MarketWatch | Refined Products

Tuesday, March 10, 2020

Market Commentary

Recap: Oil futures plunged to a four-year low Monday, suffering their biggest one-day drop since the Gulf War in 1991 as OPEC and Russia appear headed for an all-out price war — shaking a market already reeling from the demand shock created by global spread of COVID-19. After gapping lower on the opening, oil prices continued to slip, with April WTI failing as much as $13.94, or 33.7%, hitting a session low of $27.34 a barrel before recouping some of its losses for a settlement of $31.13 a barrel, down $10.15, or 24.6%. May Brent fell $14.25, or 31.4%, to a low of $31.02 a barrel before paring losses to settle at $34.36 a barrel, down $10.91, or 24.1%. April RBOB dropped 18.2 % to finish at $1.1369 a gallon, while April heating oil declined 16.1% to $1.1629 a gallon.

Technical Analysis: WTI gapped lower on the opening, crashing below the $35.00 level, to reach a low of $27.35 before bouncing back above $30.00. The top of the gap, set at $41.05 will now represent a level of support, and as with all gaps, we should see an attempt to fill it, as feeble as it may be. Breaks above the $41.00 level could lead to a push toward $45.00. To the downside, there will be psychological support at $25.00 and below that at $20.00.

Fundamental News: Saudi Arabia plans to raise its crude oil production significantly above 10 million bpd in April, after the collapse of the OPEC supply cut agreement with Russia. Saudi Aramco will increase its crude oil output after the current OPEC+ cut deal expires at the end of March.

Russia's Energy Ministry said the country's oil sector will remain competitive and keep its share of the market regardless of price forecasts. Russia's Energy Minister, Alexander Novak, said the fall in oil prices would not impact the country's oil sector.

The IEA reported that global oil demand is set to contract in 2020 for the first time in more than a decade as global economic activity stalls due to the coronavirus. The sharp downward revision in demand expectations came as oil prices fell by more than 25% and were set for the largest one-day fall in 29 years after Saudi Arabia ignited a crude oil price war in the market. The IEA expects oil demand to be 99.9 million bpd in 2020, lowering its annual forecast by almost 1 million bpd and signaling a contraction of 90,000 bpd, the first time demand will have fallen since 2009. It said that in an extreme scenario where governments fail to contain the spread of the coronavirus, consumption could fall by up to 730,000 bpd. Following the 2020 demand shock, however, the IEA expects oil consumption to increase by 2.1 million bpd in 2021. The IEA kept its forecast for global oil supplies largely unchanged, with production capacity set to increase by 5.9 million bpd by 2025, marginally outpacing demand. Meanwhile, the IEA's Executive Director, Fatih Birol, urged producers to "behave responsibly "in the face of the coronavirus outbreak, after the deal on output restraint between OPEC and non-OPEC producers collapsed last week. He stated that "playing Russian roulette in oil markets may well have grave consequences," adding that oil prices below $25/barrel would lead to stop in new US shale development. He said the agency sees the potential for an oil overhang of 3.5 million bpd in the first quarter due to the coronavirus outbreak.

Goldman Sachs cut its second and third quarter Brent price forecasts to $30/barrel, citing the price war between Russia and Saudi Arabia and a significant collapse in oil demand due to the coronavirus that has killed more than 3,500 globally. Oil prices fell on Monday after Saudi Arabia started a price war with Russia but cutting its selling prices and pledging to increase its supply. The bank said the prospect of inventory draws would help prices to rebound to $40/barrel by the end of the year.

Early Market Call - as of 9:05 AM EDT
WTI - Apr $33.73, up $2.61
RBOB - Apr $1.1868, up 4.94 cents
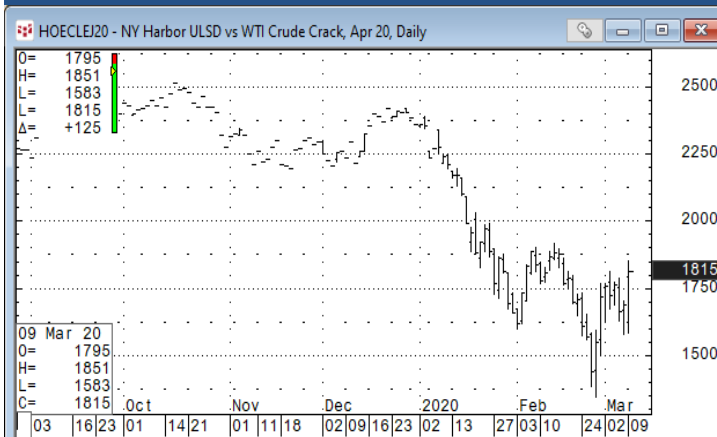HO - Apr $1.2440, up 8.1 cents

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Apr-20	1.1629	-0.2223	0.3658
May-20	1.1644	-0.2177	0.3579
Jun-20	1.1721	-0.2147	0.3492
Jul-20	1.1891	-0.2085	0.3366
Aug-20	1.2083	-0.2037	0.3277
Sep-20	1.2287	-0.1998	0.3203
Oct-20	1.2487	-0.1963	0.3126
Nov-20	1.2677	-0.1925	0.3041
Dec-20	1.2852	-0.1886	0.2949
Jan-21	1.3021	-0.1849	0.2861
Feb-21	1.3157	-0.1817	0.2774
Mar-21	1.3261	-0.1790	0.2686
Apr-21	1.3315	-0.1749	0.2599
May-21	1.3415	-0.1713	0.2521
Jun-21	1.3530	-0.1672	0.2444
Jul-21	1.3693	-0.1632	0.2366
Aug-21	1.3849	-0.1601	0.2299

Other Front Month NYMEX	Close	Change
Crude - WTI	$31.4700	-$10.0400
Crude - Brent	$34.3600	-$10.9100
Natural Gas	$1.7780	$0.0007
Gasoline	$1.1369	-$0.2521

May Brent-WTI Spread $2.89

ICE May Brent-WTI Spread
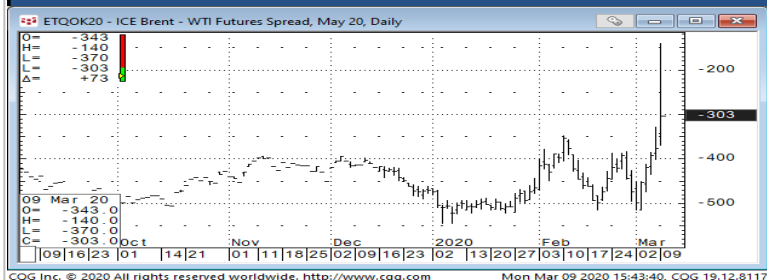
April Heating Oil Crack Spread

April RBOB Crack Spread