MarketWatch | Refined Products

Friday, November 13, 2020

Market Commentary

Recap: Oil futures fell on Thursday, pressured by the unexpected increase in U.S. crude oil inventories and lower demand expectations due to the spread of COVID-19. Prices had traded higher for a good portion of the session, as the potential for a vaccine renewed hopes that demand would increase and on bets that OPEC+ would look to extend output cuts into the new year. However, growing concerns that rising COVID-19 cases will lead to further economic restrictions and lower energy demand overshadowed the optimism around progress toward a vaccine against the disease. December WTI fell 33 cents, or 0.8%, to settle at $41.12 a barrel. Brent for January delivery added 25 cents, or 0.6%, to settle at $44.05 a barrel. December RBOB fell 1.6% to $1.1571 a gallon, while December heating oil lost 1% to $1.233 a gallon.

Technical Analysis: Demand remains the key factor in the oil market and there may be a break in the clouds. While the IEA lowered its estimates for 2020 demand by 8.8 million barrels, it has increased its estimates for growth in 2021 by 0.3 million barrels. In its projections, the IEA estimates that fourth quarter demand for 2020 will decrease by 1.2 million bpd and by 0.7 million bpd in the first quarter of 2021 compared to its previous estimates. At first, this may seem a bit bearish for the oil market, but if supplies outside of OPEC+ increase by just 0.2 million barrels bpd in 2021 and U.S. oil production declines by 655,000 bpd, supplies will be hampered. This means that if OPEC+ manages to extend their current production cuts for the first quarter of 2021, the market will have the time to wait for the increase of oil demand after the end of European lockdowns. This would be supportive for oil. December WTI touched above the top of the consolidation pattern, but has so far failed to settle above it. A settlement above the $42 level will shift the minor trend to the upside, but there is an awful lot of noise above this level, so it will be hard for this market to pick up momentum. Above the $42 level, additional resistance is set at $44. To the downside, there is a thickness of support between $40 and $39.42, with additional support set at $38.83.

Fundamental News: The International Energy Agency said global oil demand is unlikely to get a significant boost from the roll-out of vaccines against COVID-19 until well into 2021, a view that is likely to dampen oil price gains since vaccine progress was announced earlier this week. It cited a resurgence of Covid-19 infections in Europe and the United States and renewed lockdown measures for revising down its outlook for global oil demand for 2020 by 400,000 bpd compared with its previous estimate. It stated that plans by OPEC and allies such as Russia to taper their production cut pact from January would mean much oil would remain in storage. The IEA said permanent refining capacity closures expected for 2020-2021 has increased to about 1.7 million bpd as the COVID-19 pandemic cuts demand for oil products. It stated that about a dozen refinery closures have been announced in the past few months, with the majority of capacity closures of over 1 million bpd happening in the United States.

According to several delegates, talks between OPEC and its allies are focusing on a delay to next year's planned oil output increase of three to six months. Saudi Arabia and Russia have already indicated that they are reconsidering easing production cuts in January as the resurgent pandemic hits fuel demand. OPEC and its allies are increasingly focused on maintaining the current cutbacks into early 2021. The alliance is currently cutting 7.7 million bpd or 8% of global output. The vaccine announced this week by Pfizer Inc. could revive fuel demand in mid-2021, allaying the need to pare supply further. However, the logistical challenges of deploying a vaccine to billions of people mean it won't materially alter oil-market conditions over the next six months, a delegate said. OPEC is also having to contend with the return of supply from members that are exempt from cutting production.

Early Market Call - as of 8:35 AM EDT

WTI - Dec $40.35, down 77 cents

RBOB - Dec $1.1296, down 2.75 certs

HO - Dec $1.2113, down 2.2 cents

All NYMEX | Prior Settlements

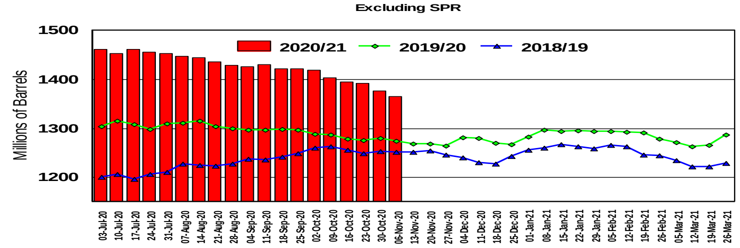
Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Dec-20	1.2333	-0.0125	-0.0637
Jan-21	1.2455	-0.0123	-0.0665
Feb-21	1.2582	-0.0120	-0.0702
Mar-21	1.2689	-0.0113	-0.0728
Apr-21	1.2748	-0.0106	-0.0732
May-21	1.2840	-0.0102	-0.0730
Jun-21	1.2938	-0.0098	-0.0722
Jul-21	1.3043	-0.0097	-0.0709
Aug-21	1.3146	-0.0098	-0.0697
Sep-21	1.3255	-0.0103	-0.0687
Oct-21	1.3369	-0.0102	-0.0683
Nov-21	1.3475	-0.0103	-0.0675
Dec-21	1.3560	-0.0105	-0.0666
Jan-22	1.3664	-0.0105	-0.0657
Feb-22	1.3728	-0.0106	-0.0643
Mar-22	1.3754	-0.0108	-0.0633
Apr-22	1.3739	-0.0109	-0.0621

	Close	Change
Crude - WTI	$41.4100	-$0.3300
Crude - Brent	$43.5300	-$0.2700
Natural Gas	$2.9760	-$0.0550
Gasoline	$1.1571	-$0.0188

Jan Brent-WTI Spread $2.12

Total U.S. Oil Stocks

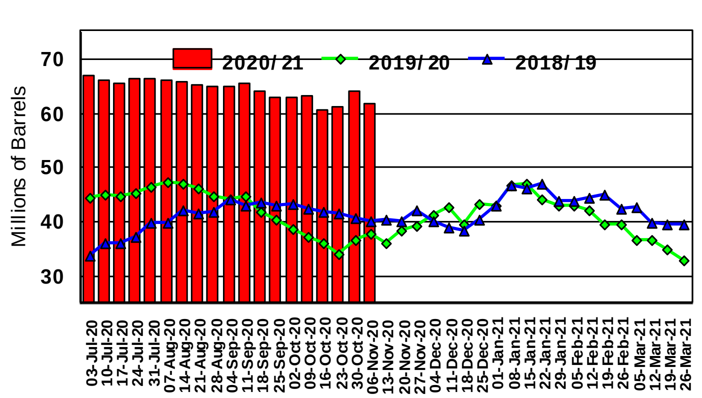
Excluding SPR



Weekly EIA Petroleum Status Report for the Week Ending November 6, 2020

Distillate Stocks

PADD #1



Overall U.S. Stats

Crude Oil Stocks(excluding SPR) Up 4.277 million barrels

Cushing, OK Crude Stocks Down 518,000 barrels

Gasoline Stocks Down 2.309 million barrels

Distillate Stocks Down 5.355 million barrels

Refinery % Operated 74.5%, Down 1.2%

PADD #1

Distillate Stocks (in million bbls)	Week Ending Nov 6, 2020	Week Ending Oct 30, 2020	Week Ending Nov 8, 2019
New England	12.9	12.9	7.1
Central Atlantic	34.9	35.7	17.2
Total PADD #1	61.6	63.9	37.7
Distillate Imports (thousands b/d)	119	307	212