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BUSINESS & FINANCIAL OVERVIEW

Oil ends lower as U.S. output climbs and traders eye U.S.-China trade developments

Oil futures finished with a modest loss on Thursday, pressured by recent data showing a weekly climb in U.S. crude production, but late news of a possible move by the U.S. to lift tariffs on Beijing imports helped ease concerns over a slowdown in energy demand from China.

West Texas Intermediate crude for February delivery CLG9, -0.19% fell 24 cents, or 0.5%, to settle at $52.07 a barrel on the New York Mercantile Exchange, after an earlier dip below $51. Prices posted a modest gain of 0.4% Wednesday. March Brent crude LCOH9, -0.38% lost 14 cents, or 0.2%, to $61.18 a barrel on ICE Futures Europe. U.S. benchmark oil futures have only posted losses in three sessions since Dec. 28, according to FactSet data. Uncertainty over whether the U.S. and China will resolve a protracted trade spat has weighed on investment sentiment and raised questions about the health of China, one of the world's biggest importers of crude.

However, on Thursday afternoon—around the time that oil futures settled in New York—The Wall Street Journal reported that U.S. officials were debating whether to lift tariffs on Chinese imports in a move to give Beijing an incentive to make deeper concessions in their trade dispute. U.S. oil prices had modestly pared some of their losses just as they settled, then spiked higher immediately after the settlement.

Prices on Wednesday had edged up after the Energy Information Administration reported a bigger-than-expected fall in crude inventories of 2.7 million barrels for the week ended Jan. 11, but gasoline stockpiles surged higher by 7.5 million barrels. The report also showed that weekly domestic production climbed by 200,000 barrels to 11.9 million barrels a day.

"The domestic production number was a key and unexpected bearish development, and a new wave of rising U.S. output will keep a fundamental lid on prices in the medium term as the trade war and growth concerns are already putting a damper on demand estimates," said Tyler Richey, co-editor of the Sevens Report.

In Thursday's session, oil prices found some support after a monthly report from the Organization of the Petroleum Exporting Countries said member oil production fell in December as the group appeared to get a jump on their pledge and that of close non-cartel producers to cut daily output beginning in January. OPEC member output fell by 751,000 barrels a day to 31.6 million barrels a day in December.

Saudi Arabia, the de facto OPEC leader, slashed its production by more than expected, by 468,000 bpd to just over 10.5 million bpd, according to independent country data, reported by CNBC. Meanwhile, U.S. benchmark stock indexes, including the Dow Jones Industrial Average DJIA, +1.38% and the S&P 500 index SPX, +1.32% moved higher as oil futures settled.

Near term, "oil's correlation to stocks is very high right now, and more risk-on money flows could see WTI test resistance between $53 and $54 in the session's ahead," said Richey. Back on Nymex, February gasoline RBG9, -0.63% rose 1% to $1.43 a gallon, while February heating oil HOG9, -0.56% declined 0.5% to $1.884 a gallon. Natural-gas prices rose after Wednesday's 3.3% decline. February natural gas NGG19, -4.62% added 0.9% to $3.413 per million British thermal units, though pulled back from the session's high of $3.593.

The EIA reported Thursday that U.S. supplies of natural gas fell by 81 billion cubic feet for the week ended Jan. 11, a bit more than the 77 billion cubic foot decline expected by analysts polled by S&P Global Platts, but still well below the five-year average decline of 218 billion.

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