

Oil jumps 2% as Middle East tension deepens

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Oil prices surged on Wednesday, 18 October as tension escalated in the Middle East after hundreds were killed in a blast at a Gaza hospital, sparking concerns about potential oil-supply disruptions from the region.



Source: Reuters.

Brent crude futures advanced \$1.69, or 1.9%, to \$91.59 a barrel at 0347 GMT. West Texas Intermediate crude (WTI) futures were up \$1.84, or 2.1%, at \$88.50 a barrel.

In earlier trade, both benchmarks gained more than \$2 to touch their highest levels in two weeks.

Markets factored in risk premiums after about 500 Palestinians were killed in a blast at a Gaza City hospital on Tuesday, 17 October that Israeli and Palestinian officials blamed on each other.

Jordan then cancelled a summit it was to host with US President Joe Biden and Egyptian and Palestinian leaders.

"The cancellation of a summit between Biden and Arab leaders reduces the likelihood of a diplomatic solution to the Israel Hamas conflict," Vivek Dhar, an analyst at Commonwealth Bank of Australia, said in a client note.

Markets are nervous about a threatened Israeli ground offensive in Gaza.

"A long occupation looms as the scenario that pushes Brent oil futures above \$US100/bbl because it raises the risk that the Israel Hamas conflict expands and potentially draws in Iran directly," Dhar said.

US support for Israel

Biden is set to visit Israel on Wednesday to show support for the country in its war with Islamist militant group Hamas. The White House said he will make clear he does not want the conflict to expand.

Also supporting oil prices, US crude stocks fell by about 4.4 million barrels in the week ended 13 October, according to market sources citing American Petroleum Institute figures on Tuesday. That was much steeper than a 300,000 barrel draw that analysts had forecast.

Official US government data is due later on Wednesday.

On the demand side, China's economy grew faster than expected in the third quarter, official data on Wednesday showed, suggesting a recent flurry of policy measures is helping to bolster a tentative recovery.

China's mixed economic signals

China's official data also showed that the country's oil refinery throughput in September hit a record daily rate, up 12% from a year earlier as refiners increased run rates to cater for strong demand for transport fuel over the Golden Week holiday and improving manufacturing.

But analysts sounded cautious on China's economic growth as the real-estate sector remains a drag.

"The September data likely guarantee that China will hit its 'around 5%' growth target this year. That said, it will struggle to better it. The economic recovery is still in its infancy," Moody's Analytics economist Harry Murphy Cruise said in a note.

Meanwhile, US retail sales increased more than expected in September, spurring expectations of another interest-rate hike by the Federal Reserve by year-end. Interest-rate hikes to curb inflation can slow economic growth and reduce oil demand.

Venezuela's government and its political opposition on Tuesday agreed to electoral guarantees for 2024 presidential elections, paving the way for possible US sanctions relief that could eventually boost oil supplies.

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