

Oil extends losses ahead of expected interest rate hikes

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3 May 2023

Oil prices extended losses on Wednesday, 3 May, after plunging 5% in the previous session, as investors fretted about the health of the US economy ahead of an expected Federal Reserve interest-rate hike later in the day.



Source: Reuters. The Bryan Mound Strategic Petroleum Reserve, an oil storage facility, is seen in this aerial photograph over Freeport, Texas, US, April 27, 2020.

Brent futures fell \$1.99, or 2.6%, to \$73.33 a barrel by 1225 GMT, while West Texas Intermediate crude (WTI) fell \$2.03, or 2.8%, to \$69.63.

Both benchmarks closed at their lowest since late March in the previous session, when they also recorded their biggest one-day percentage declines since early January.

"The Federal Reserve is expected to deliver another quarter-point increase later today as part of its long-running battle against inflation," PVM Oil analyst Stephen Brennock said.

He added that concerns about the health of the US banking sector and downbeat US jobs data "did nothing to dispel fears that the US economy is barreling towards a shallow recession".

The Fed is expected to hike interest rates by an additional 25 basis points on Wednesday to combat inflation, while the

European Central Bank is also expected to raise rates at its regular policy meeting on Thursday.

More hikes could slow economic growth and hit energy demand.

Energy prices are also under pressure after data from China over the weekend showed manufacturing activity fell unexpectedly in April. China is the world's largest energy consumer and top buyer of crude oil.



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The post-pandemic reopening of China's economy will be pivotal for Asia, the International Monetary Fund said as it raised its economic forecast for the region on Tuesday. But it warned of risks from persistent inflation and global market volatility driven by Western banking-sector woes.

Meanwhile, US crude stockpiles fell for a third week in a row for the first time since December, down some 3.9 million barrels last week, according to market sources citing American Petroleum Institute figures on Tuesday.

Morgan Stanley lowered its forecast for Brent prices to \$75 a barrel by year-end.

"Downside risk to Russia's supply and upside risk to China's demand have largely played out and prospects for 2H tightness have weakened," the bank said in a note, referring to buoyant exports from Russia despite Western sanctions.

Official stockpile data from the US Energy Information Administration is due at 10:30am EDT on Wednesday.

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