

Daily Energy Markets

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What are the reasons for this rally I hear you Cry?

Welcome to the first Friday of 2022.

And it is 2022, not 2023, ahem. Brent is trading this morning up 0.69 at \$82.68 and WTI is trading at \$80.19 up 0.73. As the UAE adjusts to a new Monday - Friday working week the oil market readjusts to \$80 oil again. It's quite incredible actually, since the 1st of December 2021 Brent has rallied from a low of \$68.87 to trading at \$82.68 this morning. That's a 20pct rise in five weeks.

What are the reasons for this rally I hear you cry? Well, in essence, (and there is no part of me that wants to join the ouching like hell team here, sounds like a brutal place) the same fears are still there that caused flat price to drop to below \$70 that were there after the Thanksgiving weekend. In fact, one could argue that there is more oil back to the market (more on that in but a moment), US oil product stocks rose by the most since April 2020, the "gas crisis" is being sorted out in the EU with an armada of LNG carriers arriving in January, and of course, Omicron.

What is there on the dark side, sorry I mean, the other side - well, one could argue purely arguments of convenience. Yes, certain OPEC+ members are struggling to produce their increased quotas, Nigeria and Libya mainly. Unrest in Kazakhstan is the current main contributor to bullish sentiment and whilst details are sketchy in regard to supply disruption it seems that the 1.6 million bbl per day pipeline is flowing freely.

OK, these two I supposeeeee (roll eyes emoji) are somewhat supportive for supply tightness in the short term, hence why Brent structure has gone bid and why flat price is back to pre ouchy times, but, BUT Nigeria oil production has never been something the market has viewed as consistent, indeed in September 2021 did the Forcados field pump back 200kbpd once Force Majeure was lifted. Libya? Well seeing as they were exempted from the historic cuts in March 2020 and the country has been fighting civil unrest for the best part of a decade it makes no sense to me that the bulls view production hiccups as "bullish".

The UAE and Saudi had no issues in increasing production by the allowable amount and Saudi Arabia and the UAE will always be the swing producers in my view so any talk of "tightness" I am somewhat dismissing. The oil market, however, is not. The bulls sieve through stories and only keep back only the ones that support their own narrative. I wonder though, if Libya and Nigeria bring back production next month, which they probably will, does Brent reflect this and drops accordingly? Of course, it doesn't, because that would make sense, and that is not acceptable it seems. Have a great weekend. ■

**Paraphrased comments*

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