



MarketWatch | Refined Products

Friday, February 26, 2021

Market Commentary

Recap: Just one day after hitting their highest close in more than a year, WTI extended its gains, with April WTI reaching toward \$64 a barrel, as U.S. crude oil inventories have fallen 40 million barrels over the last three weeks, with cold weather demand for heating fuels offsetting a rise in gasoline and crude stockpiles. Signs of a recovery in demand, following positive U.S. economic data also provided support to the U.S. oil sector. April WTI added 31 cents, or 0.5%, to settle at \$63.53 a barrel, the highest settlement for a front month since May 1, 2019. The Brent market came under pressure, as speculation OPEC and other major producers may potentially increase production. After three straight days of gains, Brent futures fell from 13-month highs, with April Brent losing 16 cents, or 0.2%, to settle at \$66.88 a barrel, May the most actively traded contract, fell 7 cents, or 0.1%, to settle at \$66.11 a barrel. March RBOB fell 0.2%, to close at \$1.8923 a gallon, while March heating oil lost 0.1%, to close at \$1.9066 a gallon.

Technical Analysis: The shape of the forward curve for WTI continues to signify tightness. The market is in a backwardation of just over \$6 a barrel for the next 12 months, and since September 2020, spot WTI versus that of six months out has gone from -\$2.75 to trading above \$3.00, indicating tightening supplies. With OPEC+ expected to increase output and the weather related production disruption in Texas being a temporary issue, we could see the backwardation start to narrow. WTI may be a bit overextended at this point, especially as WTI get closer to the \$65 level, where there has been quite a bit of selling before. We would not be surprised to see a pullback, but are not overjoyed about shorting this market, which may change with a push below \$59.

Fundamental News: ING analysts said U.S. crude stocks could rise in weeks ahead as production has recovered fairly quickly while refinery capacity is expected to take longer to return to normal.

Barclays increased its 2021 oil price forecast, citing weaker than expected supply response from U.S. producers to higher prices and normalizing inventories after last week's cold storm in Texas. The bank increased its 2021 Brent crude oil price outlook by \$7 to \$62/barrel and West Texas Intermediate crude price estimate by \$6 to \$58/barrel.

Bank of America said that oil prices are expected to increase by the fastest pace in the next three years. The average price of Brent crude over the next five years will be between \$50 and \$70/barrel. The bank also said OPEC+ may decide to reverse its production cuts now that Brent is trending above \$60/barrel but added that a slow return of U.S. shale to international markets may lead to an extension of the production cut agreement to make sure prices remain high.

The U.S. Commerce Department reported that U.S. GDP in the fourth quarter was revised up slightly to a 4.1% increase from a previous estimate of 4%. For the year as a whole, the economy contracted 3.5% in 2020, unchanged from a previous reading.

The Commerce Department said orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, increased by 0.5% in January. These so-called core capital goods orders increased 1.5% in December. Orders surged 8.3% year-on-year in January, underpinning manufacturing, which accounts for 11.9% of the U.S. economy. Orders for durable goods, increased by 3.4% in January after rising 1.2% in December.

The U.S. Labor Department reported that initial claims for state unemployment benefits totaled a seasonally adjusted 730,000 in the week ending February 20th.

Early Market Call - as of 8:58 AM EDT

WTI - Apr \$62.50 down \$1.03

RBOB - Mar \$1.8761 down 1.62 cents

HO - Mar \$1.8766 down 3.00 cents

All NYMEX | Prior Settlements

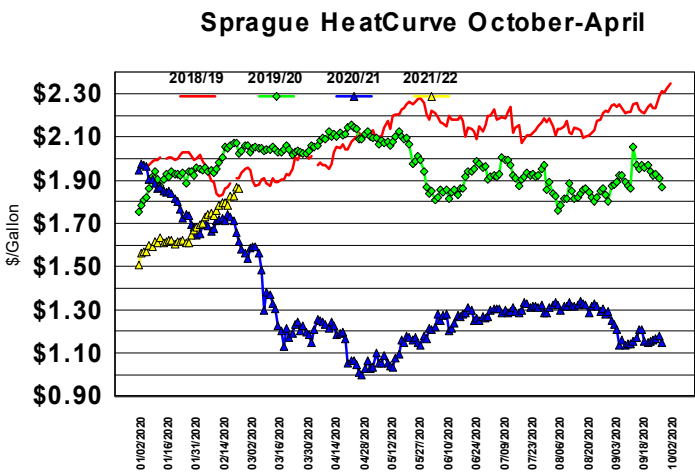
Month	ULSD (HO)	Prior Settle	Change In
	Close	Change	One Week
Mar-21	1.9066	-0.0017	-0.0702
Apr-21	1.8979	-0.0021	-0.0751
May-21	1.8869	-0.0026	-0.0748
Jun-21	1.8791	-0.0032	-0.0733
Jul-21	1.8745	-0.0034	-0.0719
Aug-21	1.8720	-0.0034	-0.0711
Sep-21	1.8721	-0.0030	-0.0703
Oct-21	1.8725	-0.0033	-0.0694
Nov-21	1.8729	-0.0030	-0.0694
Dec-21	1.8717	-0.0026	-0.0691
Jan-22	1.8709	-0.0025	-0.0683
Feb-22	1.8666	-0.0024	-0.0679
Mar-22	1.8561	-0.0022	-0.0672
Apr-22	1.8388	-0.0018	-0.0661
May-22	1.8277	-0.0011	-0.0652
Jun-22	1.8192	-0.0002	-0.0646
Jul-22	1.8171	0.0003	-0.0647

Sprague HeatCurve October 2021-April 2022		\$1.0000	
	Close	Change	
Crude - WTI	Apr Brent-	\$63.5300	\$0.3100
Crude - Brent	WTI Spread	\$66.8800	-\$0.1600
Natural Gas	\$3.35	\$2.7770	-\$0.0180
Gasoline		\$1.8923	-\$0.0033

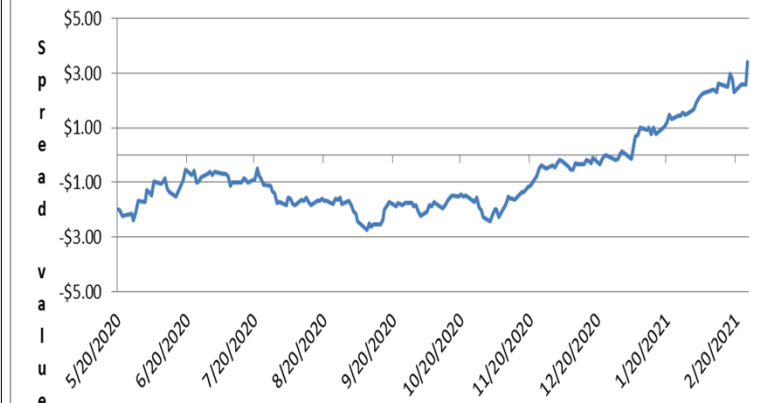
EIA Working Gas Storage Report

	19-Feb-21	12-Feb-21	Change	19-Feb-2020
East	424	485	-61	496
Midwest	508	589	-81	605
Mountain	123	137	-14	111
Pacific	218	244	-26	197
South Central	670	826	-156	832
Salt	150	233	-83	248
Nonsalt	520	593	-73	586
Total	1,943	2,281	-338	2,241

Sprague HeatCurve October-April



Spot WTI vs Six Months Out



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