MarketWatch | Refined Products

Friday, December 2, 2022

Market Commentary

Recap: Oil futures rose on Thursday after China eased COVID restrictions in two major cities, while the U.S. dollar slumped on the view that the Federal Reserve might slow down on interest rate hikes. The shift in China's zero-COVID strategy raised optimism about a recovery in oil demand there. The cities of Guangzhou and Chongqing announced an easing of COVID curbs on Wednesday. The dollar index slumped to its lowest since August after the U.S. Federal Reserve Chair Jerome Powell said rate hikes could slow this month. A weaker dollar makes oil cheaper for other currency holders. Crude prices were also supported by hopes of another potential output cut from the Organization of the Petroleum Exporting Countries (OPEC) and allies, a group known as OPEC+, which meets on Dec. 4. WTI for January delivery gained 67 cents per barrel, or 0.83% to $81.22, while Brent Crude for February (new front month) delivery lost nine cents per barrel, or 0.10% to $86.88. RBOB Gasoline for January (new front month) delivery lost 4.27 cents per gallon, or 1.79% to $2.3420. ULSD for January (new front month) delivery lost 10.11 cents per gallon, or 3.01% to $3.2624.

Technical Analysis: While oil prices nosedived in November, some contracts for future delivery of crude appreciated slightly, evidence that short-term factors prompted the month's slide. WTI declined 6.3% in November, its second-worst month of the year. But the decline was highly concentrated at the front end of the WTI futures curve: Contracts for January 2023 delivery dropped $2.73 per barrel, while July 2023 futures gained $2.22. Short-term factors appear to have driven the disparity in performance:

-- A surge of COVID cases and new lockdowns in China that may weigh on economic activity and oil demand in the coming months.

-- French refinery strikes that took place in October resulted in a 25 million barrel overhang of crude in Europe that the continent is still chewing through.

-- Some analysts believe that the collapse in front futures prices relative to later contracts was exacerbated by a misapprehension by some market participants

Fundamental News: Genscape reported that U.S. crude oil stocks held in Cushing, Oklahoma in the week ending Tuesday, November 29th fell by 123,985 barrels on the week and increased by 34,413 barrels from Friday, November 25th to 27,681,329 barrels.

A European Union diplomat said European Union governments tentatively agreed on Thursday on a $60/barrel price cap on Russian seaborne oil, with an adjustment mechanism that is to keep the cap at 5% below the market price. The diplomat said Poland has until later on Thursday to agree to the deal, which would need to be approved by all EU governments in a written procedure by Friday. The initial G7 proposal last week was for a price cap of $65-$70/barrel with no adjustment mechanism.

Russian Foreign Minister, Sergei Lavrov, said that Moscow was not interested in the level of the proposed European Union and G7 cap on Russian oil prices since Russia would agree deals with buyers directly. He reiterated Russia's position that Moscow would not supply oil to countries that supported such a price cap.

Chevron Corp's CEO, Mike Wirth, said oil prices in the near term are more likely to increase than fall given supply risks.

OPEC+ is widely expected to stick to its latest target of reducing oil production by 2 million bpd when it meets on Sunday, but some analysts believe that crude prices could fall if the group does not make further cuts. OPEC+ has switched its planned in-person meeting in Vienna on December 4th to a virtual one, which sources in the group say signals the likelihood of it leaving policy unchanged. However, some analysts are not ruling out a surprise, and warn that with the current oversupply in the market, OPEC+ risks a collapse in the oil price if it doesn't cut its output targets further at the meeting.

Early Market Call - as of 8:15 AM EDT
WTI - January $81.86, up 63 cents
RBOB - January $2.3530, up 1.10 cents
HO - January $3.3035, up 4.11 cents

All NYMEX | Prior Settlements

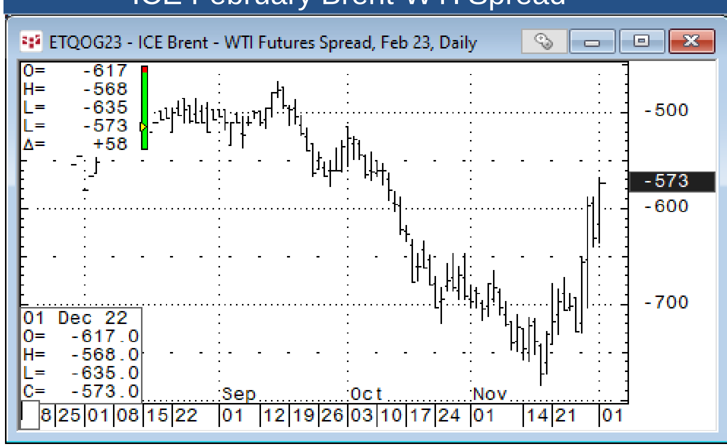
Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Jan-23	3.2624	-0.1011	-0.0144
Feb-23	3.2129	-0.0814	0.0115
Mar-23	3.1383	-0.0742	0.0187
Apr-23	3.0559	-0.0676	0.0256
May-23	2.9925	-0.0621	0.0311
Jun-23	2.9475	-0.0561	0.038
Jul-23	2.9233	-0.0518	0.0419
Aug-23	2.9053	-0.0489	0.0437
Sep-23	2.8913	-0.0468	0.0443
Oct-23	2.8782	-0.0462	0.0453
Nov-23	2.8641	-0.0464	0.0467
Dec-23	2.8487	-0.0468	0.0466
Jan-24	2.8324	-0.0471	0.048
Feb-24	2.8153	-0.0471	0.0501
Mar-24	2.7874	-0.0471	0.0518
Apr-24	2.753	-0.047	0.0533
May-24	2.7292	-0.0473	0.0554
Sprague HeatCurve October 2023-April 2024			**$2.8250**

		Close	Change
Crude - WTI	Feb Brent-WTI Spread $5.74	$81.1400	$0.4800
Crude - Brent		$86.8800	-$0.0900
Natural Gas		$6.7380	-$0.1920
Gasoline		$2.3420	-$0.0427

EIA Working Gas Storage Report

	25-Nov-22	18-Nov-22	Change	25-Nov-21
East	840	866	-26	870
Midwest	1040	1063	-23	1,046
Mountain	197	203	-6	207
Pacific	226	232	-6	263
South Central	1181	1200	-19	1,187
Salt	314	318	-4	335
Nonsalt	867	882	-15	852
Total	3483	3564	-81	3,572

ICE February Brent-WTI Spread



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Sprague HeatCurve October-April