

Crude futures settle higher as Iran supply fears gain further traction

Platts.com, 21st Aug 2018

Oil futures were higher Tuesday as market participants prepared for supply tightness once US sanctions against buyers of Iranian crude cut available barrels on the global market.

October ICE Brent settled 42 cents higher at \$72.63/b, while the expiring September NYMEX crude contract settled 92 cents higher at \$67.35/b.

"September squeeze as the September futures contract outpaces the back months," Phil Flynn of the Price Group wrote in a research note.

"The run into today's contract expiration reflects the fact that US refineries are running at a record pace and that last week's crude oil build was not enough to satisfy the ravenous crude-eating refineries," Flynn added.

October NYMEX crude, the new front-month contract, settled 42 cents higher at \$65.84/b, aided by strong physical crude demand from US refiners running at top rates.

US refineries ran at 98.1% of capacity for the week ended August 10, according to Energy Information Administration data. Fresh data will be published Wednesday for the week ended August 17.

Crude inventories are expected to show a draw of 3.37 million barrels for last week, according to analysts polled by S&P Global Platts Monday.

The Trump administration's promise to release 11 million barrels of sour crude from the Strategic Petroleum Reserve (SPR) is timed to coincide with the imposition in early November of US-imposed sanctions on buyers of Iranian crude. The sanctions are expected to pull 1 million b/d off the market.

"With the Trump administration's promising more oil from the US Strategic Petroleum Reserve and with the promise of shoulder season just right around the corner, the fears of a tight oil market are being played out in the September expiration," Flynn said, adding the "back months have a false sense of security that the SPR release is going to make enough of a difference."

Saudi Arabia is lining up to be the main supplier to replace Iran after the implementation of US sanctions.

Saudi Arabia's crude oil exports grew in June, in line with higher production, according to a report Monday from the Riyadh-based Joint Organizations Data Initiative. Saudi exports rose 260,000 b/d month on month to 7.244 million b/d in June, while production rose 460,000 b/d to 10.489 million b/d, the JODI data showed.

Continued strength in the US stock market appears to be putting on the back burner fears of economic fallout from the US and China tariff spat, which had cut US crude imports to China to nothing in recent weeks.

Refined products also gained Tuesday, with NYMEX September RBOB settling up 28 points at \$2.0179/gal and NYMEX September ULSD settling 98 points higher at \$2.1236/gal. However, gasoline and diesel crack spreads fell Tuesday, with the NYMEX front-month RBOB crack down 80 cents to \$17.40/b. The front-month ULSD crack shed \$1.05/ to \$20.79/b.