



13 Dec 2015  
OPEC and the 15 Year  
Commodity Cycle

#### Price Trends: Exogenous versus Endogenous

1. There are two sharply different views of market price trends.
2. The exogenous view is that prices sit passively awaiting external market forces ( news ).
3. As news hits prices start to trend. No news, no trend.
4. Extensive and close attention to real time price action strongly suggests that price trends are both endogenous and cyclical in nature.
5. In the endogenous view the inherent dynamism of market forces drives price trends.
6. From this perspective news stories are always after the fact attempts to explain price action that has already occurred due to the inherent dynamism of the market.
7. In defense of this view there is that ancient Wall Street proverb “The news follows the trend.”
8. Hence the so called ‘news’ is always and only bearish into major cycle lows.
9. And the news is always and only bullish into major cycle highs.
10. In cycle terms exogenous events can only dampen or aggravate the inherent market dynamism that causes cycle highs and lows. Exogenous news events cause neither price trends nor price cycles.



13 Dec 2015  
OPEC and the 15 Year  
Commodity Cycle

### OPEC and the 15 Year Commodity Cycle

1. From the exogenous view of market price action OPEC policies sometimes support crude oil prices and fail to do so at other times.
2. In this exogenous view OPEC has, under severe enough price pressure, eventually got it right.
3. In the endogenous view price trends are inherent to market dynamism and are cyclical in nature.
4. The fundamental commodity cycle consists of 15 years from cycle low to cycle low.
5. OPEC appear to be magisterial conductors of price trends during cyclical up trends.
6. And OPEC appear to be hopelessly inept during commodity cycle declines.
7. In reality OPEC is just as much at the mercy of commodity cycles as anyone else.
8. OPEC policies are doomed to fail during cycle declines and only appear to start working once the commodity cycle bottoms out and turns higher. In this case correlation is not causation.
9. The best OPEC policy in the final down phase of the 15 year commodity cycle is grit and patience.
10. The cycle will bottom out and prices will recover. And the more extensive and severe the period of under-investment in global E&P following a cycle low, the more extensive the price recovery.



13 Dec 2015  
OPEC and the 15 Year  
Commodity Cycle

#### OPEC under the Old 'Defend Prices' Regime

- When OPEC policies appeared to have successfully defended prices the result has invariably been new non-OPEC sources of crude oil.
- This has invariably forced Saudi Arabia to exercise their swing producer muscles.
- The end result has been higher prices, and then new non-OPEC sources of crude oil.
- So successful OPEC policies have always come back to haunt them.
- A new approach has been long overdue.

#### OPEC in the New 'Defend Market Share' Regime

- The long term effect of OPEC policy with a focus on price defense has been an increasing loss of market share and the growing inability to defend prices.
- However even the most wealthy will eventually learn from their mistakes.
- In the alternate reality where OPEC began and continued with a policy of market share defense the Alaskan, North Sea, and fracked crude oil never happened.
- But having happened, has the OPEC policy shift occurred too late to save OPEC?

#### Will OPEC Succeed and Survive?

This question cannot be answered during the final price collapse phase of the 15 year commodity cycle. The answer will naturally follow from the intensity and duration of the period of under-investment in E & P that this cycle decline induces. And initial indications are that the period of under-investment this price collapse is creating will be formidable.