



Market Headline: Weaker demand to pressure Crude Oil despite Libyan supply issues

A Mid-Morning Market Commentary

Summary

- USD denominated Crude oil futures subdue Monday morning ahead of key U.S. CPI print.
- Key Kazakh oilfield reduced, Libyan oil output nearly halved, adverse U.S. weather affect supply
- U.S. drillers add oil and gas rigs for fourth week in five – Baker Hughes

Benchmark crude oil futures lost ground at opening on Monday before regaining composure in Asia after oil prices had settled modestly lower on Friday. The market had weighed supply concerns from the unrest in Kazakhstan and outages in Libya against a U.S. jobs report that missed expectations and its potential impact on Federal Reserve policy while investors count down to another U.S. inflation reading that could well set the seal on an early rate hike from the Federal Reserve lifting the US Dollar. On Friday, crude oil prices had erased an early rally to closed lower. A slump in the S&P 500 to a 2-week low Friday also undercut confidence in the economic outlook and energy demand and weighed on crude prices.

Crude has support as severe cold temperatures have temporarily prompted shut-ins or slowdowns at oil fields in North Dakota and West Texas and have stoked concerns that suppliers would not be able to meet contractual obligations for this month which may force some suppliers into the spot market to purchase crude to fulfill their obligations.

As of 1030 SGT Monday, March Brent crude futures rose 7 cents after dropping \$0.24 at \$81.75 a barrel in the previous trading session. Meanwhile the U.S. West Texas Intermediate Feb crude was also down 2 cents a barrel this morning, following a \$0.56 loss in the previous session. It closed at \$78.90 a barrel.

Supply constraints from outages and adverse weather is expected to underpin crude oil. Production in Libya has dropped to 729,000 barrels per day from a high of 1.3 million bpd last year, partly due to pipeline maintenance work while in Kazakhstan, security forces appeared to be in control of the streets and the president said constitutional order had mostly been restored, a day after Russia sent troops to put down an uprising but output would be duly affected.

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U.S. energy firms kicked off the new year by continuing to add oil and natural gas rigs this week after increasing the rig count in 2021 after two years of declines. The oil and gas rig count, rose two to 588 in the week to Jan. 7, its highest since April 2020, energy services firm Baker Hughes Co said on Friday.

Even though the rig count has been rising for a record 17 months in a row, production was still expected to ease in 2021 as some energy firms are not expected to return to boosting production to pre-pandemic levels.

Market View

In the short-term oil market may be volatile with frequent pull-back and rallies. Crude prices may have to face the effects of demand destruction with the spread of the new Omicron variant. Even so at high prices, there are highly any signs that demand is waning. Although there is a possibility of additional OPEC+ barrels or a release from the SPR flooding the market with a surplus expected next year. The expected overall global GDP growth which was expected to hold up energy demand may not happen. Oil prices in the bigger picture are regaining their mojo. The path of least resistance remains higher for now.

Nymex WTI Crude Oil Febuary22 Futures



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