EIA confirms oil stock drawdown

The crude oil market has had quite the week so far, with ICE Brent rallying almost 5% since last Friday's settlement. Re-emerging geopolitical risks and a drawdown in US crude oil inventories have been constructive for the market

Source: Shutterstock

US inventory declines add further support

There is no denying that sentiment has turned positive in the oil market this week.

OPEC members have become more vocal about when they see the global oil market returning to balance and have also suggested that more extended cuts could be on the table, by potentially using the seven-year average OECD inventory level instead of the five-year average as a target.

To add to this, concerns are growing once again about the future of the Iranian nuclear deal, with the risk that the US withdraws. If this happens, the next question is how severe could potential sanctions be, and what impact will this have on oil supply.

> *After yesterday's release, all eyes were on the EIA, which made sure it didn't upset the party*

The final supportive factor was the surprise inventory drawdown reported by the American Petroleum Institute (API) yesterday. The institute estimated that US crude oil inventories declined by 2.74MMbbls over the last week, compared to market expectations of a crude oil build of around 3.25MMbbls. Therefore it was no surprise that all eyes were on this afternoon's Energy Information Administration (EIA) release, and the EIA made sure it did not upset the party, with it reporting that US crude oil inventories fell by 2.62MMbbls.

-2.62 Change in US crude oil inventories

(MMbbls)

Lower than expected

Inventory drawdowns across the board

Not only did the EIA report the first crude oil drawdown since mid-February, but the administration also reported declines of 1.69MMbbls and 2.02MMbbls in gasoline and distillate fuel oil stocks respectively.

The drawdown in crude oil inventories was driven by a combination of factors. Firstly crude oil imports fell by a little over 500Mbbls/d to average 7.08MMbbls/d for the week. Secondly, exports crept up by 86Mbbls/d to average 1.57MMbbls/d. Then finally with refinery utilisation rates breaking 90% for the first time since early February, crude oil inputs into refineries increased by 410Mbbls/d over the week to average 16.78MMbbls/d.

However what the report did show, is a second consecutive build in crude oil inventories at Cushing, Oklahoma, the WTI delivery hub. Stocks increased by 905Mbbls, following the 338Mbbls increase last week. This inventory build supports the more recent strength that we have seen in the Brent-WTI spread, with it trading at US$4.20/bbl at the time of writing, compared to yesterday's settlement of US$3.88/bbl.

> Overall this week's report albeit largely constructive will do little to help the case for oil bears. We will be watching inventory figures very closely in the coming weeks and if we see continued drawdowns, it would suggest a much earlier than usual seasonal decline in crude oil inventories.

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