MarketWatch | Refined Products

Friday, October 7, 2022

Market Commentary

Recap: Oil prices rose on Thursday, holding at three-week highs after OPEC+ agreed to tighten global crude supply with a deal to cut production targets by 2 million barrels per day, the largest reduction since 2020. The agreement between the Organization of Petroleum Exporting Countries and allies including Russia, a group known collectively as OPEC+, comes ahead of a European Union embargo on Russian oil and would squeeze supplies in an already tight market, adding to inflation. The output cut comes at the same time the U.S. Federal Reserve and other central banks are raising interest rates in an attempt to curb inflation. Higher oil prices will likely cause further demand destruction, which was keeping prices from moving higher, November WTI delivery gained 69 cents per barrel, or 0.79% to $88.45, Brent for December delivery gained $1.05 per barrel, or 1.12% to $94.42. Gasoline for November delivery gained 1.29 cents per gallon, or 0.48% to $2.681, ULSD for November delivery gained 17.80 cents per gallon, or 4.83% to $3.8649.

Technical Analysis: For the first time since June 28, WTI has settled above the 50-day moving average, a key technical figure. At that time, WTI was descending from the mid-June high of $123.68. The break above the average was followed by a failed attempt to hold ground above it and as a result, WTI continued its down move. The difference now is at that time, the shorter term, 10-day moving average crossed below the 50-day moving average, indicating underlying weakness. Now, the 10-day moving average is set in lower territory than that of the 50-day moving average and is pointing higher. As a result, we do expect to see the selling that occurred back in June and therefore, WTI should hold ground and work higher, as the minor trend of this market has turned to the upside. That being said, there is quite a bit of headwinds for this market to contend with, so we anticipate a struggle. Resistance is set at $94.37 and above that at $97.97. Support is seen at $87.93, $84.40 and $83.20.

Fundamental News: Global oil supply is set to tighten, intensifying concerns over increasing inflation after the OPEC+ group of nations announced a 2 million bpd output cut, its largest supply cut since 2020. Saudi Energy Minister Abdulaziz bin Salman said the real supply cut would be about 1 million to 1.1 million bpd, a response to rising global interest rates and a weakening world economy. The OPEC+ cuts compound supply concerns as European Union sanctions on Russian crude and oil products take effect in December and February, respectively, prompting Morgan Stanley to raise oil price forecasts. Morgan Stanley raised its oil price forecast for the first quarter of 2023, and predicted tight supply going forward. The bank said "We now see the oil market in a 900,000 bpd deficit in 2023, up from 200,000 bpd before. Those forecasts assume that Russia's oil production will fall by 1-1.5 million bpd after the EU oil import embargo comes into force." Morgan Stanley raised its first-quarter 2023 Brent price forecast to $100/barrel from $95/barrel, noting: "Brent will find its way to $100/barrel quicker than we estimated before." Meanwhile, Citi Research said the final market impact of OPEC+ decision to cut oil production would depend on the agreement duration, and expects major consumers to "react with displeasure" to the deal. Meanwhile, Goldman Sachs has raised its oil price forecast for this year and 2023, as the U.S. bank expects the 2 million bpd output cut agreed by OPEC+ producers to be "very bullish" for prices going forward. Goldman Sachs raised its 2022 Brent price forecast to $104/barrel from $99/barrel and 2023 forecast to $110/barrel from $108/barrel. The U.S. bank also raised its fourth quarter 2022 and first-quarter 2023 Brent price forecast by $10/barrel to $110 and $115/barrel, respectively.

U.S. President, Joe Biden, said he was surveying his options after OPEC+ nations announced plans to cut oil output, a decision he said was disappointing. He said the U.S. was looking at all possible alternatives to keep prices from rising.

Early Market Call - as of 8:30 AM EDT

WTI - November $89.47, up $1.01

RBOB - November $2.7058, up 2.44 cents

HO - November $3.9296, up 6.47 cents

All NYMEX | Prior Settlements

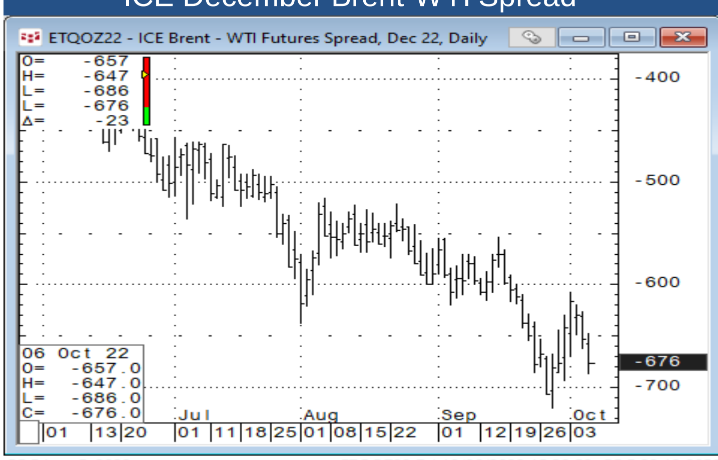
Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Nov-22	3.8649	0.178	0.5697
Dec-22	3.6707	0.1168	0.4635
Jan-23	3.5685	0.0983	0.4179
Feb-23	3.4755	0.0845	0.3854
Mar-23	3.3769	0.0745	0.3612
Apr-23	3.269	0.0658	0.336
May-23	3.1764	0.0579	0.3057
Jun-23	3.0971	0.0503	0.2704
Jul-23	3.0481	0.0449	0.2436
Aug-23	3.0129	0.0425	0.2261
Sep-23	2.9845	0.0405	0.2128
Oct-23	2.9579	0.0393	0.1994
Nov-23	2.93	0.0373	0.1864
Dec-23	2.9004	0.0341	0.1701
Jan-24	2.8701	0.0299	0.1564
Feb-24	2.8503	0.0287	0.1498
Mar-24	2.8271	0.0287	0.1477
Sprague HeatCurve October 2023-April 2024			**$2.8717**

		Close	Change
Crude - WTI	Nov Brent-WTI Spread $6.83	$87.5900	$0.7500
Crude - Brent		$94.4200	$1.0500
Natural Gas		$6.9720	$0.0420
Gasoline		$2.6814	$0.0129

EIA Working Gas Storage Report

	30-Sep-22	23-Sep-22	Change	30-Sep-21
East	756	721	35	806
Midwest	916	879	37	966
Mountain	184	176	8	205
Pacific	247	243	4	247
South Central	1003	958	45	1,048
Salt	225	204	21	256
Nonsalt	778	754	24	792
Total	3106	2977	129	3,271

ICE December Brent-WTI Spread



WTI Continuation