Oil Market Outlook

Oil prices were pressured last week by the first rise in US crude inventories for 11 weeks as refiners entered seasonal maintenance turnarounds. After its best January since 2006, the oil market retreated amid concerns over booming US shale production, with total US output topping 10 million barrels per day for the first time in more than four decades.

As well, the dollar jumped and US stocks had their worst week in two years as strong US jobs data increased the likelihood of higher US interest rates, reducing appetites for risk assets including commodities.

However, prices were supported by strong compliance by Opec and its allies with their production-cut pact, and a decline in Venezuelan output to a 30-year low as the country's dire economic conditions worsened.

West Texas Intermediate (WTI) fell by 69 cents to close at $65.45 per barrel. Brent declined $1.94 to $68.58 and Dubai crude closed at $66. Thaioil forecasts that WTI this week will move within the range of $63 and $68, while Brent will trade between $67 and $71. Prices are expected to face pressure from a stronger dollar and high US production. However, Opec-led cuts and low output from Venezuela could limit losses. Among the factors expected to influence trade:

- US crude output surpassed 10 million bpd in November for the first time since 1970, the Energy Information Administration reported last week. Production has doubled over the last 10 years, reversing decades of decline since the 1970s. The EIA projects US output will average 10.3 million bpd this year and 10.9 million bpd in 2019, up from 9.3 million bpd in 2017. The number of active oil rigs in the US last week rose by six to 765 rigs, the highest level since August 2017. As long as crude prices stay above $50 a barrel, exploration is profitable for most US producers.
- Opec and its allies including Russia are still exceeding their production-cut targets as they look to reduce OECD oil stockpiles to the five-year average. Reuters said compliance in January was 138% of the total of 1.8 million bpd in agreed cuts, up from 137% in December. Iraq continues to meet its quota of 210,000 bpd even though it is trying to increase exports.
- Output by Venezuela's heavily indebted state oil company continues to fall, with the country's total at a 30-year low of 1.6 million bpd. Insufficient investments, payment delays to suppliers and US sanctions have all hammered Venezuela's oil industry.
- US dollar is projected to strengthen in light of recent data showing 200,000 new jobs were created in January. That means the Fed is almost certain to raise its benchmark rate in March, with a more aggressive approach to increases continuing throughout the year. A stronger dollar makes it more expensive for non-US investors to buy dollar-denominated assets, pressuring crude prices.
- Economic indicators to watch include US Markit PMI and initial jobless claims, euro zone Markit PMI and retail sales, and Chinese consumer prices.

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