

Market Commentary

All NYMEX | Prior Settlements

Recap: Oil prices climbed on Thursday, holding near 10-week highs, supported by lower U.S. crude oil inventories, production cuts and recovering demand as governments ease restrictions imposed on people's movements due to the coronavirus pandemic. So far this month, WTI has rallied 80%, while Brent climbed 43%. Prices, however, finished off the day's highs, pressured by profit-taking on the heels of oil's sharp climb, as well as uncertainty over the rate of demand recovery as well as U.S.-China trade tensions. July WTI rose 43 cents, or 1.3%, to settle at \$33.92 a barrel, down from a session high of \$34.66. Meanwhile, Brent crude for July delivery added 31 cents, or 0.9%, to settle at \$36.06 a barrel. This was the highest for both WTI and Brent since March 10. June RBOB finished up by 0.1% to \$1.0451 a gallon and June heating oil shed 0.2% to 98.90 cents a gallon.

Technical Analysis: Oil prices have made significant gains since bottoming out in April. As a result, WTI may be approaching the point where U.S. shale production begins to edge up, as low cost producers attempt to recoup revenue. This could work to keep a lid on prices, leading to a pullback. Should prices fall below the 50-day moving average currently set at \$27.35, we should see a short term shift to the downside. Below \$27.35, additional support is set at \$25.00. Resistance is set at \$34.72, and \$40.11 the 38% and 50% retracements set by the January high of \$62.75 and the April low of \$17.27.

Fundamental News: US crude oil production is expected to fall by about 1.75 million bpd from recent levels by early June. IHS Markit said operating cash losses, a lack of demand and storage capacity and no interest in giving away oil all played role in the expected decline in oil production. According to IHS Markit, much of the reduced production will return in the summer and fall if the price is right. The resumption of production may accelerate if WTI remains above \$30/barrel. However, about one third of the volumes about 550,000 bpd will remain out of the market for the long term or at least until WTI prices remain above \$50/barrel. Analysts expect about 1.4 million bpd of daily production from US shale oil regions to be shut in, along with about 550,000 barrels produced from stripper wells that produce five bpd or less.

The US EPA reported that the US generated 357 million biodiesel blending credits in April compared with 371 million in March. It also reported that the US generated 645 million ethanol blending credits in April, down from 1.14 billion in March.

Genscape reported that crude oil stocks held in Cushing, Oklahoma in the week ending Tuesday, May 19th fell by 3,440,583 barrels and by 1,231,994 barrels from Friday, May 15th to 58,627,897 barrels.

The Trump administration granted royalty relief to several drilling companies producing oil and gas on federal lands in recent weeks. The US Bureau of Land Management approved royalty rate cuts on at least 76 federal drilling leases in the state of Utah in recent weeks. The cuts in many cases lower royalty rates companies must pay on the value of their production from the usual 12.5% to 5%.

Millions more Americans filed for unemployment benefits last week as backlogs continue to be cleared and disruptions from the coronavirus unleash a second wave of layoffs. The US Labor Department reported that initial claims for state unemployment benefits totaled a seasonally adjusted 2.438 million in the week ending May 16th.

IHS Markit's flash Composite Purchasing Managers' Index in May increased to 36.4 from 27 in April. IHS Markit's flash Services PMI in May increased to 36.9 from 26.7 in April, while its flash Manufacturing PMI increased to 39.8 in May from 36.1 in April. Its flash composite new orders index for May increased to 36.1 from 26.4 in April.

Early Market Call - as of 8:55 AM EDT

WTI - July \$32.65, down \$1.27

RBOB - June \$1.0204, down 2.47 cents

HO - June \$9727, down 1.63 cents

| Month | ULSD (HO) | Prior Settle | Change In |
|--------|-----------|--------------|-----------|
| | Close | Change | One Week |
| Jun-20 | 0.9890 | -0.0016 | -0.0942 |
| Jul-20 | 1.0315 | -0.0054 | -0.1016 |
| Aug-20 | 1.0678 | -0.0066 | -0.1051 |
| Sep-20 | 1.1011 | -0.0066 | -0.1063 |
| Oct-20 | 1.1256 | -0.0071 | -0.1029 |
| Nov-20 | 1.1448 | -0.0071 | -0.1004 |
| Dec-20 | 1.1596 | -0.0065 | -0.0995 |
| Jan-21 | 1.1750 | -0.0060 | -0.0990 |
| Feb-21 | 1.1886 | -0.0054 | -0.0990 |
| Mar-21 | 1.1990 | -0.0052 | -0.0990 |
| Apr-21 | 1.2039 | -0.0055 | -0.0973 |
| May-21 | 1.2107 | -0.0058 | -0.0928 |
| Jun-21 | 1.2198 | -0.0057 | -0.0888 |
| Jul-21 | 1.2358 | -0.0057 | -0.0857 |
| Aug-21 | 1.2505 | -0.0058 | -0.0830 |
| Sep-21 | 1.2621 | -0.0059 | -0.0807 |
| Oct-21 | 1.2719 | -0.0058 | -0.0791 |

| Sprague Heat Weighted Strip October -April 20/2021 | | \$1.1741 |
|--|-----------|-----------|
| | Close | Change |
| Crude - WTI | \$33.9200 | \$0.4300 |
| Crude - Brent | \$36.0600 | \$0.3100 |
| Natural Gas | \$1.7100 | -\$0.0610 |
| Gasoline | \$1.0451 | \$0.0013 |

EIA Working Gas Storage Report

| | 15-May-20 | 08-May-20 | Change | Year Ago |
|---------------|-----------|-----------|--------|----------|
| East | 469 | 452 | 17 | 346 |
| Midwest | 576 | 554 | 22 | 356 |
| Mountain | 124 | 117 | 7 | 87 |
| Pacific | 253 | 240 | 13 | 183 |
| South Central | 1,081 | 1,059 | 22 | 753 |
| Salt | 345 | 340 | 5 | 246 |
| Nonsalt | 737 | 719 | 18 | 507 |
| Total | 2,503 | 2,422 | 81 | 1,724 |

Sprague HeatCurve October-April

ICE July Brent-WTI Spread

