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Supply side holds the key for oil prices

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## Supply side holds the key for oil prices

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- WTI crude oil is now trading near \$82 per barrel after sharp rally from recent low of \$78.25 per barrel registered on November 4th. Oil prices are projected to be supported as long as supply remains tight and confidence about global economic development grows. Crude gains are anticipated to be limited due to fears that President Biden would shortly sanction the release of crude from the United States Strategic Petroleum Reserve.
- Meanwhile, Saudi Aramco to raise the pricing for all crude grades to Asian customers for December delivery by \$1.40-\$2.70 per barrel, much more than expectations of an increase of 50 cents to \$1 per barrel. The increase comes after the Organization of Petroleum Exporting Countries, led by Saudi Arabia, and its Russian-led allies stated last week that they will keep to their agreed-upon plans to increase output by 400,000 barrels per day next month.
- China's positive economic statistics is expected to boost energy consumption and crude oil prices. China's exports increased by 20.3% y/y in October, above estimates of +17.1 percent y/y for the first time in six months.
- However, the advance in crude oil has been halted due to reports that the US may release fuel from the Strategic Petroleum Reserve. If President Biden makes an announcement this week to address rising oil and gasoline prices, crude oil prices are likely to encounter a snag. According to the Washington Post, the reserve stood at 612.5 million barrels on October 29, enough to cover more than half a year's worth of net oil imports into the United States. That's nearly 86 percent of the 714 million barrels of allowed storage capacity.
- According to data from China's General Administration of Customs, crude imports in October plummeted 8% m/m to 8.9 million bpd, the lowest in more than three years, putting downward pressure on oil prices.
- Negotiations to resurrect the 2015 nuclear deal will resume on November 29 in Vienna, according to Iran's deputy foreign minister. If the sanctions against Iran are lifted, some Iranian crude oil may once again flow into global markets, keeping oil prices under control.
- Furthermore, Russian crude output increased by 1.1 percent m/m to 10.843 million bpd in October, according to data from Russia's Energy Ministry.
- In addition, OPEC crude production increased by 140,000 barrels per day in October, reaching a one-and-a-half-year high of 27.58 million barrels per day. Due to output reductions in Angola and Nigeria, the +140,000 bpd rise fell short of the +400,000 bpd increase OPEC+ had committed to for October.
- According to a Baker Hughes data released on Friday, active US oil rigs increased by 6 rigs in the week ending November 5 to a 1-1/2 year high of 450 rigs. The number of active oil rigs in the United States has climbed substantially from a 15-year low of 172 rigs last August. It's an early sign of a boost in crude oil production capacity in the United States and negative for oil prices.
- The net long of crude oil futures fell -4 425 contracts to 419 293, according to the CFTC Commitments of Traders report for the week ended November 2. Speculative longs were down -4 425 contracts, while speculative shorts were up +2 885 contracts.

- On the inventory front, US crude oil inventories were -5.7 percent lower than the seasonal 5-year average on October 29, gasoline inventories were -3.2 percent lower, and distillate inventories were -5.5 percent lower.
- In the week ending October 29, US crude oil output increased by 1.8 percent w/w to 11.5 million bpd, down 1.6 million bpd (-122.2%) from the record-high of 13.1 million bpd set in February 2020.

## Outlook

- WTI Crude oil futures contract is projected to find significant resistance around \$83.50-\$84.33 per barrel, while immediate support could be found around 20 days EMA at \$81.35 per barrel and the 50-days EMA at \$78.47 per barrel.

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