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Oil Market Outlook

B7

Oil prices fell last week amid profit-taking and a large gain in US crude inventories, while US production reached a new high. Prices rallied on Friday as investors dumped risk assets following US President Donald Trump's announcement of tariffs on steel and aluminium imports. The tariffs could affect the US oil sector by raising the costs of pipeline fabricators who use imported steel.

Oil has fallen more than 8% since late January, when prices reached a three-year high of nearly $67 a barrel, as surging US output counters efforts by Opec and allied producers to drain a worldwide glut.

West Texas Intermediate (WTI) crude fell by $2.30 to close at $61.25 per barrel. Brent shed $2.94 to $64.37 and Dubai crude closed at $60.16. Thaioil forecasts that WTI this week will move between $59 and $64, while Brent will trade between $63 and $68. Prices will be pressured by high US inventories and output. Support will come from a dip in Libyan production and high compliance with Opec-led cuts. Among the factors expected to influence trade:

- Maintenance season at US refineries has reduced demand for crude oil and will push up inventories in the near term. Stocks in the week to Feb 23 rose by 3 million barrels, well above the forecast of 2.1 million, to a two-month high of 423 million. Gasoline inventories expanded by 2.48 million barrels, four times more than forecast.
- US crude production continues at a record-setting pace, reaching 10.3 million barrels per day, and is expected to reach 11 million bpd by year-end, overtaking Russia as the world's biggest producer. The latest Energy Information Administration projection is for output to average 10.6 million bpd this year and 11.2 million in 2019, up from 9.3 million in 2017. The number of active US oil rigs rose by one last week to 800, the highest level since April 2015.
- The dollar hit a five-week high after Federal Reserve chairman Jerome Powell struck an optimistic tone about the US economy, leading investors to believe the Fed could raise interest rates four times this year rather than three as expected earlier. A stronger dollar makes oil more costly for investors holding other currencies.
- Libya's state oil company has had to declare *force majeure* on exports from the 70,000-bpd El Feel oilfield, closed because of a labour dispute. However, other fields are taking up the slack and overall output is at a four-year high. Figures for January showed production of 978,000 bpd, while exports in February rose 22% from the month before.
- Opec and its allies expect to stick to their agreement to reduce production by 1.8 million bpd until December, as they seek to reduce OECD oil stocks to the five-year average. Saudi Arabia is expected to lower its first-quarter output by more than the agreed level. The Saudi oil minister indicated that new measures to maintain oil market stability would be introduced next year, but he did not elaborate.
- Economic indicators to watch include revised euro zone fourth-quarter 2017 GDP, Chinese, US and euro zone PMI updates, and US employment data for February.

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