlation is thus building between equities (including those in the eurozone) and energy commodity prices”, Nicolas states.

Nicolas sees devastating consequences for oil-producing countries “as they watch revenue collapse and face investors withdrawing capital, on the grounds that emerging central banks will have to introduce more accommodative policies to support the clear slowdown in local activity”. This has translated in an increased correlation between emerging market currencies and the price of Brent, where a fall in the price of oil translates to a stronger US dollar versus emerging market currencies, according to Nicolas.

Nicolas however believes that there might be a turning point around the corner and that concerted action could resume within OPEC to get better control of production, especially as the strategy from Saudi Arabia to undermine US shale oil is working, Nicolas argues.

“Indeed, at these prices, several countries will be tempted to buy social peace by rebalancing their budgets with an income boost”, he concludes.

Picture: (C) TebNad – Fotolia.com