MarketWatch | Refined Products

Monday, October 10, 2022

Market Commentary

<u>Recap</u>: Oil futures climbed for a fifth session in a row on Friday, with prices for the front-month U.S. contract ending 16.5% higher for the week. Oil prices had been weighed down by fears of a weakening global economy, however, OPEC+'s decision to cut output by 2 million barrels per day showed that the group was ready to defend prices despite political and central bank opposition from the U.S. and other countries. WTI for November delivery gained $4.19 per barrel, or 4.74% to $92.64, up for two consecutive weeks and the largest one week net and percentage gain since the week ending March 4, 2022. ICE Brent Crude for December delivery gained $12.78 per barrel, or 15.01% to $97.92 this week, also the largest one week net and percentage gain since the week ending March 4, 2022. For the session this front month contract was up $3.50 or 3.71%. RBOB Gasoline for November delivery gained 36.48 cents per gallon, or 15.39% to $2.7346 this week, up 35.16 cents or 14.75% over the last two weeks and for the session closed up 5.32 cents or 1.98%. ULSD for November delivery gained 79.71 cents per gallon, or 24.74% to $4.0187 this week, up for three consecutive weeks. For Friday's session it was up 15.38 cents or 3.98%.

<u>Market Analysis</u>:OPEC's latest controversial decision to cut production signals that the cartel has a new price floor for crude one that might upset the U.S. government but should be very lucrative for oil producers. A few years ago, OPEC had seemed comfortable with oil prices trading in a lower range, around $60 or $70 per barrel. OPEC didn't collectively cut its oil output in 2015 and most of 2016 even as oil prices traded around $50 for much of that period, for instance. Part of that may be because Saudi Arabia's ambitions have changed since then, with Crown Prince Mohammed bin Salman undertaking expensive public works projects. More oil revenue is needed to fund those projects, and if prices crash they won't be possible. OPEC says it is getting ahead of global economic weakness that will cause oil demand to fall and hurt prices. Another reason that OPEC seems comfortable cutting production to push prices higher is that the cartel is less concerned with losing market share than it was in the past. In 2015, Saudi Arabia boosted production to take back market share from U.S. shale producers, which had quickly grown production and begun challenging the Middle East's dominance over oil. But today, Saudi Arabia is much less worried about losing market share, even though shale production is higher than it was in 2015. U.S. producers are growing production slowly; because they're trying to assuage investors who would rather they spend money on dividends than on drilling new wells. OPEC officials have even been urging non-OPEC producers to explore more to make up for an expected drop in production in the future. OPEC's production cut is resonating throughout the oil market. A price floor around $90 is incredibly lucrative for U.S. and European oil producers, who are on track to make more than $500 billion in free cash flow this year. All that said, the economic rationale for the cut is now being overshadowed by the political implications and the price impacts of some of the moves being contemplated are much harder to predict. Several U.S. lawmakers see OPEC's cut as a provocation to the U.S. and Europe, and a sign of a growing alliance between Saudi Arabia and Russia, which is coordinating with OPEC on oil production.

<u>Fundamental News</u>: The Department of Energy said the United States has sold a 10.15 million barrel batch of oil from the SPR to eight companies. Companies receiving SPR oil were Equinor Marketing and Trading, Marathon Petroleum Supply and Trading LLC, Valero Marketing and Supply Company, Motiva Enterprises, Macquarie Commodities and Trading US LLC, Atlantic Trading & Marketing Inc, Phillips 66 Company, and Shell Trading Company. The administration has now sold about 165 million barrels, the largest ever from the SPR, since May. Deliveries will take place in November. The Biden administration has said more oil sales from the SPR could be undertaken in the wake of a decision this week by OPEC+, a group that includes Saudi Arabia and Russia, to cut oil output by 2 million bpd.

OPEC Secretary General, Haitham al-Ghais, said spare oil production capacity freed up by the latest OPEC+ cuts to output targets could allow the alliance to intervene in the event of any crises in oil markets. On Wednesday, OPEC+ agreed to a supply target cut of 2 million bpd, which Saudi Arabia said was necessary to respond to rising interest rates in the West and a weaker global economy.

IIR Energy reported that U.S. oil refiners are expected to shut in 1.6 million bpd of capacity in the week ending October 7th, cutting available refining capacity by 401,000 bpd. Offline capacity is expected to increase to 1.7 million bpd in the week ending October 14th.

U.S. energy firms this week cut the number of oil and natural gas rigs operating for the first time in four weeks. Baker Hughes reported that the U.S. oil and gas rig count fell by three to 762 in the week ending October 7th, the lowest since early September. It reported that oil rigs fell by two on the week to 602, while gas rigs fell by one to 158.

According to Refinitiv data, European gasoline exports so far in October stand at 570,000 tons. This compares with 2.2 million tons for all of September and 2 million tons in August.

<u>Early Market Call - as of 8:30 AM EDT</u>

WTI - November $92.27 Down $0.34

RBOB - November $2.7110 Down 0.0245

HO - November $3.9944 Down 0.0247

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Nov-22	4.0187	0.1538	0.7971
Dec-22	3.786	0.1153	0.659
Jan-23	3.6736	0.1051	0.6001
Feb-23	3.5695	0.094	0.5528
Mar-23	3.4616	0.0847	0.5153
Apr-23	3.3477	0.0787	0.4807
May-23	3.2514	0.075	0.4439
Jun-23	3.1711	0.074	0.4054
Jul-23	3.1225	0.0744	0.3759
Aug-23	3.0886	0.0757	0.3569
Sep-23	3.0619	0.0774	0.3434
Oct-23	3.0346	0.0767	0.3285
Nov-23	3.0062	0.0762	0.3136
Dec-23	2.9779	0.0775	0.297
Jan-24	2.9476	0.0775	0.282
Feb-24	2.9272	0.0769	0.2749
Mar-24	2.9034	0.0763	0.2723
Sprague HeatCurve October 2023-April 2024			**$2.9485**

		Close	Change
Crude - WTI	**Dec Brent-WTI Spread $6.57**	$91.3500	$3.7600
Crude - Brent		$97.9200	$3.5000
Natural Gas		$6.7480	-$0.2240
Gasoline		$2.7346	$0.0532

Commitment of Traders Report for the Week Ending October 4, 2022