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Bakken Dynamics Trump The Impact Of Iran On Oil Prices

Conventional wisdom now holds that the Iran deal will lead to a drop in the global price of oil due to increased capacity in an already over-supplied market. This will be true until it's not. While Iran deal chatter will certainly feed volatility and likely a short term slide, ultimately, after all the guests go home, the candles burn out and the forwards expire, the fundamentals of basic global supply and demand will rebalance the market and prices will settle at around $60 to $70 a barrel.

This is because the global price of oil is now being set not by OPEC nor by whether Iran is in or out, but by the fully loaded extraction cost in North Dakota, where fracked crude provide a meaningful enough share of global supply that prices will always return to a point which will keep that flow switched on—enough above cost to make it worthwhile, until there are more basic shifts in the energy climate.

The announcement of the Iran deal will certainly give short-term traders something to work with. But much of Iran's oil has been on the market indirectly already. If I were bearish right now, it would not be about Iran but about the International Energy Agency's recent pronouncement that there is an over-supply in the market. But this, too, must be viewed as a temporary phenomenon. Lower prices lead to some slower production, as we saw in the Bakken earlier this year, and some additional consumption, as we have seen in US driving habit this summer, and ultimately to a rebalancing.

So if you are a day trader, watch out for the dip. For long-term investors, don't hold your breath for a permanent fall until you start seeing an electric car in every driveway and a home energy storage system in every garage.

(AP Photo/Mike Groll, File)

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