Oil markets on shifting sands

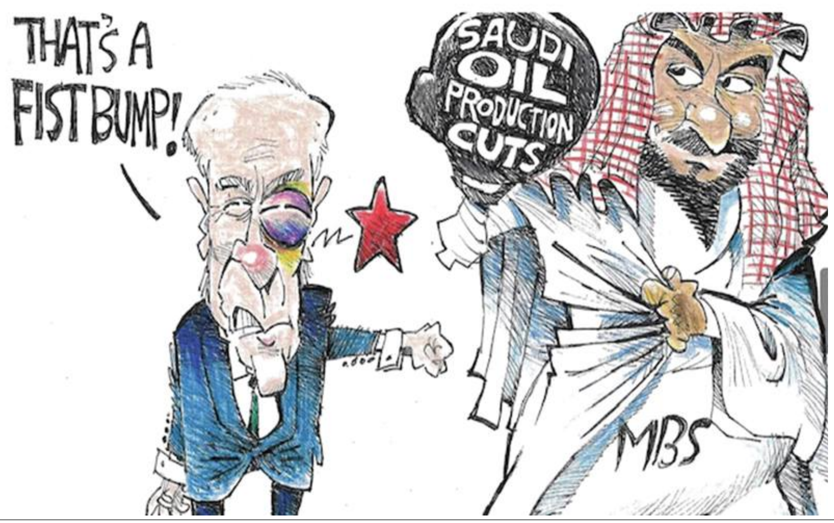
A very difficult and distracting week for oil prices as markets try to find reality in a sea of wars, sadness, and uncertainty. Prices did their best to push higher with little success. Those bullish to the market (the usual suspects) warned the war premium was missing from ICE Brent prices and buying now would save investors blushes and panic buying later. Despite the bulls pushing and bullying, prices remained stuck for a week in the low $90's clearly uncertain how to proceed against the backdrop of the Middle East concerns. For now, it seems they will keep their powder dry.....and await further developments.

At this stage it's worth noting that on the rather innocuous day of the 28th of September ICE Brent hit $97 a barrel, just 9 days before the current Middle East conflict blew tension across our desks pushing prices hesitantly higher. Rolling forward to this week, we noted that ICE Brent prices closed $5 a barrel lower than that September day. Given we are now in the midst of not only a Russian/Ukrainian war but a Middle East war too, other influences are clearly playing a bigger part in price volatility which is a mystery to say the least. Add to the mix voices uttering dire warnings of the conflict extending outside its current battleground with the potential of other groups and countries getting involved and if that happens, Global oil supply could be choked in a matter of weeks with the futures price reaction and surging physical oil premiums almost instant.

So why are we now $5 a barrel lower than the 28th of September?? To find the reasons for prices reacting to some events but not others may lie in the more recent price drivers (those that have decided price direction for the last few months and years!) i.e.. those that are no longer "on trend" and hitting us in the face every few minutes but remain quietly working and influencing price moves from the "back benches". In our daily trading we should continually remind ourselves of what they are as they are what got us to $90 in the recent past and for sure they will return to the front pages and finish playing their hand at some point.

OPEC+

They have been successful in influencing oil prices to their economic advantage by cutting back production in theory to force oil prices towards $100, but they aren't there yet. In its turn, this impacts America and creates a problem of higher US inflation, something Saudi seems unconcerned about given poor Joe gets hit regularly by Saudi Arabia's intransigent approach to his requests to increase production, but American crude oil output remains strong at 13.2 million barrels a day, with the prospect of Venezuelan crudes stuttering back into production.



Markets got scared initially by Saudi Arabia's production cuts inside Opec, but one thing we've learned since wars became the norm is the World has discovered an ability to diversify and find alternative products from new regions to satisfy their energy needs, combine that with end consumers voting with their pockets as they turn away from higher prices and the opec strategy starts to look somewhat brittle. Let's not forget our favourite saying, "Nobody is bigger than the market". Next meeting is scheduled for 26th November.

CHINESE OIL DEMAND AND GROWTH

Well, what happened to all that?!

Mid year we were swamped with Chinese statistics showing higher and higher demand, Chinese demand figures drove the market higher. All we see now is President Xi greeting President Putin discussing silken roads together and a complete slowdown in bullish news. Oil Price presents a good analysis of the current situation in China. They point out the real estate market there went out of control in the pre and post pandemic boom, borrowing ballooned at an alarming rate as a result. The property bubble could burst, and that threat is deflating property prices which have fallen dramatically with several high-profile developers and investors running into financial difficulties. However, let's not dismiss the fact that China is the world's largest consumer of oil, although if the property and debt bubble bursts then the days of 8-10% growth are written into history.

THE FED

The US Federal reserve bank has significant influence on oil prices as well as inflation. They know the two go hand in hand with the US dollar ghosting both. Jerome Powell the head of the FED has continued to play cat and mouse with the markets continually hinting at interest rate rises which generally push oil prices lower and push the dollar higher.

THE MIDDLE EAST

We are all aware of this new tragedy. We feel a full-blown Middle East conflict whilst it remains a possibility is unlikely, given too many of the protagonists have access to weapons or are developing weapons that spell Armageddon if used. The very real problem is unpredictable terrorist activity and as much as the politicians may agree in some way shape or form a pathway to the easing of tensions surprise acts of violence may well make suggested solutions disappear quickly from the table and thus creating more mayhem, disruption, and unpredictability.

Despite all of the above, it's fair to say that the impact of the Middle East war on oil supply has been small so far, India may well have had to change its shipping routes for diesel cargoes to Europe and others too to an extent but the real danger to supplies will come if the Straits of Hormuz become "out of bounds" to ships carrying crude oil cargoes into the Persian Gulf and beyond , then we are in a different price space.

This week's closing guide prices

Ice Brent
$92.16 (+1.46)

WTI
$88.08 (+0.33)

Ice Gas Oil
$933.25 (-1.00)

Euro Mogas swaps
$840.00 (+46.00)

Naphtha swaps
$669.00 (+18.00)

Nymex Gasoline
$2.3736 (+10.75cents per gall)

Lpg swaps
$569.00 (+24.00)

Butane cif nwe
$93.63

OPEC Basket
$88.51

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