

Oil Market: Can Oil prices keep up the pace?

An issue surfaced in the previous days when Russia sent crude Oil through a pipeline passing to Europe. Oil specialists found contaminated oil with high levels of organic chloride a chemical used during Oil extraction. However under normal circumstances the substance is separated from the commodity after the exploration is finished. Countries including Poland, Germany, Ukraine, and Slovakia along with others countries on the network rushed to cut oil imports via the Druzhba pipeline after it was said chloride could significantly damage refinery equipment they use. Even though Russia came out to announce they had successfully sent clean Oil to Belarus after the happening on the following Monday, concern still remains for the matter. Russia is considered among the top players in the Oil market and any mishap it undergoes can leave its mark on Oil prices or Oil supply. To confirm this we must note, Russia exports approximately 4 million barrels of oil per day and at the same time European refineries are looking elsewhere for Oil supplies through other pipelines. Nevertheless analysts say those routes have limited capacity and difficulties may persist.

On another front, Saudi Arabian Energy Minister Khalid al-Falih re affirmed in the previous days, the Kingdom will not boost production prior to confirming the supply gaps from Iranian Oil banning and also will stay in line with its pact to cut down on production which was brought forward since the start of the year. By confirming the Saudis are sticking to reducing Oil output, Oil prices maintain the support they have been under during previous months and could even move higher as the Kingdom will not allow even a drop of excess to be released if it is not really necessary. Khalid al-Falih even took a step further to confirm exports would be below 7 million bpd next month while production would be significantly less than 10 million bpd which is much lower than the initial forecast the made starting the year. Until now the Saudis have not shown any interest or even willingness to start producing and many analysts believe they may keep their strategy until the end of 2019.

Also from the Middle East Iranian President Hassan Rouhani stated on a local television channel they are trying other methods of pushing their Oil and increasing their exports. Of course the US is making it difficult for Iran to make Oil sales, however the Iranians do not seem to be giving up and are trying to sell to private buyers through the exchange. Last year the Persians claimed to have sold Oil with this method with the payment consisting of 20% in Iranian Rials and the remaining 80% in other currencies. Oil is Iran's major sources of Income and its economy could be devalued significantly if its Oil is not sold. In our point of view, Iran may continue to make attempts to sell Oil but may choose not to boaster over it, as the US could intervene and fine the other counterpart. Going even further on the matter, we may even see the matter getting out of control if Iran is forced to take strong action. They have already threatened taking control by

force of the Strait of Hormuz located between the Persian Gulf and the Gulf of Oman. That is a worst case scenario but could blow up Oil prices to significant levels.

As a conclusion we stand to the recent data analysis Reuters performed on OPEC production. The Oil group reached a four-year low in April, as it strongly opposes unnecessary Oil production. OPEC pumped 30.23 million barrels per day (bpd) in April, cutting 90,000 bpd since March making it clear that it could keep its tactics of controlled prices in the near future. The news did provide further strength to Oil prices but OPECs plans for the later months are as dark as the night, as remaining still is not the name of the Oil game.

Technical Analysis

WTI 4 hour chart below



Oil prices moved lower in the previous days but are still kept at high levels. The commodity moved lower and traded between our (R1) 64.70 resistance level, and the (S1) 63.10 support line which are both very strong levels and have been tested various times in April. However as the price remains above 60 USD per barrel we still keep our bullish bias intact. From there on if the commodity is to move higher we may see another break above the (R1) 64.70 resistance level and even reach higher for the 66.60 resistance level. In the opposite direction a bearish momentum could send Crude Oil below the (S1) 63.10 support line and aim for the (S2) 61.55 support barrier. Even lower we could see the 60.30 support line being approached. However the RSI indicator below indicates a reading nearing the 30 level which could indicate an oversold market. This could make room for some bulls to jump in but the interest is on today's EIA Crude oil inventories weekly reading at 14:30 GMT.

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