

## Oil rally hits Omicron demand roadblock

There has been no looking back for crude oil since prices plunged briefly below \$0 in spring 2020. The energy counter has made a strong comeback since then and sustained a robust rally in 2021. From the very beginning of the year.

There has been an unrelenting up move with little pauses in between, where prices hit their highest levels since 2014. A shift from extreme pessimism to vibrant optimism can be attributed to a rebound in demand as the global economy began to recover from the pandemic-induced abyss due to the roll-out of vaccines.

Where industrial activities picked up and easing travel restrictions lifted the fuel consumption. Also, OPEC and allies continued with their record production cuts since mid-2020, to clear the supply glut which anchored the prices on an uphill journey. Saudi Arabia even added 1mbpd of voluntary output cuts from February through March to prop up the prices.

Oil analysts have lowered their price forecasts for 2022 as the Omicron coronavirus variant poses headwinds to recovering fuel demand and risks a supply glut as producers pump more oil, a Reuters poll showed on Friday.

"With oil demand growth slowing, supply growth persisting, and the energy crunch easing, we see the oil market balance expanding rather than shrinking in 2022 and thus expect prices to trend lower from today's levels," said Julius Baer analyst Norbert Rücker

Benchmark Brent crude prices, currently trading around \$80 a barrel, are on track for their biggest yearly jump since 2009 as fuel demand bounced back.

However, the new Omicron variant of coronavirus is spreading faster, causing nations to tighten restrictions. If curbs continue, it could reverse the recovery in oil demand.

The global reopening will improve once the current Omicron surge has passed, said Edward Moya, senior market analyst at OANDA, adding that oil prices will likely remain volatile as OPEC+ keeps traders on edge with their gradual production increases.

The Organization of the Petroleum Exporting Countries and its allies, known as OPEC+, will meet on Jan. 4 to decide on their production policy after they agreed to stick to the plan of increasing output by 400,000 barrels per day per month.

"On the supply side, OPEC+ strategy, U.S.-Iran nuclear talks and speed of U.S. shale recovery will all come into play but will be secondary to the demand side of the picture," said DBS Bank analyst Suvro Sarkar.

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