Oil Market Outlook

Oil prices posted their biggest weekly decline since January 2016 as investors worldwide deserted risk assets. Concern about inflation in the rapidly strengthening US economy has led to speculation that the Federal Reserve will start to increase interest rates more aggressively. The dollar and bond yields have risen accordingly.

Prices were also pressured by an unexpected rise in US crude oil and fuel inventories, while production topped 10 million barrels per day for the first time in 44 years, and the number of active oil rigs rose to the highest level since April 2015.

West Texas Intermediate (WTI) crude sank $6.25 from the week before to close at $59.20 per barrel. Brent fell $5.79 to $62.79. The two benchmarks have slid more than 11% from this year's peak in late January. Dubai crude averaged $60.

Thaioil forecasts that WTI this week will move within the range of $57 and $62, while Brent will trade between $60 and $65. Prices are expected to remain under pressure from high US output and the stronger dollar. However, the possibility of US sanctions against the Venezuelan oil industry could support prices. Among the factors expected to influence trade:

- US crude production is expected to keep climbing as long as prices remain above the $50 break-even level. The Energy Information Administration (EIA) said output in the week to Feb 2 averaged 10.25 million barrels per day (bpd). It lifted its forecast to an average of 10.59 million bpd for this year and 11.18 million in 2019. Both figures are up 3.1% from previous forecasts. A total of 791 oil rigs are now active following the addition of 26 rigs last week, compared with 591 in the same week last year.
- US crude oil inventories are expected to increase in the short term as refinery demand has fallen due to seasonal maintenance. The EIA said inventories in the week to Feb 2 rose 1.9 million barrels to 420.3 million, the second consecutive weekly increase.
- Further dollar appreciation is expected as investors anticipate a faster pace of interest-rate increases, starting with the next Fed meeting on March 20-21. The stronger dollar makes crude more expensive for investors holding other currencies.
- Monitor the relationship between Venezuela and the US as Washington considers further sanctions that could extend to the oil exports on which Caracas depends for desperately needed foreign currency. President Nicolas Maduro is pushing ahead with early presidential elections on April 22 over the objections of the opposition, exacerbating the country's economic and social crisis. Several foreign countries have already vowed not to recognise the results of the vote. In January, Venezuelan crude production dropped to a 30-year low at 1.6 million bpd.
- Economic indicators to watch include US retail sales, US producer and consumer prices and euro zone fourth-quarter 2017 GDP.

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