
Omicron risks is likely to weigh on Oil prices

OMICRON RISKS IS LIKELY TO WEIGH ON OIL PRICES

- WTI Crude oil has been trading in a range of \$70-\$73 per barrel for several trading sessions, with prices somewhat higher than the previous low of \$62.43 per barrel on December 2 but substantially lower than the recent high of \$85.41 per barrel on October 25. Crude oil prices were dragged down on Monday by the dollar index's strength, as well as fears that the quick spread of the omicron type will lead to further travel restrictions, lowering energy consumption.
- Crude oil prices have fallen as a result of the World Health Organization's announcement that the highly mutated omicron strain of Covid-19 could alter the pandemic's trajectory. Although preliminary research from South Africa suggests that omicron is milder than the delta strain, WHO authorities say it is "too early to draw any conclusions." Since the new variation was initially identified two weeks ago, instances of omicron have risen to 20,000 per day in South Africa, the hotspot for the new strain. According to a Japanese study, the omicron variation is four times more transmissible than the delta variety.
- This month's monetary policy decisions by global central banks are anticipated to have an impact on oil prices. The European Central Bank (ECB), the Federal Reserve of the United States (Fed), the Bank of England, and the Bank of Japan are all expected to opt to end the economic stimulus sooner rather than later.
- According to OPEC's Monthly Oil Market Report (MOMR), overall output increased by 285,000 barrels per day (bpd) to 27.72 million bpd in November. Iran, Libya, and Venezuela collectively pumped 4.239 million bpd in November, leaving the remaining ten OPEC members with 23.478 million bpd in oil production, well below the month's 24-million-bpd ceiling. Saudi Arabia increased its oil output the highest in November, by 101,000 bpd, roughly in line with the OPEC deal's 110,000 bpd monthly increase. According to a Reuter study, OPEC+ added 1.04 million bpd to its production between August and November, falling over 600,000 bpd short of its four-month target.
- OPEC revised oil demand prediction for first three month of 2022, limiting an anticipated excess, as the omicron variant is expected to have only a temporary impact on the global economy. It expects the world to consume 99.13 million barrels per day of oil, up 1.1 million barrels per day in first quarter from last month's prediction. Meanwhile, OPEC believes that when vaccination rates rise, the omicron variant's influence will be minor and short-lived, and oil consumption would rebound. Global demand is expected to average 100.79 million b/d in 2022, up from 99.63 million b/d in 2021, according to OPEC. Both statistics are roughly 200,000 b/d higher than the last data from last month.
- As per the weekly EIA report released last Wednesday, US crude oil inventories were -6.8% below the seasonal 5-year average as of December 3, gasoline inventories were -5.2 percent below the 5-year average, and distillate inventories were -7.4% below the 5-year average.

- The net long position in crude oil futures fell by 20,002 contracts to 3,67,232 contracts, according to the CFTC Commitments of Traders report for the week ended December 7. The number of speculative longs fell by 19,277 contracts, while the number of speculative shorts increased by 725 contracts.
- In the week ending December 3, crude oil production in the United States increased by 0.9 percent w/w to a 19-month high of 11.7 million bpd, which was -1.4 million bpd (-10.7 percent) lower than the record-high of 13.1 million bpd set in February 2020.

Outlook

- WTI Crude oil prices are likely to face stiff resistance near 100 days EMA at \$73.99 and 50 days EMA at \$74.60. Immediate support level could be seen around \$69.4-\$68.10

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