

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.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.