Oil Market Outlook

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Oil prices were depressed last week by reports that Saudi Arabia and Russia are preparing to increase output to offset declines from Iran and Venezuela.

Meanwhile, record US production, combined with pipeline constraints that are affecting oil transport, are weighing on West Texas Intermediate (WTI) crude. The spread between WTI and Brent crude has widened to more than $10 a barrel, the highest in three years.

However, price declines were limited by reports showing that supplies remain tight overall, with Opec and its allies continuing to exceed their output reduction commitments.

WTI fell by $2.07 last week to close at $65.81 per barrel. Brent gained 35 cents to $76.79 and Dubai crude closed at $74.90. Thaioil forecasts that WTI this week will trade between $64 and $69, while Brent will move between $74 and $79. Prices are expected to remain depressed as investors monitor the possibility of higher production from Opec, which will meet on June 22. Global supplies have begun to fall below the five-year average, which was the main goal of the cuts Opec and its allies agreed on last year. Meanwhile, US crude inventories are likely to fall amid rising demand for the summer driving season. Among the factors expected to influence trade:

- Saudi Arabia and Russia are said to be discussing a gradual increase in production by up to one million barrels per day to offset lost output elsewhere. Most analysts expect Opec on June 22 will agree to raise output by between 300,000 and 700,000 bpd. Adding too much too quickly would undermine efforts to keep prices stable at around $80. Opec output fell to a 13-month low of 32 million bpd in May due to declining Venezuelan production, Nigerian outages and compliance at 163% of agreed cuts totalling 1.8 million bpd, a Reuters survey found. The biggest decrease came from Nigeria due to unplanned outages, followed by Venezuela, where the oil industry is starved of funds.
- US oil production has risen another 100,000 bpd to 10.8 million barrels. The number of active oil rigs last week rose to a three-year high at 861. The Energy Information Administration (EIA) now forecasts that US output will top 11 million bpd, passing top producer Russia, sometime in the fourth quarter of this year.
- Buyers of Iranian oil are making changes as they look to comply with US sanctions against Iran by the November deadline. The Indian conglomerate Reliance, which has been importing 100,000 bpd of crude from Iran, said it would wind down all purchases by October. Iran's crude exports in May dropped by 100,000 bpd to 2.5 million.
- US crude oil inventories are likely to fall as imports decline and demand from refineries rises as the driving season begins. Crude inventories fell 3.6 million barrels in the week to May 25, compared with forecasts for a decline of 525,000. Refinery capacity utilisation is now at 93.9%.
- Economic indicators to watch include US, euro zone and Chinese services PMI updates, and Chinese consumer and producer prices.

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