Near-term: Mildly Bullish	Jan-Feb 2022: Mildly Bearish

BULLISH

Rebound from Omicron sell-off

A 16% plunge in Brent and WTI futures on an Omicron panic sell-off between Nov 26 and Dec 1 was overdone. About half the drop was erased after preliminary studies and data showed the strain is likely more transmissible than Delta but may not cause more serious illness. The response from governments so far spans tightening of international borders, mask mandates, growing use of 'Covid passes' and a fresh push for vaccination in countries with access to the shots. There have been no blanket lockdowns and shutdowns and impact on oil demand is mostly limited to jet fuel. As the Omicron threat recedes, crude prices should regain more ground.

BULLISH

Seasonal demand

It is the year-end season for holidaying and spending, even if international travel is crimped by Omicron. Governments in the West will try to avoid stricter Covid containment measures over the festive season. The northern hemisphere winter lifts oil demand for heating. This year, it is being supported by higher use of oil as substitute fuel amid lingering gas shortages in Europe.

SUPPORTIVE

OPEC+ ready to cut; supply lags target

OPEC+ stayed the course on a 400 kb/d supply hike in Jan at its Dec 2 meeting but sent a clear signal that it could move to swiftly curtail output if Omicron starts hammering demand. That is a positive signal for crude sentiment. Meanwhile, the alliance had delivered a 1.6 mil b/d output hike by Nov versus Aug, undershooting its target of 2 mil b/d under the monthly tapering plan. The gap is expected to persist, as several producers are struggling to ratchet up output.

MILDLY BEARISH

Fed's hawkish pivot, US' SPR tool

The US Fed is expected to accelerate the phase-out of its bond-buying program, paving the way for its first post-Covid rate hike as early as Q2 2022 and a total of 2-3 hikes next year in a bid to curb inflation. The USD is hovering around 16-month highs; tighter monetary policy typically lifts the dollar. Confirmation from the Fed's Dec 14-15 policy meeting could start eroding risk appetite in the financial markets and weigh on crude. The prospect of US tapping more SPR oil if crude rallies again is not outright bearish but weighs on sentiment.

BEARISH

Red flags on global economic recovery

A combination of strong and stubborn inflation around the globe, fading monetary and fiscal stimulus in the developed world on the heels of tightening policies in some major emerging economies and a persistent Covid shadow with new mutants popping up is likely to decelerate global economic recovery. Right now, this picture is not fully priced in, being overshadowed by the here-and-now of the heightened winter fuel needs, the energy crisis demand bump and the relief rally after the Omicron sell-off. But the anxiety lurks on the horizon and is likely to keep a lid on oil prices.

BULLISH

Oil demand rebound likely to sustain

Global oil consumption has been on a stable rebound path since Q2 2021. Current expectations are for a demand dip in Q1 2022 but the upward incline resuming in Q2 and continuing to year-end. However, the combination of northern hemisphere winter and a lingering gas shortage in Europe could keep demand elevated through Jan. If by then markets are breathing easier because Omicron has proven that Covid has become a manageable threat, there could be a boost to upcoming summer demand sentiment, including a potential easing of international travel restrictions.

BULLISH

OPEC+ to keep close eye on supply

OPEC+ is already on guard for 2022 amid a projected swing back to market surplus. It will likely stick to a 400 kb/d monthly increment for Feb but continue to come up short on the raised targets as members struggling to ramp up over the past few months are unlikely to find quick solutions to their upstream capacity hobbled by underinvestment, neglect, or simply loss of reservoir pressure while output was curtailed.

MILDLY BEARISH

Increase in non-OPEC+ supply

US crude production has been creeping up this year; the EIA expects 11.65 mil b/d average in Jan-Feb, up from 11.50 mil b/d over Nov-Dec 2021. Aside from the US, output in Canada and Norway is expected to be on rise as we enter 2022. We are not calling it outright bearish because the anticipation is partially baked in and the EIA's forecasts appear slightly over-optimistic to us. Meanwhile, talks to revive the Iran nuclear deal could regain momentum early next year. Given the complexity of the issues involved and hardliners on the Iranian side, the market has so far ignored the resumption of talks at the end of Nov. But if oil supply does begin to swing to surplus, Iran will begin to weigh.

BEARISH

Fed tightening and sluggishness in economies

Inflation has become a big problem in the US, forcing the Fed to tighten policy earlier than expected, while there are clear signs that the world's second-largest economy and oil consumer, China, is slowing down and will continue on this path as Beijing withdraws stimulus while settling for more modest growth rates. China's crude imports over Jan-Nov slumped 7% on year. Evergrande's default this week shines a spotlight on China's enfeebled property sector, responsible for a quarter of the country's economic activity. Meanwhile, by accelerating its monetary policy tightening, the Fed risks stalling US economic recovery while inflation continues to run rampant due to pandemic-induced supply chain snarls, rising wages and rising demand for goods. Meanwhile, even if Omicron does not prove disastrous for global economic recovery, it is shaping up to be disruptive. It stands to worsen supply chain bottlenecks and inflation. The latest brakes on international travel may sustain through the winter.