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Supply challenges to keep oil prices firm in near term

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## SUPPLY CHALLENGES TO KEEP OIL PRICES FIRM IN NEAR TERM

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- WTI Crude oil rallied to seven year high yesterday at \$87.95, now trading marginally lower from this level at \$87.12. Crude oil prices are support after a drop in inventories at key US storage hub at Cushing. Geopolitical issues between Ukraine and Russia is also supporting oil prices. However, Fed signal to start raising interest rates to fight inflation is keeping oil prices under pressure.
- On geopolitical front, Russia may launch an invasion after massing thousands of troops on the border, potentially disrupting energy supplies. Russia is one of the leading oil producers of the world. Supply challenges are the drivers behind this surge in oil prices recently.
- EIA weekly report revealed that Crude inventories rose by 2.4 million barrels in the week to Jan. 21 to 416.2 million barrels, compared with analysts' expectations in a Reuters poll for a 728,000-barrel drop. Gasoline stockpiles rose by 1.3 million barrels last week to 247.9 million barrels. US crude oil inventories as of Jan 21 were -7.9% below the seasonal 5-year average, gasoline inventories were -1.8% below the 5-year average, and distillate inventories were -17.8% below the 5-year average.
- As per EIA report, In the week ending January 21, crude oil output in the United States declined - 0.9 percent w/w to 11.6 million bpd, down -1.5 million bpd (-11.5 percent) from the record high of 13.1 million bpd set in February 2020.
- Reduced concern about the spread of the omicron form supported crude oil prices, allowing travel restrictions to be relaxed, which is good for fuel demand and crude prices. The seven-day average of new Covid infections in the United States plummeted to a two-and-a-half-week low of 639,696 on Tuesday.
- The number of oil rigs in the United States is increasing, indicating a rise in crude oil production capacity. Last Friday, Baker Hughes announced that active U.S. oil rigs declined by one rig to 491 rigs in the week ending January 21, down slightly from the previous week's 1-3/4 year high of 492 rigs. However, active oil rigs in the United States have risen sharply from a 15-year low of 172 rigs in August 2022.
- According to the CFTC Commitments of Traders report for the week ended January 18th , net long of crude oil futures jumped by 25276 contracts to 385781. Speculative longs increased by 18808 contracts while shorts dropped by 6468 contracts.

### Outlook

- Crude oil prices are likely to trade firm while above key support level of \$83.83-\$82.65 meanwhile immediate resistance level could be seen near \$90.41-\$92.91

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