Crude rallies on Iranian tanker attack but global oil stocks ‘offer insurance’

An Iranian crude tanker has become the latest vessel to fall victim to an attack after being struck by missiles 60 miles off the Saudi Arabian port city of Jeddah, Iranian media reported on Friday, with the vessel limping back to Iranian waters after spewing crude. The incident sent oil prices rallying, however the International Energy Agency (IEA) this week pointed to swelling crude stocks offering the world “a big insurance policy” against price shocks.

The National Iranian Oil Company (NOIC) tanker named Sabiti was struck in the early hours of Friday morning by multiple missiles, Iranian news agency ISNA reported. No one has claimed responsibility for the attacks, which ISNA called a “terrorist act”.

University of Oxford Middle East energy scholar Justin Dargin told Gas Matters Today that at this moment “it is best not to speculate as to whom is responsible for the alleged attack”.

“It is interesting, though, that Iranian state media utilized the term ‘terrorist attack’, as that term is generally reserved for non-state actors and could telegraph a certain retaliatory intent by the Iranian government,” added Dargin.

Two of the vessel’s main oil tanks were damaged in the attack, resulting in crude spilling into the Red Sea, ISNA reported. The CEO of the National Iranian Tanker Company (NITC), which operates the vessel, was quoted as saying that the leak has been stemmed.

Sabiti is now reportedly headed back to Larak, an island off Iran’s coast. The vessel was originally destined for the United Arab Emirates, according to shipping data.

Crude prices began to rally following news of the incident, with Brent heading towards the USD 60/barrel mark and WTI heading towards USD 54/barrel during trading on Friday morning.

The attack highlights the ongoing security concerns in the Middle East, with the incident coming three weeks after a drone attack on the world’s largest oil processing facility in Saudi Arabia. Yemen’s Houthi rebels – backed by Iran in the civil war against the Saudi-back government – claimed responsibility for that attack.

Iran denied any involvement in the drone attack despite accusations by Washington and Riyadh that the sophistication of the operation implicated Tehran. Iran has also brushed aside US accusations that it was behind attacks on six tankers transiting the Gulf of Oman earlier this summer.

September’s drone forced Saudi Aramco to cut production by 5.7 million barrels/d, sending crude prices to highs of USD 71/barrel in first day of trading following the incident.

However, prices quickly came crashing back down after Aramco confirmed there would be no long-lasting disruption. The price of Brent crude on Thursday was USD 2/barrel below the pre-drone attack level.

Asked whether Iran is likely to retaliate to the reported attack Dargin said Tehran as “proven itself fully capable and ready to respond to what it perceives as attacks on its strategic interests”.

“The Iranian strategy appears to be that it will showcase its resolve with limited armed retaliation to forestall even greater military intervention from its rivals. However, as we know from history, this brinkmanship can quite easily lead to miscalculations which could result in full scale armed conflict as no one party can fully perceive how the other will respond,” added Dargin.

David Jalilvand, CEO of Orient Matters, a Berlin-based Middle East consultancy, said Iran – via the Houthis – might attack more tankers in the Red Sea. “[T]he first statements coming out of Tehran today don’t suggest Iran is rushing towards an escalation,” he told Gas Matters Today.

‘Market on edge’

In its latest oil market report published on Thursday, the International Energy Agency (IEA) said that the “precision attacks on Saudi Arabia” and “possibility of a repeat should keep the market on edge”. Further attacks “in the strategically important Gulf region” could “cause even greater disruption”, it added.

Nonetheless, the IEA pointed to swelling oil stocks which offer the world “a big insurance policy”. “The market is the first responder to a supply crisis and OECD commercial stocks in August increased for the fifth consecutive month and are now close to the record 3+ billion barrels level we saw during most of 2016,” the report states.

This week the IEA once again cut crude demand going into 2020 on the back of a weaker economic growth outlook – stemming from the current trade dispute between Washington and Beijing and uncertainties surrounding Brexit. The agency reduced crude demand by 105,000 barrels/d to 1.2 million barrels.

Weaker demand coupled with expected increased production in Norway, Brazil and the US could see the Organisation of the Petroleum Exporting Countries (OPEC) curtail production further to ~29 million barrels/d, the IEA said.

Such discussions will be on the agenda when OPEC members next meet in early December. - ET

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Consulting

+44 (0) 20 7332 9900
consult@gasstrategies.com

Alphatania Training

+44 (0) 20 7332 9910
training@gasstrategies.com

Information Services

+44 (0) 20 7332 9976
subscriptions@gasstrategies.com