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Crude Oil Daily

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Market Update: Crude oil futures plunge on unexpected EIA gasoline build, adding credence to weak demand

The Crude Oil Headlines

- Oil slips on weaker demand after US gasoline inventories rise unexpectedly
- JBC Energy cuts its global 2020 crude demand outlook
- Optimism that the US fiscal stimulus deal will be passed wanes after Trump's tweet
- One of two Norwegian unions agree to a wage package

The settlement and early Asian trade

The ICE Brent December Crude Oil contract Wednesday sharply lower settled -$1.43 at $41.73 a barrel whilst the Nymex WTI December crude oil contract closed -$1.67 at $40.03 a barrel. The Dubai Crude Oil Mar21 futures contract trading on the Tocom Exchange closed the night session at -880 yen/kilolitre at 27740 after settlement at 28620 on Wednesday's day session. It reopened at 27700 during early Asian hours. The Shanghai International Energy Exchange INE Medium Sour Crude December20 opened softer at 269.1 after yesterday's settlement at 270.0 Yuan a barrel.

Oil prices fell further at the opening on Thursday, adding to heavy losses overnight, after a surprise build in U.S. gasoline inventories pointed to a deteriorating outlook for fuel demand as coronavirus cases soar in North America and Europe. The worsening Covid-19 pandemic will lead to additional stay-at-home measures that curtail economic growth and energy demand. The weak energy demand comes as additional barrels of crude out of Libya had been worsening oversupply fundamentals.

U.S. gasoline stocks rose by 1.9 million barrels in the week to Oct. 16, the Energy Information Administration (EIA) said, compared with expectations for a 1.8 million-barrel drop. Overall product supplied, a proxy for demand, averaged 18.3 million barrels per day in the four weeks to Oct. 16. It is down 13% from the same period a year earlier.

Crude inventories fell by 1 million barrels in the week to Oct. 16 to 488.1 million barrels, in line with analysts' expectations. Production of crude fell sharply last week to 9.9 million barrels per day from 10.5 million bpd. The drop was expected as a number of offshore facilities in the Gulf was shut due to the hurricane.

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The Energy Commentary

JBC Energy on Wednesday cut its global 2020 crude demand outlook, citing a persistent lack of recovery in U.S. gasoline demand. JBC now estimates global crude demand will fall by -8.7 million bpd on a y/y basis in 2020, about -500,000 bpd lower than a previous assessment.

In the political arena in the US, hopes of a massive stimulus relief package deal have waned after President Trump blasted Democrats accusing them of being unwilling to compromise. High level negotiations could face a setback after the blast and it is unclear whether talks would continue or go dormant. The president's tweet came amid deep opposition among Senate Republicans to the large bill. The Republican Senators seem more preoccupied with getting the confirmation of Trump's Supreme court nominee, Amy Coney Barrett thru. Attention on passing the stimulus bill on the senate floor would only be after the confirmation.

In Europe, one of Norway's two labour unions for oil service workers struck a wage deal, while a second union broke off talks, union officials said on Thursday. Industri Energi, the largest of the two labour unions involved in negotiations, said it had agreed to a deal, while the smaller Safe union said it had broken off talks and would face mandatory mediation later this year. Members of Safe are not permitted to strike at this point, but could do so if the next round of talks, led by a state-appointed mediator, also fails to bring an agreement. Norway is Europe's largest oil and gas producer after Russia.

At a time when the crude oil market also is facing bearish fundamentals from new Libyan supplies to weakening demand from the resurgence of Covid-19, a key OPEC+ ministerial panel at a recently concluded meeting made no new policy proposals. OPEC+ however did pledged action to support the oil market. OPEC+ is due to reduce the output cuts by a further 2 million bpd in January. OPEC watchers, including analysts from U.S. bank J.P. Morgan, have said a weak demand outlook could prompt OPEC+ to delay the reduction in curbs. The plunge in overnight prices adds urgency to balancing the oil markets and reducing volatility.

Nymex WTI Crude Oil December20 Daily

(Courtesy of Phillip Nova)

Structural Crude Oil Drivers

Global oil demand has been hard hit by Covid-19, especially by the slowdown of China's economy and lockdowns worldwide. There are signs especially that China may pick up faster than the rest of the world.

World oil output is radically changed with OPEC as well as non-OPEC been able to produce more if desired.

Saudi Arabia and Russia have agreed to an output cut after a price war with signs that demand is slowly coming back. OPEC+ compliance have improved and members of the oil group intentions more reliable and clear.

World Oil stocks however still stand above the 5-year average.

Market View: Supply cuts rebalancing, increasing demand but still with high inventories and very sentiment driven

The agreement among the giant producers had somewhat flattened the contango structure of time-spreads in major oil futures markets, which traders and investors construed as the oil markets may not be oversupplied going forth.

The oil market which had all the ingredients of a Big Bear with higher production from Saudi Arabia and Russia, weaker demand from China and world inventories above its 5-year average but this notion is slowing giving way to bullish sentiment.

However, concerted action by concerned Central Bankers and Governments would provide relief to a falling market; otherwise, the correction after the huge sell off would provide selling opportunities to bears gunning for below $20 a barrel oil.

The scale of the oil price crash would have economists and analysts revaluating their forecast for growth and even increase the urgency among Central Bankers to cut interest rates.

Crude prices would not recover to pre-covid levels until output cuts are deepen. Oil producers in the US need to do their part in order for oil prices to recover.

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