By: Alex Mills **May 12, 2016**

Industry Cautiously Watches Oil Price Inch Higher

Crude oil prices have rebounded, and there are some feelings of optimism within the industry that prices have hit bottom. Futures for June delivery on the NYMEX settled at $46.23 per barrel on March 11, after the Energy Information Administration surprisingly announced crude oil inventories fell for the first time since March, adding to concerns over supply outages in Canada and Nigeria. The EIA said crude inventories fell 3.4 million barrels last week, compared with analysts' expectations for an increase of 714,000 barrels.

The EIA said it expected Brent to trade at $76 per barrel next year on continued increase in demand.

The rally in crude crossed over to refined oil products, with gasoline settling up 6 percent and ultra-low-sulfur diesel, or heating oil, up 4 percent. The refining margin, or 'crack,' for gasoline had its biggest daily gain in 3 months, rising more than 14 percent to above $20 per barrel.

Crude prices had risen earlier after Shell announced a Nigerian pipeline closure, while Canadian energy companies tried to restart closed facilities that halted more than 1 million barrels per day in supply after a huge wildfire in Alberta's oil sands region.

In Nigeria, a refinery official said crude flows were halted to the Kaduna and Warri refineries after a pipeline attack. Nigeria's state petroleum company says the Kaduna refinery produces 112,600 barrels of fuel per day, while the one in Warri had a capacity for 125,000 barrels per day.

In London, the Brent contract for July delivery on ICE settled at $47.60 per barrel, just $1.37 higher than WTI.

The EIA also noted that during the first three months of 2016, crude oil prices were relatively more volatile than in recent history. "This elevated volatility occurred when overall oil prices were low, and volatility was driven by high uncertainty related to supply, demand, and inventories," EIA said in a report.

Volatility often reflects market uncertainty about both the current and future value of a commodity, EIA said. Daily volatility is often driven by the release of new economic or supply information, changes in market expectations, or unanticipated events that can cause large price adjustments. Some reasons for volatility in crude oil prices include uncertainty about:

- Future production levels in key oil-producing nations
- Global economic growth, particularly in China and other emerging market economies
- Growth in U.S. gasoline demand following higher consumption levels in 2015
- Crude oil inventories and storage capacity constraints

Volatility also increased during unexpected interruptions in oil supply, such as the disruptions that occurred during the first Gulf War in 1990, in the aftermath of hurricanes in the U.S. Gulf of Mexico, and in Libya in the first half of 2011.

Measuring the difference between the high and low closing oil prices in a given month is another way of measuring volatility. In January 2016, Brent crude oil spot prices closed at a low of $26 per barrel and a high of $36. This $10 trading range was higher than the range of any month in 2015. The magnitude of the trading range compared with the average monthly price was 33 percent in January, the highest since 2008. But with the recent stabilization of oil prices, the trading range for April dropped to 13 percent.

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