Oil falls on news of Saudi-Russian deal to raise output

The biggest increase in US stocks in about 19 months also put pressure on crude prices.

Saudi Aramco's Ras Tanura oil refinery and oil terminal. Picture: REUTERS

Singapore — Oil prices fell on Thursday from the four-year highs reached the previous session, pressured by rising US inventories and after sources said Russia and Saudi Arabia had struck a private deal in September to raise crude output. Brent crude oil futures were trading at $85.85 a barrel at 1.04am GMT, down 44c or 0.5% from their last close.

Brent hit a four-year high of $86.74 a barrel on Wednesday.

US West Texas Intermediate (WTI) crude futures were down 30c 0.4% at $76.11 a barrel.

"Data for last week showed a much more significant than expected … build in US commercial crude (inventories), which generally suggests that oil prices should tumble," said Stephen Innes, head of trading for Asia-Pacific at futures brokerage Oanda in Singapore.

US crude oil stocks rose by nearly 8-million barrels last week to about 404-million barrels, the biggest increase since March 2017, Energy Information Administration data showed on Wednesday.

US weekly Midwest refinery utilisation rates dropped to 78.9%, their lowest since October 2015, according to the data.

Meanwhile, US crude oil production remained at a record-high of 11.1-million barrels a day.

"This on top of the other big news of the day from Riyadh that … Saudi Arabia and Russia will boost output," Innes said.

Reuters reported on Wednesday that Russia and Saudi Arabia struck a private deal in September to raise oil output to cool rising prices, before consulting with other producers, including the rest of the Organisation of the Petroleum Exporting Countries (Opec).

Russia's and Saudi Arabia's actions come as markets have heated up ahead of US sanctions against Iran's oil sector, which are set to kick in from November 4, and which many analysts expect to knock about 1.5-million barrels a day out of global supply.

On the demand side, there is increasing concern that high oil prices and weakening emerging market currencies are creating a toxic inflationary mix that could erode fuel demand and economic growth.

"We have been taking a very close look at the demand signals in the market, and what we have been seeing is not good," JBC Energy said on Wednesday in a note to clients.

The energy consultancy said it had lowered its oil demand forecast amid Brent prices above $80 and diving currencies in many emerging markets, as well as burgeoning product stocks and the ongoing China-US trade dispute.

"We are not talking about cosmetic changes either. We have cut our forecast for 2018 demand growth by a whopping 300,000 barrels a day to below 1.1-million barrels a day," it said.

Reuters

Source: https://www.businesslive.co.za/bd/markets/2018-10-04-oil-falls-on-news-of-saudi-russian-deal-to-raise-output/

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