

Oil prices dip ahead of OPEC+ output policy meeting

Oil prices surrendered earlier gains on Tuesday as investors embraced expectations that major oil producers will confirm a plan to add supply later on Tuesday amid diminishing concerns over the spread of the Omicron variant of COVID-19.

"Number one driver (of global oil prices) at the moment is management of the supply side of the market by (producer alliance) OPEC+," said Virendra Chauhan, analyst from Energy Aspects.

Chauhan added that fuel demand concerns from the spread of Omicron are subsiding and the planned releases of crude from various national strategic petroleum reserves are smaller than expected.

The Organization of Petroleum Exporting Countries cut its estimate of the surplus in global oil markets this quarter, a day before the group and its allies consider another output boost. The 23-nation alliance is on track to ratify another modest output revival of 400,000 barrels a day in February, delegates said

RBC Capital Markets analysts said OPEC+ was unlikely to change course given the current price outlook, pressure from the administration of U.S. President Joe Biden to boost supply, and no major new COVID-19 mobility curbs.

"Though Omicron (COVID-19 variant) cases continue to climb in key geographies, the absence of widespread lockdown restrictions will likely keep near-term demand concerns in check," RBC analysts said in a note.

Despite the emergence of Omicron and its potential impact on international travel, economies such as Australia are sticking to their reopening plans.

Factory activity also grew in Asia last month as companies took global cases of Omicron in stride.

However, analysts warned that OPEC+ may have to change tack if tension between the West and Russia over Ukraine flares up and hits fuel supplies, or Iran's nuclear talks with major powers make progress, which would lead to an end to oil sanctions on Iran.

"We think these two events represent major wildcards that could quickly alter the price trajectory and test OPEC's rapid response mechanism," RBC analysts said.



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