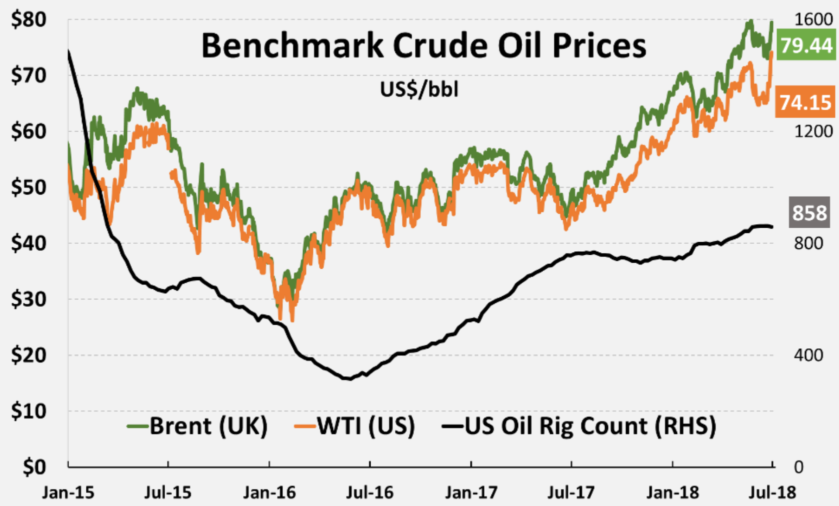
Weekly Energy Market Review

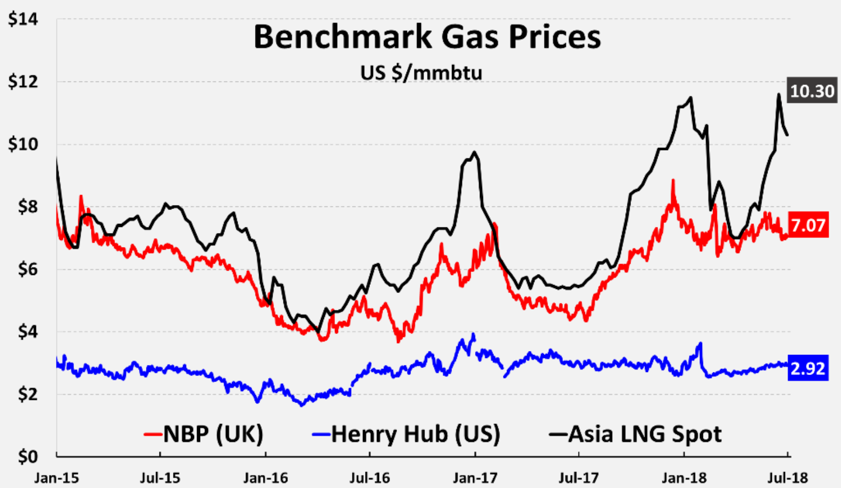
Sunday, 01 July 2018

OIL



- Oil prices rose last week, rallying on concerns that U.S. sanctions against Iran would remove a substantial volume of crude oil from world markets at a time of rising global demand. U.S. crude was up more than 8% on the week, while Brent crude gained more than 5%. U.S. crude rose 70 cents a barrel to settle at $74.15. The session high of $74.43 was the highest since November 26, 2014.
- Supplies from Iran could be cut further if other countries follow the U.S. lead and cut imports from the country which is currently the fifth-largest oil producer in the world. The U.S. government hopes other big producers in OPEC and Russia will boost production to compensate for lost Iranian crude. But unplanned disruptions in Canada, Libya and Venezuela have made the world crude market tight, and many analysts and investors think strict enforcement of U.S. sanctions will push up prices.
- Japan and South Korea, two major buyers of Iranian oil, are in talks with the U.S. government in a bid to avoid adverse impacts from Washington's re-imposition of sanctions aimed at cutting Iran out of international markets. The U.S is demanding countries cut all imports of Iranian oil from November. India, the biggest buyer of Iranian oil after China, has also indicated preparations to cut Iran oil imports. Until then, most of the usual importers are buying as much Iranian oil as possible.
- Outside North America, record demand and voluntary supply cuts led by OPEC have also helped to push up prices. With the market already under pressure from falling Venezuelan and Angolan output, as well as worries about a squeeze on Iranian supplies as U.S. sanctions bite, the market remains tight even after OPEC and its allies agreed to ease their production curbs. The Organization of the Petroleum Exporting Countries, Russia and its allies agreed last week to return to 100 percent compliance with cuts that have been in place since January 2017, instead of exceeding those curbs.

GAS



- Asian spot LNG prices fell for a second consecutive week as trading slowed with a number of market participants attending a major trade conference and amid a slowdown in buying from China. Spot prices for August delivery in Asia fell to $10.30 per million Btu, down 30 cents from the previous week. Interest for September cargoes have also started and are at similar levels to August.
- Trading slowed last week as executives globally gathered in Washington D.C. for the triennial World Gas Conference. Improving LNG supply for August versus July and a slowdown in purchases by Chinese traders also contributed to the weeks lower prices. While U.S. natural gas prices at the Henry Hub benchmark dipped slightly last week, the annual price forecast is expected to average about $2.91 per mmBtu in 2018 and $2.89 in 2019, down from an average of $2.99 per mmBtu in 2017.
- An opening in the Northern Sea Route to Asia could introduce more Russian supplies to North Asia and in turn pressure prices down, though rapidly declining Asian prices could close the arbitrage flow. The Yamal LNG plant shipped a cargo through the NSR for the first time. The passageway cuts shipping times to its main customers in Asia by nearly half. On the demand side, higher than average temperatures are expected in Tokyo, Seoul and Beijing over the next two weeks and could also boost demand for LNG in the power sector. Chinese buyers have so far bought four cargoes for delivery in August in the spot market, though the purchases were largely done last week.