

## ANALYSIS

## Physical crude oil market steams ahead after Omicron blip

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

Prices for physical cargoes do not always trade in tandem with oil futures and when differentials widen rapidly and considerably, they can indicate speculators have oversold or overbought futures versus fundamentals, Reuters reported.

Brent oil futures have jumped 10% since the start of the year but the physical market is still racing ahead, with differentials for some grades hitting multi-year highs, suggesting a tight market will push the futures rally on.



REUTERS

"These are crazy numbers. There clearly is physical tightness," a North Sea oil trader said.

Key benchmark grade Forties traded at a fresh two-year high on Thursday at Dated Brent plus \$1.80 a barrel.

Other North Sea grades have also hit one or two year highs. Prices for key west African grades like Nigeria's Bonny Light have jumped too since the start of the year.

The tightness began in the Atlantic Basin and spread as Asian buyers were forced to look for cheaper cargoes elsewhere. Differentials for crude from Oman, the UAE and Russia's Far East have jumped as Brent crude's premium to Dubai swaps is at its widest in two months.

Several factors have fuelled prices. After the wildfire spread of Omicron in the fourth quarter, oil demand has not been badly hit in a surprise to refiners that had reduced purchases. Now, they suddenly have to make up for the gap.

Violent protests in Kazakhstan at the start of the year prompted fears of a prolonged oil outage, which did not materialise, that would have compounded outages elsewhere such as in Libya, Canada and Ecuador. The Libyan and Ecuadorian outages were largely resolved in the past week after taking out close to 1 million barrels per day.

At the same time, OPEC and its allies have stuck by their timeline to slowly increase output, despite repeated calls by the United States and elsewhere to go faster. Meanwhile, nuclear talks with Iran, that could also boost supply, appear stalled.

"Turns out Omicron wasn't so bad and supply issues were worse than anticipated," a U.S. crude trader said.

"(Buyers) are snapping up everything no matter what grade."

Inventories have also shrunk in the United States and Canada. The U.S. Energy Information Administration said on Wednesday crude oil stockpiles fell more than expected to their lowest since October 2018.

"With spring and summer on the horizon ... people are getting prepared to enjoy a strong market," a U.S. trader said.

Some traders still believe the market could run out of steam due to new COVID variants, seasonal refinery maintenance in the second quarter, and a potential slowdown in China.

"I think it's more trying to get ahead of tightness they think is coming ... back to a 'herd of lemmings' market dynamic," another market player said of the recent rally.

Iranian oil does pass through Suez Canal, said the chairman of the Suez Canal Authority (SCA) on the sidelines of an event in Dubai on Sunday.

Asked about shipments of Iranian fuel or oil passing through the Suez Canal despite U.S. sanctions on Iranian oil sales, Osama Rabie said: "There's no discrimination when it comes to a country flag on ships, and Iranian oil does pass through the canal," Reuters reported.

Lebanon imported Iranian fuel last year, a move it said was aimed at addressing shortages. Shipments were routed via Syria to avoid complications with sanctions.

The official noted that a project to expand parts of the Suez Canal is expected to be completed, after two years of work, in July 2023.

The SCA announced accelerated plans to extend a second channel of the canal and to enlarge an existing channel after the Ever Given container ship ran aground and blocked the waterway for six days last year.

"The project will be completed in 24 months. We started in July 2021 and, God willing, we will finish in July 2023," Rabie said.

Ships pass through the canal in convoys, and the extension of the second lane would increase capacity by six ships, Rabie said, without giving further details.

The southernmost 30 kilometers of the canal, where the Ever Given became grounded, is set to be widened by 40 me-



REUTERS

ters eastward, and deepened to 72 feet from 66 feet, according to previously announced plans.

"This will improve ship navigation by 28 percent in this difficult part of the canal," Rabie said.

The Suez Canal Authority and its companies were developing the entire project, he said.

## Iran's oil sales rise sharply: Minister



SHANA

The Iranian minister of petroleum hailed a dramatic rise in the country's sale of oil products in the past 10 months, predicting that 1.2 million barrels per day of oil will be sold in the next Iranian year (to start March 21, 2022).

Owji said that the sale of crude oil, gas condensates and petrochemical products, as well as gas exports have experienced a significant growth from March 2021 to January 2022, Tasnim News Agency reported.

Foreign exchange revenues generated by the export of oil, gas condensates, petrochemical products and natural gas have undergone a dramatic increase during the first 10 months of the current Iranian year, he noted.

The minister also harbored hope for the production and sale of 1,200,000 barrels per

day of oil in the next year, which will begin on March 21.

A report given to the Iranian Administration's Economic Coordination Headquarters in December 2021 indicated that the country's income from the export of oil and non-oil products have risen in recent months, while the monthly inflation rate has declined.

Earlier, in November 2021, the Central Bank of Iran Chief Ali Salehabadi said the process of repatriation of foreign currency earned from the export of Iranian commodities has improved, resulting in relative stability in the currency market.

The top banker said that the currency generated from the export of oil, natural gas and gas condensates was being supplied to the domestic market.

## Iran's point-to-point inflation drops by 17.5%: CBI

Iran's point-to-point inflation decreased by 17.5 percent during the month to December 21, 2021, compared to the figure for the month to August 22, 2021, announced Ali Salehabadi, the governor of the Central Bank of Iran (CBI).

The official added that the economic growth rate in the first six months of the current Iranian year (March 21-September 21, 2021) was 3.3 percent, according to Mizan Online News Agency.

Salehabadi noted: "Oil and non-oil exports, in terms of volume and value, compared to the previous

Iranian year, has grown significantly and we hope to achieve 8% economic growth next [Iranian] year."

Regarding the stability of the hard currency rate in next Iranian year's budget, he said: "Now the sale of oil and petroleum products is much better than in the past."

The CBI head said that another positive thing that happened in recent months is related to the foreign exchange market.

He added: "One of the most important indicators in the country's economy is the forex market and

the exchange rate, which fortunately enjoy good stability."

We have made plans in a way assuming that the current status continues and the economic status for next [Iranian] year will definitely be better than the current [Iranian] year, Salehabadi continued.

In the first nine months of the current year (March 21-December 21, 2021), we provided about \$40 billion in foreign exchange for imports of goods, which shows a very good growth compared to the corresponding figure for the preceding year, the CBI head said.



IRAN DAILY

## Russia-Iran nine-month trade rises 41%



IRNA

Trade between Russia and Iran increased 12 percent in terms of weight, and 41 percent in terms of value, in the first nine months of the current Iranian year (March 21-December 21, 2021), according to an Iranian official.

Spokesman for the Islamic Republic of Iran Customs Administration (IRICA) Rouhollah Latifi announced on Sunday that the trade figure stood at over 3.5 million tons, worth \$1.65 billion, for the said nine months, IRNA reported.

Ahead of President Seyyed Ebrahim Raeisi's upcoming visit to Moscow, Latifi said that Iran exported over 2.7 million tons of goods, worth \$1.22 billion, to Russia and imported 838,602 tons of commodities, worth \$432 million during the nine months.

IRICA's official statistics indicate that Iran's imports from Russia hiked 11 percent in terms of weight, and 45 percent in terms of value, while the Islamic Republic's exports to the neighboring country increased 15 percent in terms of weight, and 29 percent in terms of value in the same period, he added.

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