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Crude has good week as sense of stability returns to oil market

As the US enjoys the Independence Day weekend, the oil market delivered a good week with prices up more than 4%.

The general mood of the wider markets was also positive this week as the world enters the second half of the year. In Friday trading, Brent crude was priced above US\$42 with WTI still holding above US\$40 a barrel.

Encouraging jobs data from the US added to the sense of optimism as cities in the US and economies around the world began to open.

More demand

The holiday weekend in the US will see more demand for gasoline and we're beginning to see more air travel routes operating and transporting people to summer home destinations.

But the threat of a second wave of Covid-19 remains a reality, especially in some parts of America.

US oil inventories are down, still not at the much needed 5-year average but looking better on a month by month measurement basis.

The US rig-count continued to decline for 16 straight weeks to 263, according to data from Baker Hughes. For the time being shale oil production is being kept in check at these prices, says Yousef Alshammari, CEO of CMarkits.

The production cuts in place by OPEC+ appear to be holding and gaining strength with Russia demonstrating close to total compliance for a second month.

A Bloomberg survey of independent analyst companies showed OPEC production at 22.69 million barrels a day in June, down 1.93 million barrels a day from May, the lowest production since May 1991.

Saudi Arabia has been the biggest contributor to the cuts while the group still awaits full compliance from Iraq, Nigeria, Angola and Kazakhstan.

Possible production extensions

The next meeting of the ministerial monitoring committee will be mid-July when they will look ahead to any possible production extensions beyond the end of this month.

Alshammari says that OPEC+ "should be satisfied with the current price range," but he believes that the ministers might consider easing the cuts in August as a sense of stability is returning to the market.

Oil inventories remain high in China as the country has been taking advantage of lower prices to make sure its stockpiles are full.

India also managed to build up stockpiles in recent months and speaking at Bloomberg NEF Summit this week, the Indian oil minister, Dharmendra Pradhan said he expects "demand will be as usual," by the end of the second quarter.

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Looking ahead to a good start for the second half of the year, the minister said that India had, "already achieved 85 percent of our demand compared to June 2019".

This will hopefully be good news for the Indian economy as the International Energy Agency did not expect to see such a swift rebound in demand from India. The minister said he expects India's oil and gas demand to continue to grow to meet the expanding energy appetite in the country.

With summer stability back in the market, some sense of certainty might assist oil producers as they plan for the second half of the year.

No-one is sure where and by how much demand growth is headed, but a much higher oil price seems a distant hope for the rest of the year.

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