MarketWatch | Refined Products

Monday, January 31, 2022

Market Commentary

Recap: Oil futures slipped from fresh seven-year highs on Friday, as equities wavered and the dollar's strength weighed on prices. Oil has rallied most of the week with physical supplies appearing extremely tight. Key swaps tied to the North Sea market are trading at their strongest level since November. Despite the underlying strength, the market wasn't immune to the whipsaw movements buffeting most major assets. Tight supplies pushed the six-month market structure for Brent into steep backwardation of $6.92 a barrel, the widest since 2013. This means near-term contracts are priced higher than those in later months, encouraging traders to release oil from storage to sell it promptly. March WTI rose 21 cents, or 0.2%, to settle at $86.82 a barrel, logging the highest intraday level since October 2014. March Brent climbed 69 cents, or 0.8%, to settle at $90.03 a barrel, the highest finish since October 2014. April Brent, the most actively traded contract, climbed 35 cents, or 0.4% to close at $88.52 a barrel. February RBOB added 0.8% to $2.542 a gallon, ending the week 4.1% higher. This front month contract rose 4.09%, to gain 9.99 cents per gallon on the week. RBOB has been up for six consecutive weeks, the longest winning streak since the week ending March 12, 2021, when the market rose for eight straight weeks. February heating oil fell 0.3% to $2.786 a gallon, paring its weekly rise to 3.5%. The February contracts expire at the end of Monday's session.

Technical Analysis: Traders continue to tract the situation between Ukraine and Russia, concerned that Russia may launch an invasion after massing thousands of troops on the border, potentially disrupting energy supplies. Moscow has denied its plans to invade, but the rise in crude volatility is a sign that the market is pricing in an increased political risk premium, potentially of at least $5 a barrel. Meanwhile, inventories at the key U.S. storage hub at Cushing fell again last week to hit the lowest level for this time of year in a decade. At the same time weekly oil product consumption is at its highest level for the time of year in at least 30 years, driven in part by a spate of cold weather in the U.S. On the demand side, crude imports in China, the world's biggest importer of the commodity, could rebound by as much as 7% this year, analysts and oil company officials said. There is short-term support underneath this market that should keep us seeing higher prices, and therefore, we would look to hold on to any length.

Fundamental News: JP Morgan said the European oil and gas market should remain very tight throughout the winter, noting weak Russian exports amid geopolitical tensions and a growing risk stocks will not sufficiently recover this year. Disrupted oil exports could send prices as high as $125/barrel in 2022 and $150/barrel in 2023, and if Russia were to stop exports to Europe, spare OPEC+ capacity could fall from an estimated 10% as of first quarter to around 5%.

ANZ Bank raised its short term price target for crude to $95/barrel as the market is seen remaining in deficit in the first quarter amid supply constraints. It also sees markets pricing in a sizeable risk premium. It said there are expected to offset headwinds from an Iran nuclear deal and a more hawkish U.S. Federal Reserve. It stated that the market will be more vulnerable to supply disruptions in the short term amid low spare capacity.

An analyst at Vortexa said that Europe would have much more to lose than Russia if material sanctions are imposed on Russian oil and gas exports, making such a move unlikely.

Baker Hughes reported that in January, the oil and gas rig count increased by 24. It also reported that the oil and gas rig count increased by six to 610 in the week ending January 28th, its highest since April 2020. U.S. oil rigs increased by 4 to 495 this week, their highest level since April 2020, and increased by 15 in January. Gas rigs increased by two to 115 this week, their highest since January 2020, and increased by seven in January, their biggest monthly gain since December 2018.

Early Market Call - as of 8:30 AM EDT

WTI - Mar $87.27, up 45 cents

RBOB - Feb $2.5682, up 2.59 cents

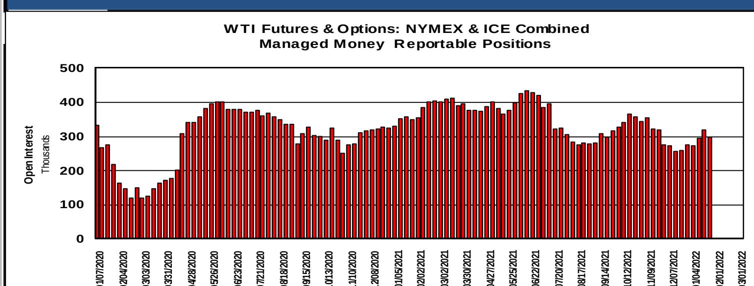
HO - Feb $2.8037, up 1.82 cents

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Feb-22	2.7855	-0.0090	0.0943
Mar-22	2.7124	-0.0051	0.0751
Apr-22	2.6268	0.0014	0.0629
May-22	2.5772	0.0011	0.0546
Jun-22	2.5471	-0.0010	0.0458
Jul-22	2.5263	-0.0016	0.0396
Aug-22	2.5125	-0.0024	0.0362
Sep-22	2.5065	-0.0018	0.0302
Oct-22	2.5010	-0.0017	0.0358
Nov-22	2.4919	-0.0024	0.0329
Dec-22	2.4799	-0.0033	0.0284
Jan-23	2.4679	-0.0041	0.0244
Feb-23	2.4514	-0.0055	0.0222
Mar-23	2.4316	-0.0061	0.0213
Apr-23	2.4077	-0.0056	0.0216
May-23	2.3880	-0.0056	0.0203
Jun-23	2.3730	-0.0056	0.0192

Sprague HeatCurve October 2022-April 2023 **$2.4611**

		Close	Change
Crude - WTI	Mar Brent-WTI Spread $3.21	$86.8200	$0.2100
Crude - Brent		$90.0300	$0.6900
Natural Gas		$4.6390	$0.3560
Gasoline		$2.5423	$0.0213



Commitment of Traders Report the Week Ending January 25, 2022