U.S. Oil Poised for Weekly Loss as Record Output Weighs on Price
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By Tsuyoshi Inajima

(Bloomberg) -- Oil in New York headed for a second weekly loss, with the American marker near its weakest level in more than three years against global benchmark Brent crude as U.S. output surged.

West Texas Intermediate futures were little changed on Friday and poised for a 1.5 percent drop this week, with unprecedented levels of U.S. production as well as pipeline bottlenecks in the Permian Basin weighing on the American gauge.

Brent crude headed for a 1.4 percent weekly advance. Investors are awaiting news on whether OPEC and allies will boost production ahead of a meeting this weekend between some producers.

While hedge funds invested in U.S. oil are betting pipeline bottlenecks will make Texas crude even cheaper, trading giants are seeing an opportunity to export millions of barrels as shale output continues to surge. For now, American price moves have favored the financial players. Meanwhile, Brent climbed last month following President Donald Trump's decision to reimpose sanctions on Iran, and as Venezuelan output plunged amid an economic crisis.

Also at the forefront of investors' minds is OPEC and the allies' next step on output cuts. Saudi Arabia and Russia said last week that they are considering boosting production to ease potential supply disruptions in Iran and Venezuela after a global surplus was eliminated. Most producers weren't consulted about the proposal, and officials from several producers said they disapproved of raising output.

See here for more on Saudi Arabia and Russia's proposal to raise output

The Question

"Investors are questioning whether OPEC and its allies really want high crude prices or not," Tetsu Emori, the president of Emori Capital Management Inc., said by phone. "It's become clear prices will fall if they restore output, so it won't be easy for them to agree on loosening cuts."

WTI for July delivery traded at $66.87 a barrel on the New York Mercantile Exchange, down 17 cents, at 1:42 p.m. in Tokyo.

The contract dropped 1.7 percent to $67.04 on Thursday. Total volume traded was about 50 percent below the 100-day average.

Brent for August settlement was at $77.48 a barrel on the London-based ICE Futures Europe exchange, down 8 cents. July futures expired Thursday after adding 9 cents to $77.59 a barrel. The global benchmark closed the session at a $10.55 premium to WTI, the widest since February 2015.

Surging Production

Futures on the Shanghai International Energy Exchange slipped 0.1 percent to 471.9 yuan a barrel. The contract has fallen 1.2 percent this week.

In the U.S., crude production rose to 10.77 million barrels a day, the highest in weekly data going back to 1983, according to the Energy Information Administration. Meanwhile, the EIA report showed a surprise decline of 3.62 million barrels in nationwide inventories, while stockpiles at the key storage and pipeline hub at Cushing, Oklahoma, fell by 556,000 barrels.

“WTI bulls are a bit concerned by both the lack of significant draws in Cushing along with pipeline bottlenecks, which are compounded by ports unable to handle the large 2 million-barrel supertankers,” Stephen Innes, head of trading at Oanda Corp., said in a note.

The pipeline shortages now hammering Permian shale producers are likely to be a recurring theme in the coming years, Apache Corp.’s chief executive officer John Christmann warned. With costs swelling, ConocoPhillips may shift some spending away from the prolific shale play in West Texas and New Mexico, at least until its transport issues get sorted out, CEO Ryan Lance told an investor conference Thursday.

Following Saudi Arabia and Russia’s proposal to restore output, Rosneft PJSC, Russia’s largest oil company, is testing its capacity to bring back production it cut under a deal between Moscow and OPEC, Renaissance Capital said. Rosneft executives told investors the oil giant boosted output this week by about 70,000 barrels a day, according to Renaissance Capital.

Energy ministers from Saudi Arabia, the United Arab Emirates and Kuwait plan to meet on Saturday to discuss OPEC matters.

Other oil-market news:

* Goldman Sachs Group Inc. has shaken off its commodities woes, making more money in the sector in the first few months of this year than it did in all of 2017, according to people familiar with the matter.
* Long-established relationships between the world’s most important oil prices are being strained by conflicting forces across the globe.

To contact the reporter on this story:
Tsuyoshi Inajima in Tokyo at tinajima@bloomberg.net To contact the editors responsible for this story:
Pratish Narayanan at pnarayanan9@bloomberg.net Anna Kitanaka, Sungwoo Park