DAILY ANALYSIS REPORT

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ABANS

# Covid-19 spread and fresh lockdown in china to limit oil prices rally

## COVID-19 SPREAD AND FRESH LOCKDOWN IN CHINA TO LIMIT OIL PRICES RALLY

- CME WTI Crude oil is currently trading near $109.36 per barrel, slightly lower than last week's high of $116.64 per barrel, on the basis of growing concern about reduced fuel consumption in China following the commencement of a two-stage lockdown in Shanghai to limit a surge of COVID-19 infections. Fuel demand in China has slumped as lockdown restrictions in major cities affected people movement. More than 50% of flights were canceled at China's 20-largest airports from March 11-17.
- However, concern over Ukraine and Russia war is likely to limit the losses in oil prices. Crude oil prices remained positive as a result of growing geopolitical worry following a missile attack by Yemen's Houthis on a Saudi oil distribution plant, which might have disrupted oil supply. Over the past week, Houthi rebels attacked at least six Saudi crude production sites with drones and missiles.
- Market is likely to get fresh direction from upcoming OPEC+ meeting later on this week. As per our opinion, OPEC+ is less likely to increase oil output at a higher rate than in recent months. Economic sanctions placed by the United States on Russia are affecting some of the country's oil shipments. According to some estimates, 1 million to 3 million barrels per day (bpd) of Russian oil may never reach the market. According to data from last year, Russia shipped 4.7 million barrels per day of oil in 2021, making it the world's second-largest exporter behind Saudi Arabia. OPEC+ has rejected calls for increased output so far. Since August, the company has been increasing output by 400,000 bpd per month to make up for losses made when the COVID-19 outbreak affected demand.
- Crude oil prices are likely to remain under pressure as U.S. and its allies may coordinate another release of crude from emergency reserves. National Security Advisor Sullivan said Friday that the U.S. discussed tapping emergency stockpiles with EU leaders in Brussels during the NATO summit.
- On the economic front in the United States, pending home sales declined -4.1 percent m/m in February, missing forecasts of a +1.0 percent m/m increase. The University of Michigan's March consumer confidence index was lowered down by 0.3 points to 59.4, a 10-1/2-year low. The German IFO business climate index for March slid -7.7% to 90.8, a 20-month low, falling short of expectations of 94.2.
- On the inventory front, US crude oil inventories were -12.3 percent lower than the seasonal 5-year average as of March 18, gasoline inventories were -0.9 percent lower, and distillate inventories were -17.7 percent lower. In the week ending March 18, crude oil output in the United States remained constant at 11.6 million barrels per day (bpd), down 1.5 million bpd (-11.5 percent) from the record high of 13.1 million bpd set in February 2020.
- Baker Hughes announced on Friday that active U.S. oil rigs increased by 7 rigs to 531 in the week ending March 25, a new 1-3/4 year high. Active oil rigs in the United States have grown considerably from a 16-1/2 year low of 172 rigs in August 2020, indicating an increase in crude oil production capacity in the United States.
- According to the CFTC Commitments of Traders report for the week ending 22 March 2022, the net long position in crude oil futures fell by 1846 contracts to 339969. Speculative longs were down 8041 contracts, while shorts were down 6195 contracts.

### Outlook

- CME WTI Crude oil contract is likely to remain under pressure while below key resistance level of $119-$124.10 while immediate support level could be seen around $106.4-$98

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