The Commodities Feed: Oil plunges along with other risk assets

Oil prices came under further pressure on Friday following a weaker-than-expected US jobs report hitting most risk assets. However, Geopolitical risks in the Middle East also continue to linger

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Energy – Speculators dump oil

The oil market has seen four consecutive weeks of declines and the sell-off last week was the most aggressive since early May. ICE Brent settled 5.32% lower last week, which saw the market close below US$77/bbl, the lowest level since January. A weaker-than-expected US jobs report on Friday weighed heavily on risk assets. The release suggests that the US economy is slowing more rapidly than expected, raising recession fears. This only adds to Chinese demand concerns that have been lingering in the oil market for some time.

However, while there are growing demand concerns, geopolitical risks continue to hang over the oil market. Participants are waiting to see how Iran responds to the assassination of the political leader of Hamas on Iranian soil. Iran has blamed Israel for the assassination and has vowed that it will retaliate. While developments may lead to short-term volatility in the market, to see sustained strength, we would likely need to see some actual disruption to oil supply, which has been lacking so far.

Speculators have continued to become negative towards commodities and oil. The latest positioning data shows that speculators cut their net long in ICE Brent by 68,359 lots over the last reporting week to 77,990 lots as of last Tuesday. This is the smallest net long speculators have held since mid-June. However, given the sell-off since last Tuesday, the current net long is likely to be considerably smaller. Speculators also sold ICE gasoil over the last reporting week, reducing their net long by 11,422 lots to just 14,040 lots as of last Tuesday, the smallest net long held since January.

Saudi Arabia raised the official selling prices for its Arab Light into Asia by US$0.20/bbl MoM to US$2/bbl for September loadings. This comes after two consecutive weeks of cuts. The increase was not too surprising given the broader strength that we have seen in the Brent/Dubai spread over much of July. All grades to the US and Europe saw cuts in their OSPs for September loadings.

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