

Oil climbs on supply worries

Oil prices rose on Monday, with Brent futures touching their highest in more than three years, as investors bet supply will remain tight amid restrained output by major producers with global demand unperturbed by the Omicron coronavirus variant.

The gains followed a rally last week when Brent rose more than 5% and WTI climbed over 6%.

Frantic oil buying, driven by supply outages and signs the Omicron variant will not be as disruptive as feared for fuel demand, has pushed some crude grades to multi-year highs, suggesting the rally in Brent futures could be sustained a while longer, traders said.

"The bullish sentiment is continuing as (producer group) OPEC+ is not providing enough supply to meet strong global demand," said Toshitaka Tazawa, an analyst at Fujitomi Securities Co Ltd.

"If (investment) funds increase allocation weight for crude, prices could reach their highs of 2014," he said.

The Organization of the Petroleum Exporting Countries, Russia and their allies, together known as OPEC+, are gradually relaxing output cuts implemented when demand collapsed in 2020.

But many smaller producers cannot raise supply and others have been wary of pumping too much oil in case of renewed COVID-19 setbacks.

"What comes in view next is the summer demand bump, especially in Europe and the U.S., which could be bigger than last year's, if the growing hope around the Omicron finally turning COVID from pandemic to endemic proves right," said Vandana Hari, energy analyst at Vanda (NASDAQ:VNDA) Insights.

Festering geopolitical threats to supply are also supporting bullish sentiment, Hari said.

U.S. crude oil stockpiles, meanwhile, fell more than expected to their lowest since October 2018, but gasoline inventories surged due to weak demand, the Energy Information Administration said on Wednesday.

Concerns over supply constraints outweighed the news of China's possible oil release from reserves, Fujitomi analyst Tazawa said.

Sources told Reuters China plans to release oil reserves around the Lunar New Year holidays between Jan. 31 and Feb. 6 as part of a plan coordinated by the United States with other major consumers to reduce global prices.

Other oil-market news:

Saudi Arabia cut oil prices for buyers in Asia, signalling that extra supplies from OPEC and its partners could loosen the market amid the rapid spread of coronavirus.

There's been a temporary adjustment to output due to logistics at Kazakhstan's giant Tengiz oil field, amid unrest and protests in the Central Asian country, according to operator Tengizchevroil

Exxon Mobil plans to halt an alkylation unit at its Gravenchon refinery in March-April, according to a person familiar with the plans.

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