MarketWatch | Refined Products

Tuesday, January 3, 2023

Market Commentary

Recap : WTI finished the year above $80 a barrel, with the February contract climbing $1.86, or 2.37%, to close the session at $80.26 a barrel. This represents a gain of $5.05 per barrel, or 6.71% to $80.26 this year. Brent tacked on $8.13, or 10.45% this year, gaining $2.45, or 2.94% for the day, to close the session at 85.91 a barrel. January RBOB settled at $2.4595, up 23.10 cents per gallon, or 10.37% on the year, and 8.88 cents or 3.75% on the day, while January heating oil ended the year up $1.03, or $44.25%, settling at $3.3622, gaining 4.92 cents, or 1.49% on the day.

Technical Analysis: After starting the day lower, oil futures reversed to the upside, gaining as most traders were hands-off for the day, as they await the new year. While true fundamentals for crude oil remain strong, the perception of demand destruction by rising COVID numbers in China and rising US interest rates are keeping most buyers sidelined into the start of next year. Oil markets have been volatile this year, which is normal for one of the world's most unpredictable asset classes. WTI oil moved towards the $130 in early March, when traders feared that sanctions would cut Russia's exports dramatically. Oil prices rose 6.7% for 2022, but end well below the highs after Russia invaded Ukraine earlier this year. These fears did not materialize, and Russian oil kept flowing to markets. Meanwhile, traders became focused on risks of global recession, and WTI oil moved towards the recent lows at $70. Russia has recently released a decree banning the sale of oil to countries that support the price cap scheme. The decree turned out to be weaker than expected, and it looks that Russia is afraid to lose its market share. In the near term, Russian oil exports will likely decline anyway due to logistical problems caused by sanctions. However, Russia and its customers will likely solve them over time, so the real impact on the market should not be too big unless the situation escalates further and both Russia and the West raise stakes. The potential global recession remains the key risk for oil demand in 2023. UK and the EU are almost guaranteed to fall into recession next year. In the U.S., the Fed is trying to orchestrate a soft landing, but rising rates have already started to put significant pressure on the economy. In China, economy should rebound as the country abandons its strict zero-COVID policy. In the near term, China will likely face problems as the number of new infections is rising very fast, which will inevitably put pressure on the economic activity. In the longer-term, China's demand will rebound. The balance between rising demand from China and the weakening demand in recession-hit countries will determine the price of oil in 2023.

Fundamental News: According to a Reuters survey, oil prices are set for small gains in 2023 as a darkening global economic backdrop and COVID-19 flare-ups in China threaten demand growth and offset the impact of supply shortfalls caused by sanctions on Russia. A survey of 30 economists and analysts forecast Brent crude would average $89.37/barrel in 2023, about 4.6% lower than the $93.65 consensus in a November survey. The global benchmark has averaged $99 per barrel in 2022. WTI crude is projected to average $84.84/barrel in 2023, versus the previous month's $87.80/barrel forecast. Most analysts said oil demand will grow significantly in the second half of 2023, driven by the easing of COVID-19 restrictions in China and by central banks adopting a less aggressive approach on interest rates. The impact of Western sanctions on Russian oil is expected to minimal.

Baker Hughes reported that U.S. energy firms increased the number of oil and gas rigs for a second consecutive year. It also reported that the number of gas and oil rigs were unchanged at 779 in the week ending December 30th, with oil rigs falling one to 621 and gas rigs increasing by one to 156.

The EIA reported that U.S. crude oil production in October increased by 69,000 bpd on the month to 12.381 million bpd. September's oil production level was revised up by 44,000 bpd to 12.312 million bpd. The EIA also reported that U.S. total oil demand in October increased by 0.2% or 38,000 bpd on the year but fell by 55,000 bpd on the month to 20.415 million bpd.

Early Market Call - as of 8:15 AM EDT

WTI - February $79.50, down 76 cents

RBOB - February $2.4316, down 4.67 cents

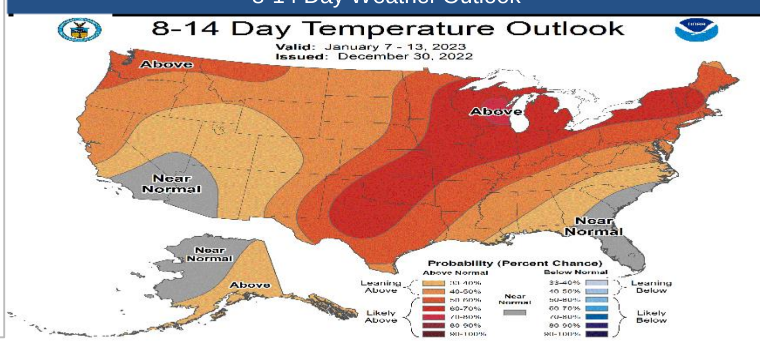
HO - February $3.2363, down 5.87 cents

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Jan-23	3.3622	0.0492	0.0961
Feb-23	3.295	0.0317	0.0802
Mar-23	3.1792	0.0353	0.0578
Apr-23	3.0601	0.0397	0.0454
May-23	2.9803	0.0413	0.0421
Jun-23	2.9339	0.0437	0.0435
Jul-23	2.912	0.0461	0.0447
Aug-23	2.8951	0.0473	0.0419
Sep-23	2.8822	0.0472	0.0375
Oct-23	2.8679	0.0481	0.0339
Nov-23	2.8511	0.0492	0.0311
Dec-23	2.8337	0.0504	0.0298
Jan-24	2.8188	0.0495	0.0267
Feb-24	2.8031	0.0484	0.0248
Mar-24	2.7808	0.0475	0.0195
Apr-24	2.752	0.046	0.016
May-24	2.7316	0.042	0.0099
Sprague HeatCurve October 2023-April 2024			**$2.8140**

		Close	Change
Crude - WTI	Mar Brent-WTI Spread $5.46	$80.4500	$1.9500
Crude - Brent		$85.9100	$2.4500
Natural Gas		$4.4750	-$0.0840
Gasoline		$2.4595	$0.0888

8-14 Day Weather Outlook



Commitment of Traders Report for the Week Ending December 27, 2022