The Commodities Feed: Saudi hikes OSPs

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Energy

The oil market is trading firmer this morning, despite OPEC+ members last week agreeing to a larger than usual supply increase for July and August. The market action since the meeting suggests that participants are unimpressed with the move from OPEC+. The group has failed to hit output targets for months, and this is unlikely to change with the latest increase in targets. Beijing also continues to ease Covid related restrictions, which will be helping sentiment.

Despite the announced increase in output targets, over the weekend the Saudis increased all official selling prices (OSP) for their crude going into Asia and Europe for July, whilst OSPs were left unchanged for the US. July loadings of Arab Light into Asia increased by US$2.10/bbl MoM to US$6.50/bbl over the benchmark. This increase was slightly more than the market was expecting.

Libya's largest oil field, the 300Mbbls/d Sharara field has finally restarted operations according to reports, after protests forced output to stop in April. In May, Libya produced under 800Mbbls/d, quite a bit lower than the 1.1-1.2MMbbls/d we saw produced over much of 2021. A recovery in output will be welcomed, given the EU ban on Russian oil. However, Libyan output has been volatile over the years, and that is unlikely to change anytime soon.

The latest market positioning data shows that speculators increased their net long in ICE Brent by 13,365 lots, leaving them with a net long of 210,437 lots as of last Tuesday. This is the largest net long that speculators have held since early March. However, it is still considerably below the levels seen in 2021 and the record levels from 2018. This is despite, a significantly tighter market at the moment. This reflects a lack of interest in being overly exposed to the market, given the uncertainty and the potential for increased volatility. Aggregate open interest in ICE Brent tells a similar story, which is at its lowest level since 2015.

Refined product markets continue to reflect significant tightness, with plenty of strength in refinery margins over the last week. As weekly EIA data showed, US gasoline inventories continue to decline as we head into driving season, and given the seasonal pick-up in demand over the summer months, these inventories are likely to continue edging lower, providing further potential strength to gasoline cracks. The distillate market also shows no signs of an easing in the tightness. US distillate stocks remain well below the 5-year range, whilst in the ARA region of NW Europe, gasoil stocks are similarly at multi-year lows. There is no quick fix to this tightness in the products market. We will have to see either demand destruction or increased run rates from refiners. However, given how attractive margins are, refiners are likely to already be operating near capacity. What would help the products market would be for China to increase its export quota for refined products. However, up until now, there are no signs of them doing so.

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