

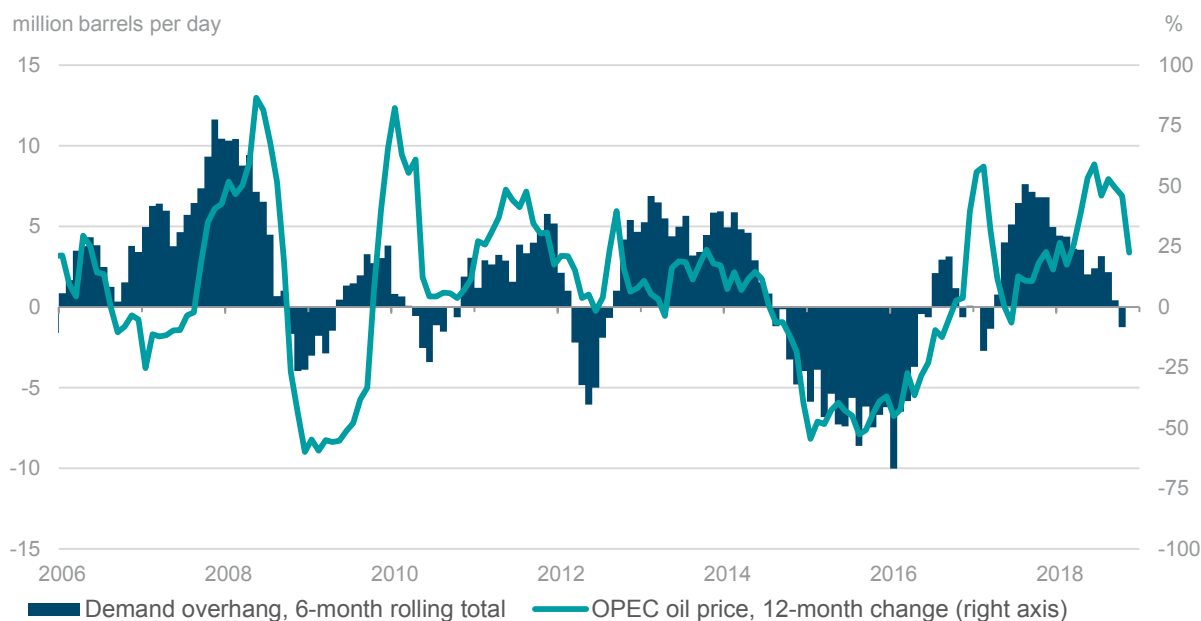
## WHAT'S BEHIND THE DROP IN OIL PRICES?

Demand and supply dynamics point to some further oil-price weakness down the road

Starting in October, the drop in oil prices has contributed to worries for global investors. Over six weeks, prices per barrel have dropped by \$20, the biggest decline since early 2015. A couple of reasons come to mind for the decline. For one, Darwei Kung, Head of Commodities at DWS, notes that OPEC has done a good job managing production to bring global inventories downwards; they are now roughly back in line with their 5-year average. OPEC has built up a significant amount of credibility in terms of its members sticking to their stated production quotas. However, the quota regime is scheduled to end this year. With factors such as the uncertainty in Iran sanction effectiveness, ramping up of production by Russia and Saudi Arabia, and the looming resolution of prior production disruptions in countries such as Libya and Nigeria, OPEC's hard-won credibility has started to be doubted again. What's

more, a soft patch in several major economies continues to feed worries about a bigger slowdown, which obviously would have major ramifications for oil demand. All said, the 6-month rolling total difference between demand and supply points to some further weakness down the road, as our "Chart of the Week" shows.

The interpretation of what's happening in the oil market also points to another phenomenon: not too long ago, rising crude prices were seen as a threat for other financial assets. More expensive oil tends to push up inflation and might cause central banks to take a tougher monetary stance. Now, a decline causes worries, too. Pleasing everybody is never easy, as the old saying goes.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/15/18

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## GLOSSARY

### Inflation

**Inflation** is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

### Organization of the Petroleum Exporting Countries (OPEC)

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its meanwhile 12 members.

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