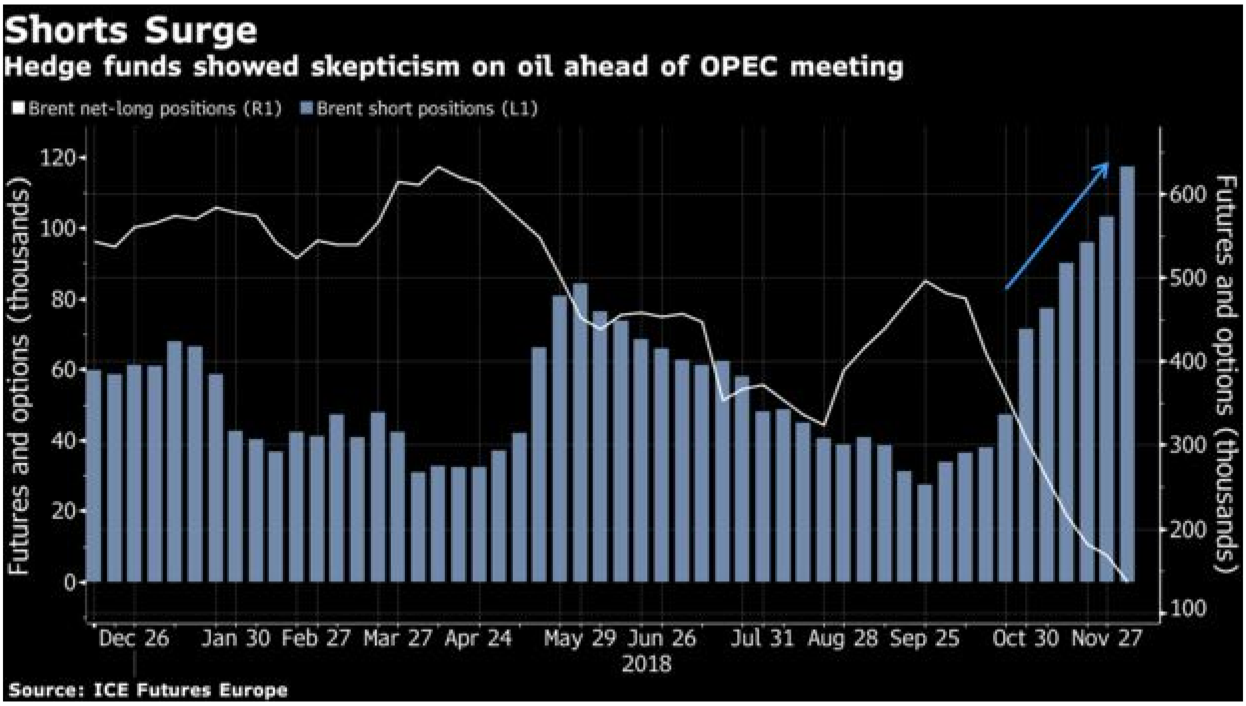
OPEC Cut Throws Wrench Into Record Oil Short-Selling Streak

OPEC’s surprise output reduction has wrong-footed short-sellers.

Hedge funds cut bets on rising Brent crude prices to the lowest in more than three years in the week through Tuesday as short positions increased for a 10th straight time, the longest streak on record. Then on Friday, OPEC and its allies surprised the oil market with a bigger-than-expected cut, sending futures surging and leaving money managers pressed to unwind their bearish wagers.

“Now that we’ve seen this fundamental shift in the market, I would expect there to be good support down at these prices levels and lead those newly established shorts to start covering,” said Ryan Fitzmaurice, an energy strategist at

Rabobank.



After much back-and-forth between producers in Vienna, OPEC and allies agreed to collectively cut production by 1.2 million barrels a day, with the cartel shouldering 800,000 barrels a day. Saudi Arabia had previously said a 1 million barrel-a-day cut was the likely scenario. The agreement will be reviewed in April.

Hedge funds' net-long position — the difference between bets on higher Brent prices and wagers on a drop — declined 19 percent to 136,466 contracts, ICE Futures Europe data show for the week ended Dec 4. That's the least bullish since August 2015. Longs slid 6.6 percent, while shorts jumped 14 percent to the highest since July 2017.

After OPEC's announcement, "people will start to be a little more comfortable deploying net-length into the sector," said Chris Kettenmann, chief energy strategist at Macro Risk Advisors LLC. "OPEC has basically said, we've got you, we're going to take down production."

Ahead of OPEC's deal, observers were also focusing on how tense the market has been. Implied volatility for second-month West Texas Intermediate futures hit a 2016-high late last month before slowly creeping lower.

Volatility at these levels is "untenable for not only market participants, but industry participants needing to deploy capex into next year," said Kettenmann. "OPEC is doing what they should do, managing volatility to attract capital back to the sector."

But, some remain skeptical that the deal is enough to make a dramatic change in the oil market.

"A fair question the market has to ask now is, will this be enough?" said Rob Haworth, who helps oversee about $151 billion at U.S. Bank Wealth Management in Seattle. Are there enough signs that this $50-$55 price range is low enough to limit the growth of U.S. shale production so 1.2 million barrels is enough, and will it be enough in the face of what we see as a slowing global economic environment?"

The report from the U.S. Commodity Futures Trading Commission on WTI wagers was delayed until Monday, following a day of mourning earlier last week for former President George H.W.

Bush.