Oil markets firm on hopes that US trade spat with China may ease

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Oil markets added to strong gains from the previous session on Tuesday on hopes that a trade dispute between the United States and China could be resolved without greater damage to the global economy. Yet prices remain within recent ranges as oil markets still face an abundance of supplies that puts pressure on producers to keep their prices competitive in order not to lose market share.

Brent crude futures were at $69.02 per barrel at 0225 GMT, up 37 cents, or 0.5 per cent, from their last close. US WTI crude futures were at $63.84 a barrel, up 42 cents, or 0.7 per cent, from their previous settlement. This followed a more than 2 per cent rally on Monday during European and American trade hours, a rebound from a 2 per cent price fall on Friday.

Concerns of a prolonged trade dispute between the world's two biggest economies and uncertainty over the supply and demand balance of global oil markets have resulted in volatile trading. “The risk of a trade war between the United States and China has rattled macro markets including commodities,” JPMorgan said. “In addition to the risk of protectionism, there has been a significant change in the Trump administration that has raised risks of potential sanctions on key oil exporting countries including Iran, Venezuela and Russia,” the US bank added.

Traders said weekly fuel inventory data from the United States on Tuesday and Wednesday would likely provide further crude price guidance. The American Petroleum Institute is due to publish oil storage data later on Tuesday while official data from the US Energy Information Administration (EIA) is due on Wednesday.

Oil markets have generally been supported by healthy demand as well as supply restraint led by the Organization of the Petroleum Exporting Countries (OPEC). However, soaring US crude production, which has jumped by a quarter since mid-2016 to 10.46 million barrels per day (bpd), is threatening to undermine OPEC's efforts to tighten the market and prop up prices.

The United States late last year overtook top exporter Saudi Arabia as the world's second biggest crude producer. Only Russia pumps more crude out of the ground, at almost 11 million bpd.

In a sign that oil supplies remain ample, China's Sinopec , Asia's largest refiner, plans to cut Saudi crude imports in May by 40 percent, instead buying from alternative sources, after Saudi Aramco set higher-than-expected prices, a company official said on Monday.

JPMorgan said it expects Brent and WTI prices to average $69.50 and $65.20 per barrel in 2018, respectively, while it forecasts $64 per barrel for Brent and $58.50 per barrel for WTI in 2019.