

Venezuela Is Oil Market's Bizarro World; Venezuela has become so dysfunctional that a successful coup against President Nicolás Maduro might put downward pressure on oil prices

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FULL TEXT

Headlines of a failed assassination attempt against the leader of Kuwait, the United Arab Emirates, Nigeria, Qatar, Angola or Libya all would be top business headlines, not just political ones. Domestic chaos in any of those oil producers, all members of the Organization of the Petroleum Exporting Countries, could impact supply and prices globally.

Yet this past weekend, a similar headline concerning a founding member of OPEC and, until 2016, a larger crude producer than all but the first two aforementioned countries, caused barely a ripple. Oddly enough, the situation in Venezuela is so dysfunctional these days that a successful overthrow of the regime might portend more oil coming to market eventually.

The country's production reached a multidecade low of 1.34 million barrels a day in June according to OPEC, and many see it dipping below 1 million soon. It had been well over 3 million barrels 16 years ago and might be much higher today if not for underinvestment and mismanagement. But, despite hunger and violence, political analyst Raúl Gallegos of Control Risks believes President Nicolás Maduro's regime is well entrenched. Ironically, its survival also supports oil prices.

"The permanence of Maduro and his radical circle of collaborators is short-, medium- and long-term bullish for oil prices because the regime will fail to take the steps needed to turn production around," he says.

How times have changed. An attempted coup in 2002 against Mr. Maduro's predecessor Hugo Chávez that led to a strike later that year stretching into 2003 arguably helped to kick off a multiyear run in crude prices. Output fell by about 2.5 million barrels a day and never recovered fully.

Venezuela has fallen so far that oil traders would have to think hard about whether to buy or sell given a repeat.

Credit: By Spencer Jakab

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