MarketWatch | Refined Products

Wednesday, March 23, 2022

Market Commentary

Recap: Oil futures fell from session highs as the U.S. dollar strengthened and as it looked less likely that the European Union would pursue an embargo on Russian oil, a day after prices jumped 7%. European Union foreign ministers are split on whether to join the United States in banning Russian oil. Some countries, including Germany, say the bloc is too dependent on Russia's fossil fuels to withstand such a step. Persistent supply risks limited the move to the downside. Numerous factors are also helping to underpin prices including an on-going U.S. ban on Russian crude oil and oil products, threats to supply from the war in Ukraine, attacks by Yemen's Iran-aligned Houthi group on Saudi energy, and low U.S. supply. Optimism that talks for a ceasefire between Ukraine and Russia are beginning to wane, which is supportive for oil prices. April WTI fell 36 cents. Or 0.3%, to settle at $111.76 a barrel, while the new front month May contract lost 70 cents, or 0.6%, to $109.27 a barrel. May Brent fell 14 cents, or 0.12%, to $115.48 a barrel. Petroleum products finished mixed, with April RBOB falling 1.21%, to $3.3307 a gallon, while April heating oil rose 1.67%, to $386.42 a gallon.

Market Analysis: WTI reached our short term objective of $115 on Tuesday, with a lack of follow through prompting day traders to take light profits. We expect this market to continue to work higher, but not without running into some headwinds. The European Union is still split on whether to join the U.S. in banning Russian oil, while the U.S. dollar is showing signs of strength. A strong dollar is also making crude more expensive for other currency holders and tends to weigh on risk appetite. Resistance above $115 comes in at $116.57 and above that at $120. Support is set at $106.35 and below that at $104.50.

Fundamental News: The Saudi cabinet emphasized "the essential role" of OPEC+ agreement in bringing balance and stability to oil markets.

Vitol's Chief Executive, Russell Hardy, said the energy market shock following Russia's invasion of Ukraine could tip the world into an economic recession, especially if the war drags on. He said the Russian invasion of Ukraine and the related sanctions and boycotts have created an enormous shock in commodity markets and added that the world would have difficulty coping with a potential 2 million bpd loss of Russian oil. He added that "Diesel supplies in Europe are most concerning as half the imports come from Russia...rationing of diesel is a possibility." He said a transition away from Russian commodities will take 5-10 years.

Trafigura's Chief Executive, Jeremy Weir, said the market is down 2-2.5 million bpd of Russian oil, adding that the tight diesel market will be especially hard for Latin America and Africa to bear.

Mercuria's Chief Executive, Marco Dunand said Russia and Europe will be the biggest losers in the current energy and commodity crisis while the U.S. and Gulf countries will benefit. He said about 2-2.5 million bpd of Russian oil was likely to leave the market due to self-sanctioning and that more strategic releases may be in the pipeline. He said he would not be surprised to see a big release from the U.S. and more countries if oil reaches $120/barrel, adding that it could take 3-4 months for those barrels to reach the market.

Standard Chartered expects 2022 oil demand growth of less than 2 million bpd due to the impact on the Russian economy from the Ukrainian conflict and the lockdowns in China. It expects Russian output to fall sharply, removing the rationale for an OPEC+ agreement.

U.S. Energy Secretary, Jennifer Granholm, said the Biden administration believes producers will increase U.S. oil supply by the end of the year. Earlier this month, she urged any oil and gas company that can increase supply to do so quickly after President Joe Biden banned U.S. imports of Russian oil. Oil companies such as Chesapeake Energy and Occidental Petroleum have said that shortages of equipment, supplies and labor could limit growth in the short term.

Early Market Call - as of 8:00 AM EDT

WTI - Apr $112.78, up $3.52

RBOB - Apr $3.3898, up 6.02 cents

HO - Apr $3.8805, up 2.01 cents

All NYMEX | Prior Settlements

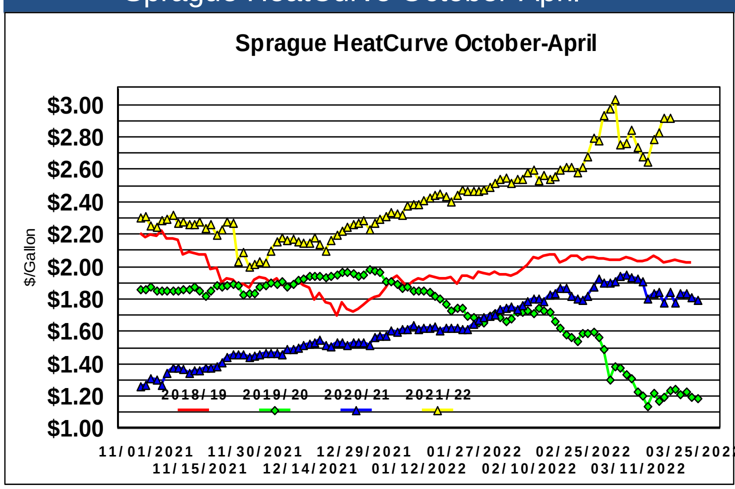
Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Apr-22	$3.8642	$0.0633	$0.8345
May-22	$3.5958	$0.0608	$0.6500
Jun-22	$3.3796	$0.0379	$0.4894
Jul-22	$3.2372	$0.0247	$0.3873
Aug-22	$3.1466	$0.0190	$0.3338
Sep-22	$3.0861	$0.0130	$0.2733
Oct-22	$3.0392	$0.0087	$0.2834
Nov-22	$2.9951	$0.0072	$0.2646
Dec-22	$2.9546	$0.0064	$0.2490
Jan-23	$2.9191	$0.0051	$0.2352
Feb-23	$2.8864	$0.0048	$0.2246
Mar-23	$2.8511	$0.0039	$0.2156
Apr-23	$2.8147	-$0.0009	$0.2087
May-23	$2.7829	-$0.0050	$0.1995
Jun-23	$2.7571	-$0.0054	$0.1900
Jul-23	$2.7404	-$0.0061	$0.1819
Aug-23	$2.7264	-$0.0060	$0.1759
Sprague HeatCurve October 2022-April 2023			$2.9169

		Close	Change
Crude - WTI	May Brent-WTI Spread $6.21	$109.2700	-$0.7000
Crude - Brent		$115.4800	-$0.1400
Natural Gas		$5.1870	$0.2870
Gasoline		$3.3307	-$0.0409

API Report for the Week Ending March 18, 2022

	Actual	Mkt Expectations
Crude Oil Stocks(exl SPR)	Down 4.3 million barrels	Up 100,000 barrels
Gasoline Stocks	Down 626,000 barrels	Down 2.0 million barrels
Distillate Stocks	Up 826,000 barrels	Down 1.4 million barrels
Refinery Runs		Unchanged, 90.4%%

Sprague HeatCurve October-April



8-14 Day Weather Forecast