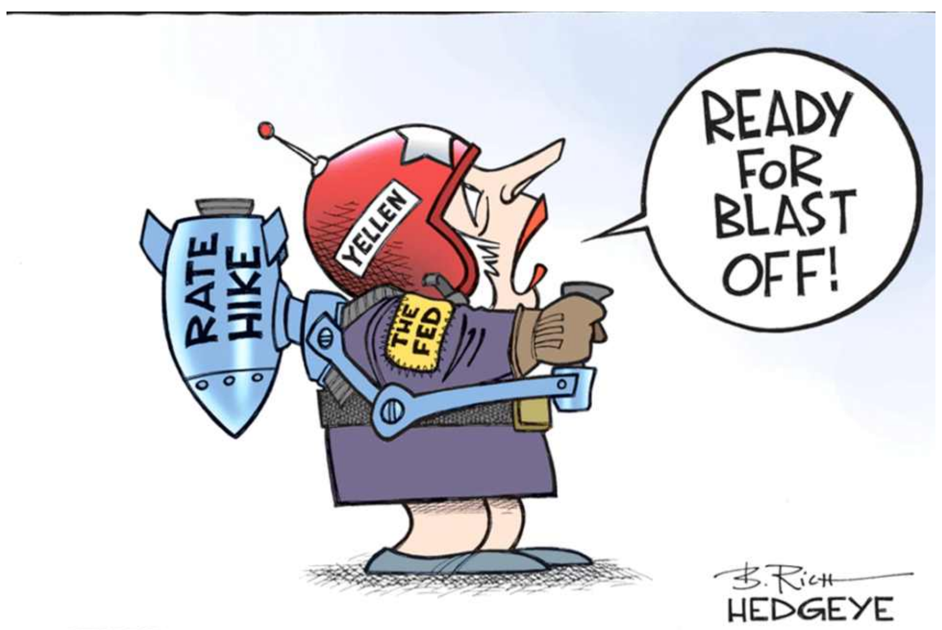
Interest rate hikes turn oil markets red

An astonishing week full of twists and turns. Crude oil markets seemed happy with prices around the $76 a barrel mark for the first half of the week, but announcements by many global banks of a 0.5% interest rate rise in a desperate attempt to curb inflation (and likely curbing energy demand with it) were met with disbelief by oil investors, panic selling and the shedding of long positions in double quick time. The FED looked on and couldn't resist a quick "US interest rates must go up two more times this year" poke in the eye of any market optimist, oil or otherwise.



After the interest rate rises were officially announced, crude prices fell by $4 a barrel in quick order, petroleum products fell $30 per metric tonne all in a 48-hour snapshot of chaos as markets were rocked yet again by the intervention of banks trying to corral a devil they cannot see, misunderstand, and misread.

As if this wasn't enough to digest for 48 hours, Russia went into crisis mode on Saturday as Wagner mercenary leader Yevgeny Prigozhin turned on his master in the Kremlin, apparently blaming President Putin for a "stupid mistake" by starting the war and damning Russian military generals for a lack of Russian progress in Ukraine. Putin reacted by calling his old-friend a traitor and calling for his arrest. Prigozhin countered by mobilising his troops and started heading for the heart of Russia, Moscow. Initially easily pushing through the Russian city controlling the war effort (Rostov -on- Don) and charting a straight course up Russia's M4 motorway towards Moscow.! President Putin accused Prigozhin yet again of a traitorous act during the "waiting period" and as Moscow prepared to defend itself, President Lukashenko of Belarus stepped in to intervene and apparently brokered a cease-fire between the two protagonists. As the cease-fire was agreed upon, Wagner troops turned back towards Ukraine and Prigozhin with them last heard of heading to the apparent safety of Belarus. How this will impact oil markets come Monday morning is very hard to call, but this is the biggest drama Russia has had to deal with in decades and it remains hard to follow in terms of how this changes yet again the rest of the world and in particular oil prices. The story may yet find more legs as the dust settles.

Meanwhile, in Africa, Nigeria deals with dramas of its own but fortunately of a more peaceful nature. Oil markets, traders and shipowners carry on wrestling with charges for millions of dollars in back taxes submitted by the Nigerian government for loading vessels at Nigerian ports, the real kicker being these charges are backdated to 2010. Whilst President Tinubu has intervened and given a 6 month grace period, the damage is very much done, and the granting of the "grace" period merely prolongs the agony for traders, major oil companies and shipowners alike. Various reports exist when it comes down to how shipowners are dealing with this difficult situation, but at the last count, 77 ships had withdrawn their services from loading at Nigerian ports and according to Bloomberg this in turn has left half the allocated July crude oil cargoes unloaded together with some condensate and petroleum products cargoes.

Nigeria may well have started a new era by deregulating gasoline prices, but a more significant concern will come as gasoline-laden ships boycott the country in fear of incurring a hitherto unknown government-driven shipping tax and instead look for less expensive ports to discharge their cargoes. (We should note that according to a Bloomberg report, shipping costs have surged to $53,463 a day for those willing to enter Nigerian waters to load).
Nigeria has accumulated debt of around $3 billion and is also at least four months behind schedule for the repayment in crude oil, according to Reuters' sources. Earlier this month, Mele Kyari, Group Chief Executive Officer at Nigeria's state-owned oil firm NNPC Ltd, told Reuters that the company would wind down the crude swap contracts and pay in cash for fuel imports. Despite the announced end to the fuel-for-crude swaps, Nigeria has yet to send the crude cargoes it still owes for previous fuel imports, and this could take months, traders and industry players report to Reuters.

So many big events happen these days with markets reacting in an unexpected way, but often that way is "indifferent", except perhaps in Asia. As Russia, Saudi Arabia and Iran amongst others battle for Asian customers who have become more grade sensitive than just bulk buyers, crude oil premiums have skyrocketed for certain grades, as soaring demand from Asian refiners in China and Japan look for quality, not quantity. According to Bloomberg, spot differentials for August-loading Oman crude have jumped to more than $2 a barrel against the Dubai benchmark as of Wednesday, compared with 60-70 cents last week, furthermore, premiums for Abu Dhabi's Murban grade also rose - it's rare for spot differentials to move more than 10-to-20 cents a barrel between days and deals but suddenly keen buyers are bucking all the old trends.

The soaring regional prices have been underpinned by Asian refiners China's Rongsheng Petrochemical, Taiwan's Formosa Petrochemical and processors in Japan and Thailand, as all snap up high-quality barrels. A surge in activity in a normally sedate Middle Eastern crude-trading window has also sparked the interest of other market participants too. For those asking where all that pent-up oil is in demand out of post-covid China, here is your answer: Unipec - a unit of China's top refiner Sinopec - Total Energies SE and Shell PLC have been going head-to-head with aggressive bids and offers of Dubai crude partial contracts on the so-called Platts trading window this month, an activity that goes into pricing a benchmark of the same name. (May as well be jelly beans!!).

Another extraordinary week awaits us, Russia has quelled an embarrassment, but how many more will try to go one step further?

This week's closing guide prices

Ice Brent
$73.85 (-1.76)

WTI
$69.16 (-1.96)

Ice Gas Oil
$701.25 (-39.00)

Euro Mogas swaps
$808.00 (35.00)

Naphtha swaps
$517.00 (-32.00)

Nymex Gasoline
$2.5172 (-14.25 cents per gall)

LPG swaps
$422.00 unchanged.

Opec Basket
$76.83

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