



MarketWatch | Refined Products

Thursday, March 4, 2021

Market Commentary

Recap: Oil futures rose by almost 3% on Wednesday on talk of a potential roll over of production cuts by OPEC and its allies. Traders were hopeful that the group would decide to roll over production cuts in an effort to support prices, even after the EIA showed a whopping 21.6 million barrel build in U.S. crude oil inventories, the most since 1982. The build in U.S. crude oil inventories came along with significant declines in petroleum products. Market participants were banking on OPEC+ to ease output curbs in April, which would put an additional 500,000 barrels per day of oil on the market. According to a Reuters report, members grappled over maintaining existing curbs into April amid worries over weak demand. April WTI added \$1.53, or 2.6%, to settle at \$61.28 a barrel, while May Brent tacked on \$1.37, or 2.2%, to close at \$64.07 a barrel. Petroleum products also gained, with April RBOB adding 0.8%, to settle at \$1.9518 a gallon, while April heating oil rose 1.5% to \$1.8357 a gallon.

Technical Analysis: After a four day correction, it appears that crude oil prices have stabilized after a round of risk reduction in response to the selloff in U.S. Treasuries and now attention has shifted to the meeting between OPEC and other major producers. The decision by the group will set the tone in the coming months. For now, we will have to have a wait and see attitude, until OPEC+ makes a final decision. In the meantime, the backardation scenario that has presented itself continues to develop. Those holding long positions have seen an increase of 10% on an annualized basis and near the most favorable conditions in the past 10 years. The focus now will be on U.S. shale producers and whether or not they will look to preserve cash to satisfy shareholders or become tempted to up production. For now we will have to wait and see if speculators are willing to chase this market higher amid supply cuts and stagnant demand due to the coronavirus. \$65 remains a key area of resistance, while \$58.60 and \$55 are areas of support.

The April RBOB/WTI crack spread has come off a bit and is approaching support down at \$19.75. We would look to be buyers of this spread down to \$19.11 and as summer driving season approaches, looking for a rebound.

Fundamental News: The OPEC+ Joint Ministerial Monitoring Committee concluded its meeting on Wednesday with no official recommendation on April output levels. However, delegates stated that Saudi Arabia continues to urge the group to be conservative and limit any increase in quotas. Saudi Arabia has made no official statement on its position, and the meeting. OPEC+ ministers will hold their meeting on Thursday. OPEC and its allies are considering rolling over oil production cuts from March into April instead of raising output because of fragile oil demand recovery due to persisting worries about the coronavirus. Analysts say the market can absorb a combined 1.5 million bpd production increase from the alliance without causing oil prices to fall. However, OPEC+ members will likely want to avoid a major move in prices by releasing too much production too quickly.

The U.S. shale industry, which increased its spending in recent years to gain market share, is now focused on preserving cash, putting it at a disadvantage to low-cost OPEC producers as the global economy begins to gear up again. Prior to the pandemic-induced downturn, OPEC countries led by Saudi Arabia restrained their production, seeking to support prices to fund national budgets dependent on oil revenue. Shale drillers took advantage, increasing U.S. output to a record 13 million bpd. However, attendees of the CERAWEEK energy conference made clear that even with a buoyant, \$60/barrel oil price, shale will not come roaring back from the Covid-19 pandemic as it did from the 2016 downturn. By contrast, the Organization of the Petroleum Exporting Countries and allies, known as OPEC+, has more than 7 million bpd of oil output sitting in reserve. This positions them to increase production much more easily than shale players for the first time in years.

U.S. President Joe Biden said the United States would have enough COVID-19 vaccines for every American adult by the end of May, after Merck & Co agreed to make rival Johnson & Johnson's inoculation. He also stated that he hoped that the United States would be "back to normal" at this time next year and potentially sooner.

Early Market Call - as of 8:35 AM EDT

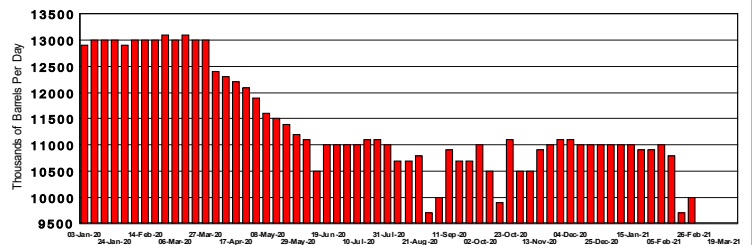
WTI - Apr \$61.83 down \$0.55
 RBOB - Apr \$1.9520 up \$0.0002
 HO - Apr \$1.8382 up \$0.0025

All NYMEX | Prior Settlements

Month	ULSD (HO)	Prior Settle	Change In
	Close	Change	One Week
Apr-21	1.8357	0.0276	0.0643
May-21	1.8311	0.0296	0.0584
Jun-21	1.8276	0.0320	0.0547
Jul-21	1.8252	0.0332	0.0527
Aug-21	1.8235	0.0332	0.0519
Sep-21	1.8236	0.0325	0.0515
Oct-21	1.8241	0.0319	0.0517
Nov-21	1.8246	0.0314	0.0513
Dec-21	1.8237	0.0309	0.0506
Jan-22	1.8242	0.0305	0.0492
Feb-22	1.8217	0.0303	0.0473
Mar-22	1.8139	0.0306	0.0444
Apr-22	1.7990	0.0304	0.0416
May-22	1.7903	0.0301	0.0385
Jun-22	1.7839	0.0299	0.0355
Jul-22	1.7837	0.0294	0.0331
Aug-22	1.7840	0.0290	0.0307

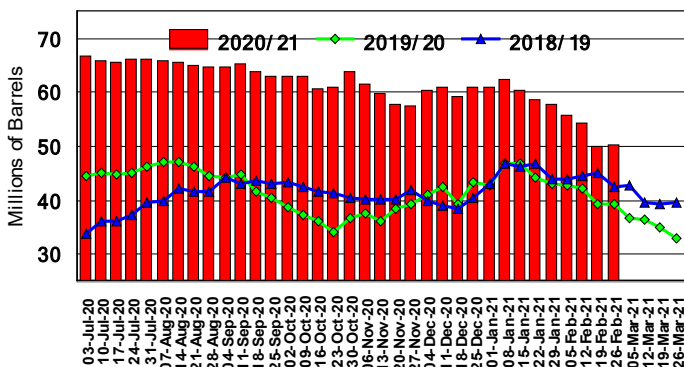
Sprague HeatCurve October 2021-April 2022			\$1.8199
		Close	Change
Crude - WTI	Apr Brent- WTI Spread	\$61.1000	\$1.5300
Crude - Brent		\$64.0700	\$1.3700
Natural Gas	\$2.97	\$2.8160	-\$0.0230
Gasoline		\$1.9518	\$0.0154

U.S. Domestic Crude Production



Weekly EIA Petroleum Status Report for the Week Ending February 26, 2020

Distillate Stocks PADD #1



Overall U.S. Stats

Crude Oil Stocks(excluding SPR) Up 21.563 million barrels
 Cushing, OK Crude Stocks Up 485,000 barrels
Gasoline Stocks Down 13.624 million barrels
Distillate Stocks Down 9.719 million barrels
Refinery % Operated 56%, Down 12.6%

PADD #1

Distillate Stocks (in million bbls)	Week Ending Feb 26, 2021	Week Ending Feb 19, 2021	Week Ending Feb 28, 2020
New England	9.7	10.5	6.4
Central Atlantic	26.9	26.4	20.6
Total PADD #1	50.4	49.9	39.4
Distillate Imports (thousands b/d)	303	242	95

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