Crude Oil Daily

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Market Headline: Crude oil falls on Saudi price cuts to Asia

The Tuesday Morning Updates

- Crude oil prices fell overnight on Saudi Aramco lowering its crude oil price for its main grades for October, indicating weaker demand for energy.
- The U.S. weak non-farm payrolls report for August had already raised questions on short-term energy demand over the long U.S. weekend.

Early Asian Trade

Crude oil prices fell on Monday in Asia and Europe on carry-over weakness from Friday after a much weaker NFP and Saudi Arabia cutting its prices for Asian buyers over the weekend, suggesting an uncertain demand outlook. State oil giant Saudi Aramco said that it will cut October prices for all crude grades sold to Asia, the region that consumes the bulk of its oil, by at least $1 a barrel.

These concerns about demand, with Covid-19 cases still on the rise, comes in the wake of OPEC+, confirming its intention last week to add another 400,000 barrels per day of supply in October.

The ICE Brent November2021 Crude Oil contract on Friday closed -$0.42 at $72.61 a barrel. The Nymex WTI October crude oil contract closed -$0.70 at $69.07 a barrel. The Brent contract traded a low of $71.51 while the WTI was lowest at $68.25 before a modest recovery. The U.S. was on a long weekend for the Labour Day Holiday.

Besides the U.S. economic data showing a weaker-than-expected U.S. payroll growth. The China Aug Caixin services PMI fell -8.2 to 46.7, steepest pace of contraction in 16 months. Eurozone July retail sales were also disappointing dropping -2.3% m/m. The U.S. economy added back the fewest jobs since January last month as the Delta variant took a greater than expected toll. Non-farm payrolls increased by 235,000 in August after rising by more than 1 million in July, the U.S. Labour Department said Friday.

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The Energy Commentary and Key Drivers Ahead

Saudi Aramco said over the weekend that it will cut the official selling prices of all its main crude grades for October. Arab Light, the most important Saudi export blend, will be offered at $1.70 over its Dubai/Oman benchmark. That compares with a premium of $3 in September. The $1.30/bbl cut is much larger than expectations for no more than 40c/bbl, and was the largest such reduction in a year, according to Reuters.

Saudi Aramco left its differentials for cargoes to Europe and North America unchanged, however. Conditions in the North American market remain overshadowed by the after-effects of Hurricane Ida, where outages of both production platforms and refineries are still widespread.

The actions reflect the difficulty of shifting increased production at a time when buying from China in particular has weakened due to high commercial stockpiles and the impact of lockdown measures to stop the wave of delta variant Covid-19 outbreaks. Saudi Arabia, the largest producer in the Organization of Petroleum Exporting Countries, raised is set to raise its output by 100,000 barrels a day this month, after already raising it by 180,000 barrels a day in August, as part of a broad agreement to raise overall supply to world markets by 400,000 barrels a day each month.

The news from Saudi Arabia have come hard on the heels of a big miss in U.S. employment gains on Friday that cast doubt over the strength of the U.S. economy, just as demand dynamics in North America are weakening due to the end of summer. Commodity Futures Trading Commission data on Friday showed that bullish sentiment toward crude waned again last week, with net speculative long positions held by money managers falling to their lowest since October 2019 said an oil analyst.

A supporting driver for crude oil would be the weaker U.S. Dollar which was pressured by U.S. jobs report and fell to a four-week low, which in the short-term could be supportive but in the longer horizon would indicate a spotty a spotty U.S. economic recovery.

Last week also saw the OPEC+ meeting which brought no surprises as member states reiterated their commitment to the 400,000 b/d monthly increase over the remainder of this year.

Market View

In the short-term oil market may be volatile with frequent pull-back as crude prices are beginning to struggle as demand in Europe and India faces headwinds. There is a possibility of additional Iranian, UAE and Libyan barrels flooding the market but we are expecting overall global GDP growth to hold up energy demand. Chinese demand growth has slowed down but expectations of air travel picking up and increased number of vaccinations negating the spread of the Delta variant coronavirus. However, OPEC+ with only an agreement till end-December, and with no stated plans to increase output beyond their agreements had placed some uncertainty ahead and a revaluation of the direction ahead in the immediate short term as prices are way into technically oversold levels. The major trend is however still intact and deep pullbacks would provide opportunities for buying the dips.

Nymex WTI Crude Oil October21 Daily

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