The Commodities Feed: Oil supply risks linger

Your daily roundup of commodity news and ING views

Oil prices are trading softer this morning, with further talks between the US and Iran planned for Thursday

Energy

Oil prices continue to edge higher on the back of supply concerns. WTI briefly traded above US$80/bbl for the first time since mid-November, whilst Brent managed to break above US$82/bbl. In North America, freezing conditions have disrupted crude oil flows. Oil production in Alberta, Canada, has reportedly slowed due to extremely cold conditions. The 590Mbbls/d Keystone pipeline, which carries crude from Alberta to the US, was also temporarily shut earlier in the week, although operations have resumed since. In the US, freezing conditions are reportedly starting to have an impact on oil output in the Bakken region in North Dakota. North Dakota produced a little under 1.1MMbbls/d over the first 10 months of 2021 and so the impact from any disruption should be less significant than what the market witnessed in February last year with the big freeze in Texas. In addition, one would expect that operators in North Dakota are better prepared for cold conditions compared to those in Texas.

Protests in Kazakhstan are also a worry for the oil market. Kazakhstan is a large oil producer. Kazakhstan is allowed to produce 1.59MMbbls/d under the OPEC+ deal in February. The largest oil field in the country, Tengiz, has had to adjust production levels due to logistical issues without saying how much production has actually been affected. The Tengiz oilfield has a capacity of around 600Mbbls/d (although it is in the process of expanding to somewhere in the region of 850Mbbls/d).

Finally, Saudi Aramco announced its official selling prices (OSP) for its crude for the month of February. The OSP for Arab Light into Asia was cut by $1.10/bbl, leaving it at $2.20/bbl over the benchmark. Cuts were largely expected, particularly with Saudi Arabia increasing output in accordance with the OPEC+ deal. Aramco also cut OSPs for all other grades of crude into Asia, whilst Europe also saw some small reductions. However, values into the US were left unchanged MoM.

Author

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