The Commodities Feed: Trump sends oil prices lower

Oil prices traded lower yesterday after President Trump's speech at the World Economic Forum, while European gas prices remain well supported given storage concerns

Energy

Oil prices came under pressure yesterday after President Trump's virtual address at the World Economic Forum at Davos, where he called for lower oil prices. The president said he would ask Saudi Arabia and OPEC members to bring prices down by increasing output. Trump said that lower oil prices could be used as a way to pressure Russia and help bring an end to the war in Ukraine. In his previous term, President Trump was very vocal about OPEC needing to pump more oil. However, with Russia becoming increasingly more aligned with OPEC members through the OPEC+ alliance, as well as higher fiscal breakeven oil prices for key members, it will be no easy task to convince OPEC to increase output. According to the IMF, Saudi Arabia is estimated to have a fiscal breakeven oil price just shy of US$91/bbl. Furthermore, lower oil prices would also be an obstacle to significantly increasing US oil production.

The EIA's weekly oil report showed that US commercial crude oil inventories fell by 1.02m barrels over the last week. This is the ninth consecutive week of declines in crude inventories, which leaves stocks at their lowest level since March 2022. This decline came despite refiners slashing run rates, which was driven by maintenance largely in the US Gulf Coast. Refiners cut utilisation rates by 5.8pp week-on-week, which saw crude oil inputs decline by 1.13m b/d. On the trade side, crude imports increased 621k b/d WoW, while exports also increased by 437k b/d. The increase in imports was largely driven by stronger flows from Canada. As for refined products, gasoline stocks increased by 2.33m barrels, despite the big fall in refinery activity. However, gasoline stocks on the East Coast fell following the temporary outage along the Colonial pipeline. Meanwhile, distillate stocks fell by 3.07m barrels WoW.

The EIA also released its weekly natural gas storage report in which US working storage was reported to have fallen by 223Bcf, less than the 248Bcf draw the market was expecting. The smaller-than-expected draw and forecasts for some warmer weather saw Henry Hub tick lower yesterday.

European gas prices remain relatively well supported, with TTF trading just shy of EUR50/MWh. Concerns over EU gas storage remain with inventories now below 58% full, down from 74% at the same stage last year and below the five-year average of 66%. The market and member countries are becoming increasingly concerned about the task of refilling storage through the injection season and the fact that the forward curve provides no incentive to store gas for next winter. The forward curve is in backwardation between summer 2025 and winter 2025/26. Talk of subsiding the refill of storage is growing.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com