OIL & GAS MARKET WRAP

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Oil prices remain firm this week as US supply and production grows

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MarketTopic Synopsis:

The Oil and Gas wrap provides the latest oil prices from commodity exchanges in New York and London, gives a summary of the main corporate and macroeconomic news impacting the price of oil, a barometer of the strength of global economy.

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The oil price maintained its strength this week as trade sanctions against Iran and Venezuela, as well as OPEC supply cuts, deepen.

American production and inventories were on the increase and in Friday trading, Brent crude was priced just below US$66 with WTI (West Texas Intermediate) holding above US$56 a barrel.

The impact of the OPEC plus group's production adjustment continues to balance the market.

Collective cuts
The collective cuts of 1.2 million barrels a day by OPEC members remain consistent. A note from Goldman Sachs this week says OPEC will have a different agenda later in the year as they work "to rebalance the market as quickly as possible".

Suggesting OPEC will change strategy and exit the cuts, Goldman suggests it will do this "to grow production alongside shale producers in the second half of the year".

While OPEC cuts may be managing supply in certain areas, crude inventories in the US increased beyond expectations last week, up by more than 7 million barrels to 452.93, according to the US Energy Information Administration.

American oil supply continues to increase, with production holding above 12 million barrels a day.

Goldman Sachs sees potential for further increase as the long standing transportation bottleneck around the Permian Basin has eased. With abundant supply on the market, WTI has been trading at a bigger discount to Brent, around US$10 a barrel.

Buoyant production in the US
With such buoyant production from the US, this reverses its position on being a major oil importer.

The EIA said the US is currently exporting more oil and products that it imports. Most American refineries still need heavy crudes for processing and that's not likely to change any time soon.

But given the increasing attractive price spread of WTI to Brent, demand should continue to grow for the rest of the year.

A report from Rystad Energy predicts that "increasingly profitable shale production and a robust global appetite for light oil and gasoline is poised to bring the US to a position of oil dominance in the next few years".

The US is currently exporting about 3 million barrels a day compared to Saudi Arabia which exports about 7 million barrels of oil a day.

The stand-off in Venezuela continues with oil production at a standstill. The national oil company PDVSA is feeling the impact of sanctions, having declared a maritime emergency this week.

The company is feeling the pain as access to tankers and personnel gets more difficult.

State of the global economy
Oil producers will be watching the state of the global economy, especially after a downward review from the Organisation for Economic Cooperation this week.

The OECD sees a growth of 3.3 percent globally, down 2 percentage points from its last forecast in November.

Capital Economics sees commodity trade volumes lower in China but says this may pick up from February lows but in the longer term, it expects Chinese demand to "remain soft this year given more subdued global growth and softer domestic demand".

This week's US employment report was weaker than expected, causing Capital Economics to surmise "that the US economy is starting to falter".

Non-farm payrolls increased by only 20,000 in February. This was well below the expectations of a 180,000 gain. Equity markets around the world also seem to be softening as investors remain less risk adverse in times of uncertainty.

The OPEC monitoring committee meets this month to examine compliance as well as supply and demand data.

For now, the organisation is content that the agreement is working, but they will be looking to projected demand in the second quarter for guidance in advance of the April meeting.