

The Commodities Feed: Brent back below \$90

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Energy- Brent back below \$90/bbl

After a strong finish last week, which saw ICE Brent settling above US\$91/bbl, the market has come under some downward pressure in early morning trading today. Risk assets reacted mostly positively to Friday's stronger than expected US jobs report, despite the fact that the release has pushed back expectations on when the Federal Reserve will start to cut rates. It seems not only is bad news good news, but good news is good news.

For the oil market, the key question is how sustainable the recent rally is. Yes, the market is tightening, but this was largely expected following the rollover of OPEC+ cuts. Geopolitical risks have certainly grown, particularly when it comes to Israel and Iran, which has left the market nervous. However, any premium priced into the market will eventually erode in the absence of any escalation. Although clearly, markets are of the view that we will see Iran retaliating for the attack on its embassy in Syria. If we look at the demand side, refinery margins have weakened with the

recent move higher in crude oil. In order for this rally to be sustained (in the absence of supply disruptions or ratcheting up in geopolitical risks), we need to see refinery margins strengthening with crude oil.

The latest positioning data shows that speculators increased their net long in ICE Brent by 9,866 lots over the last reporting week to 299,835 lots as of last Tuesday. This is the largest net long speculators have held since mid-February last year. Given the move in the market since last Tuesday, it is likely that speculators currently hold their largest net long since October 2021. Meanwhile, speculators increased their net long in NYMEX WTI by 12,045 lots over the last reporting week to 229,484 lots.

Baker Hughes data shows that the US oil rig count increased by two over the last week to 508. The stronger oil price environment appears to have at least seen the oil rig count stabilise in recent weeks. It is also holding up better than the gas rig count, which continues to edge lower given the weak levels Henry Hub has been trading at in recent months.

It's a packed calendar this week for energy markets. The EIA will release its latest Short Term Energy Outlook on Tuesday, which will include its latest forecasts for US oil production and its view on the global balance. Then on Thursday, OPEC will release its monthly oil market report, which will include its latest supply and demand forecasts and OPEC production numbers for March. This will be followed by the IEA's monthly oil market report on Friday. Also on Friday, China will release its first batch of March trade data, which will include oil imports. Important for energy markets, as well as broader markets, March US CPI data will be released on Wednesday, which may provide some further signals on the path the Fed could take.

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