Oil ends at 2-week high as traders eye signs OPEC output cuts

Oil futures on Wednesday shook off earlier losses to settle at their highest in two weeks, buoyed by a reported drop in December crude exports from Saudi Arabia, as the new year marked the start of output cuts by the Organization of the Petroleum Exporting Countries and its allies. Oil fell in early trading, fueled by concerns about the global economy and its potential impact on demand for crude.

Traders are “now buying key support and looking ahead to the OPEC cuts that will now go into play,” Phil Flynn, senior market analyst at Price Futures Group, told MarketWatch. He also said data from Bloomberg revealed a drop in crude exports from Saudi Arabia in December. “Anybody who thinks that the Saudis are not serious about reducing the perception of a supply glut had better think again,” said Flynn.

Observed crude exports from Saudi Arabia declined to 7.253 million barrels a day in December, from 7.717 million in November, according to tanker-tracking data compiled by Bloomberg. The news agency cited lower flows to the U.S. and China.

West Texas Intermediate crude for February delivery CLG9, +0.28% climbed $1.13, or 2.5%, to settle at $46.54 a barrel on the New York Mercantile Exchange. WTI ended Monday’s session with a loss of 10.8% for December, finished down 38% over the quarter, and 24.8% for 2018, according to Dow Jones Market Data.

The global benchmark, March Brent crude UK:LCOG9 meanwhile, added $1.11, or 2.1%, to $54.91 a barrel on ICE Futures Europe. The international benchmark finished Monday’s session down by more than 8% for December, 35% for the quarter, and off 19.5% for the year. WTI and Brent futures both logged their highest settlements since Dec. 19. Major markets were closed on Tuesday for New Year’s Day.

At a meeting in December, OPEC and some nonmember producers, including Russia, agreed to cut production by 1.2 million barrels from October 2018 levels, effective as of January 2019, for an initial period of six months. They plan to review output levels in April. Brent prices had dipped below $53 a barrel early Wednesday, with traders attributing the weakness to fresh signs of contraction in China’s economy.

The China Caixin manufacturing purchasing managers index fell to 49.7 in December, according to data released Wednesday, marking the first time the sector has been in contraction territory — below 50 — since May 2017. A slowdown in the world’s second-largest economy, and biggest oil importer, can translate to slack in appetite for oil.

Lately, oil prices have closely tracked swings in the Dow Jones Industrial Average DJIA, +1.38% and the S&P 500 index SPX, +1.32% providing signs to some market participants that lower prices emanate from worries about flagging global economic expansion rather than just supply-demand factors. As oil futures settled Wednesday afternoon, those benchmark indexes were trading mixed, following earlier losses.

Rounding out the action in the energy market, February gasoline RBG9, -0.10% finished at $1.326 a gallon, up 1.8% on Nymex, while February heating oil HOG9, +0.12% added 1.3% to $1.701 a gallon. February natural gas NGG19, -3.85% rose 0.6% to $2.958 per million British thermal units. It trades around 11% lower week to date.

“Near-term prices should continue to be heavily influenced by changing weather expectations,” said Robbie Fraser, global commodity analyst at Schneider Electric, in a note. “While an early blast of cold weather sent winter contracts rocketing higher, the increasing confidence around warmer than normal conditions to start January has been a major contributor to recent weakness.”

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