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# Tighter oil market in view as grace period on Iran comes to an end

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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 US deadline for waiver removals for countries buying oil from Iran came and went this week.

How this will be implemented in coming months will be watched carefully, but this action will certainly mean a tighter oil market. After a volatile April, the oil price kicked off May with Brent crude priced around US$70 and WTI holding above US$61 a barrel.

President Donald Trump sent a clear message to all countries buying oil from Iran that the grace period had ended.

Pressure on OPEC
Analysts anticipate this move will take more than a million barrels off the market. This coupled with the US sanctions against Venezuela will put pressure on OPEC to fill the gap.

That's what President Trump hopes will happen, but in reality OPEC and friends are holding fast on the Declaration of Cooperation that's in place until June, keeping 1.2 million barrels a day off the market.

Zero Iranian oil exports may not be possible as China and Turkey say this will not be possible.

Both countries have asked for Washington to review their special situations. There's been no reaction from the US government to these pleas and all eyes will be on tanker traffic to other customers. In an interview with CNBC this week, the CEO of BP (LON:BP.), Bob Dudley said that anything could happen, "the wild card key, is will the US at the last minute give some more waivers or not?"

While sanctions may take oil off the market, buoyant production in the US is adding barrels every day. Storage in Cushing, Oklahoma continues to be well stocked with overall American inventories up close to 10 million barrels above 470 million barrels.

US domestic production at record high
American domestic production is now at a record high of 12.3 million barrels a day, according to US government data.

While the fundamentals of the oil sector will be top of the agenda for weeks to come, the focus on the state of the global economy is paramount.

The Purchasing Manufacturing Indices delivered a mixed picture for April with Capital Economics claiming, "composite PMIs have been overstating the weakness of overall economic activity in recent months."

The Markit PMI in March was a healthier 50.6 but April saw a decline to 50.3, still above the fifty mark, but the slowdown in emerging markets is a concern. The bright star in the midst of the gloom had been China with a rebound in this major economy in the first quarter. Signs of softening now raise concern for sustained growth in energy demand.

While the president of Prestige Economics, Jason Schenker agrees that "the global economy faces downside risks," he also sees a growth in demand to come from the American consumer.

"The coming US summer driving season is likely to be the biggest in history, and that too has presented upside price risks so far this year."  All economic indicators point to a cooling down of growth around the world, a situation Schenker says will deliver "mixed dynamics for oil prices".

Geopolitics headline news

The dynamics of the oil market will keep us guessing in the months to come. Geopolitics remain headline news with production restricted in Venezuela and Libya.

OPEC and friends have given no indication they will made any production decision until the June meeting so the alliance is looking united.  Schenker says he expects "a further continuation of production cuts at the June OPEC meeting, which is likely to support oil prices in June and July."

The big danger of course will be a further tightening of the market, as observed by BNP Paribas and other analysts.

While barrels of oil from the US continue to flood the market, the demand for imported heavier crude remains essential.

It's too early to determine the exact impact of the enforcement of US sanctions, but OPEC will take time to adjust production until the policy and the data present compelling reasons so as not to impact the producers and consumers alike.