Oil prices fall, set for fourth weekly drop, as demand fears weigh

By Yuka Obayashi and Andrew Hayley

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Oil prices fell on Friday, 12 May, set for their fourth weekly decline, as renewed economic concerns in the United States and China revived anxieties about fuel demand growth in the world's two largest oil consumers.

Aerial view of crude oil tanker off Waidiao Island in Zhoushan, Zhejiang province, China. Source: cnsphoto via Reuters

Brent crude futures dropped by 48 cents, or 0.64%, to $74.50 a barrel by 0635 GMT. US West Texas Intermediate (WTI) crude futures were down 39 cents, or 0.55%, to $70.48.

Both benchmarks are set to fall by about 1.1% for the week, which would be the longest streak of weekly declines since November 2021.

With talks over the US government's debt ceiling stalled and renewed fears that another regional bank is in crisis, there is mounting concern that the US will enter a recession. A decline in new loans to businesses in China and weaker economic data there earlier in the week refocused doubts about its recovery from Covid restrictions driving oil demand growth.

Additionally, cooler inflation data from both countries suggested consumer demand was weak, said Tina Teng, a market analyst at CMC Markets in Auckland.

"Oil is a growth-sensitive commodity, which was impacted by these bearish factors," she said in an email.

The price rose earlier on Friday, after falling for the previous two sessions, on some demand expectations following comments from the US energy secretary that the US could repurchase oil for the Strategic Petroleum Reserve (SPR) once some sales finish in June.

The US government has said it will buy oil when prices are consistently at or below $67 to $72 per barrel.

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However, the talks to raise the $31.4tn US federal debt limit may not reach an agreement in time to prevent a government debt default, which could cause severe market dislocations.

And, shares of US regional bank PacWest Bancorp plunged 23% on Thursday after it said its deposits declined and it had posted more collateral to the US Federal Reserve to boost its liquidity.

China's April consumer price data rose at a slower pace and missed expectations, while factory gate deflation deepened, suggesting more stimulus may be needed.

The oil market largely ignored the Organization of the Petroleum Exporting Countries (Opec) global oil demand forecast for 2023, which projected demand in China, the world's biggest oil importer, would increase.