15-19 May 2017

FURTHER DROP IN US CRUDE STOCKS

US data for the week ended May 12 is expected to show a draw of 2 million barrels in crude stocks, which would be the sixth weekly decline. US commercial crude inventories are still well above their five-year average, though that surplus has been shrinking since late last year. Crude inventories have also dropped by more than consensus expectations in four of the past five weeks. However, market attention will also remain focused on gasoline inventories and consumption. Last week, gasoline stocks declined and demand numbers jumped – both reversing the trend of the three previous weeks, and retrieving crude prices from five-month lows. Gasoline stocks are expected to show a decline of 500,000 barrels, according to analysts surveyed by S&P Global Platts. This should support Brent above $52 and WTI above $48, provided gasoline consumption data comes in stable or higher.

SAUDI-RUSSIAN PLAN TO EXTEND CUTS TO MARCH 2018

Saudi energy minister Khalid al-Falih and his Russian counterpart Alexander Novak Monday (May 15) released a joint statement saying they would recommend an extension of the existing cuts to March 2018. Perhaps more critically for market sentiment, the de-facto leaders of OPEC and the non-OPEC bloc of 11 producers participating in the current production restraint efforts signalled they would “do whatever it takes” to bring global oil stocks down to within five-year averages levels. This removes any doubts over OPEC and Russia’s resolve to stay the course and determination to achieve their market rebalancing goal.

DOWNSIDE RISK: UNEXPECTED BUILD IN GASOLINE STOCKS, WEAKER DEMAND

We are keeping this on our radar from last week. US gasoline stocks and demand data turned positive for crude prices just last week after three weeks of being a bearish force. Until a trend is firmly established, another set of data showing an unexpected build or even weakening demand could pressure crude again.

EIA PROJECTS 6th MONTHLY RISE IN TIGHT OIL OUTPUT

US crude production continues to rise apace. June output from the four key oil-prone shale plays – Bakken, Eagle Ford, Niobrara and Permian – is expected to climb by more than 120,000 b/d over May, according to the EIA’s latest Drilling Productivity Report released May 15. Production from the four plays, which account for around 54% of total US crude production, will have risen by around 602,000 b/d through the first six months of this year alone. The prospect of a shale resurgence slowing down OPEC/non-OPEC efforts to drain stocks and rebalance the market will remain a bearish drag on market sentiment.

ANOTHER SPURT IN LIBYA

Libyan production has been scaling new heights. The North African OPEC producer this week reported it was pumping 814,000 b/d. That is 286,000 b/d more than its output in October 2016, the baseline OPEC has used to calculate its output cuts. We still don’t hear any talk of Libya and Nigeria, currently exempted from the cuts, being given production quotas under an extension of the deal, or the remaining 11 members taking bigger cuts. This risks diluting OPEC’s compliance and threatens cohesion in the coming months.

ON BALANCE: MILDLY BULLISH