MarketWatch | Refined Products

Tuesday, April 4, 2023

Market Commentary

Recap: The oil market surged higher on Monday after OPEC and its allies, including Russia, surprised the market with an announcement on Sunday that it is cutting its production target by a further 1.16 million bpd starting in May. OPEC+, had been expected at its monthly meeting on Monday to stick with its previous decision to target output cuts of 2 million bpd until December. The crude market gapped higher from $75.72 to $80.10 on the OPEC+ news and immediately rallied over $6.02 to a high of $81.69. The market retraced some of its gains and partially backfilled its opening gap as it posted a low of $79.00 in overnight trading. The market later bounced off its low and settled in a sideways trading pattern for much of the day. The May WTI contract settled up $4.75 at $80.42 and the June Brent contract settled up $5.04 at $84.93. The product markets also ended the session higher, with the heating oil market settling up 4.2 cents at $2.6626 and the RB market settling up 7.65 cents at $2.7575.

Technical Analysis: The crude oil market is seen remaining well supported by the surprising OPEC+ decision to cut its production further starting in May. While the market may attempt to backfill its opening gap, the market's losses will remain limited. The market is seen finding support at $80.00, its gap from $79.00 to $75.72, $75.07, followed by more distant support at $73.77, $73.03, $72.61, $72.19 and $70.98. Resistance is seen at its high of $81.69, $82.64 and $83.34. More distant resistance is seen at $85.45 and $87.51.

Fundamental News: On Sunday, Saudi Arabia and other OPEC+ oil producers announced voluntary cuts to their production, with Riyadh saying it would cut output by 500,000 bpd from May until the end of 2023. The Saudi Energy Ministry said in a statement that the kingdom's voluntary cut was a precautionary measure aimed at supporting the stability of the oil market. Russia's Deputy Prime Minister, Alexander Novak, also said Russia would extend a voluntary cut of 500,000 bpd until the end of 2023. He said that OPEC+ had agreed on voluntary production cuts in order to stabilize "volatile" markets, and that there was a surplus of oil in the global market. The United Arab Emirates, Kuwait, Iraq, Oman and Algeria said they would voluntarily cut output over the same time period. The UAE said it would cut production by 144,000 bpd, while Kuwait announced a cut of 128,000 bpd starting in May and Iraq's Oil Ministry said the country would cut output by 211,000 bpd from May until the end of the year. Oman announced a cut of 40,000 bpd. Algeria's Energy Ministry said it would cut its output by 48,000 bpd until the end of 2023. Kazakhstan's Energy Ministry said the country will voluntarily cut its oil output by 78,000 bpd from May until the end of 2023 in coordination with other OPEC+ members.

Analysts and traders said the OPEC+ group's surprise additional production cuts could push oil prices back towards $100/barrel, tighten the market and encourage refiners to diversify supplies. Rystad Energy said it believed the cuts will add to tightness in the oil market and lift prices above $100/barrel for the rest of year, possibly taking Brent as high as $110 this summer. UBS also expects Brent to reach $100/barrel by June, while Goldman Sachs raised its Brent price forecast for December 2023 by $5 to $95/barrel, and that for December 2024 by $3 to $100/barrel. Goldman said SPR releases in the United States and in France, due to ongoing strikes, as well as Washington's refusal to refill its SPR in the 2023 fiscal year, may have prompted the OPEC+ action. Meanwhile, J.P. Morgan analysts said Brent oil prices could still end the year at $96/barrel, adding they view the surprise OPEC supply target cuts as a "preemptive measure" to assure that surpluses in the market do not extend into the second half of 2023. Citigroup said the move by Saudi Arabia and other OPEC+ oil producers to further cut oil output will likely tighten oil markets. It said the surprise move by OPEC+ is more likely to affect immediate oil prices more than long-dated prices. UBS said an additional 1.15 million bpd cut from OPEC+ will mean there will be a deficit rather than a surplus in the second quarter of 2023 of about 300,000 bpd and a deficit of about 2 million bpd in the third quarter. It said the cuts by OPEC+ members certainly reinforce downside protection for oil prices.

Early Market Call - as of 8:35 AM EDT

WTI - May $81.07, up 64 cents

RBOB - May $2.7519, down 56 points

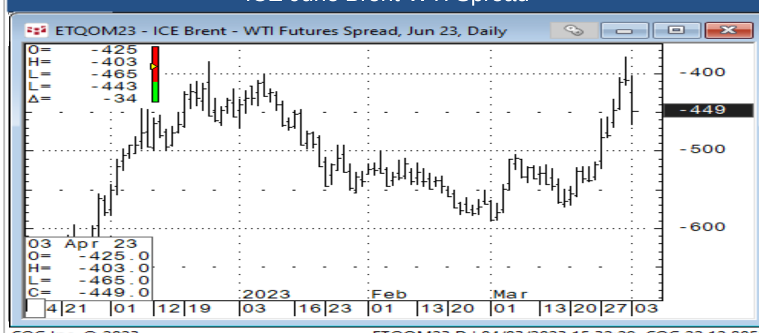
HO - May $2.6796, up 1.7 cents

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
May-23	2.6626	0.0420	0.0111
Jun-23	2.6183	0.0513	0.0468
Jul-23	2.6106	0.0566	0.0623
Aug-23	2.6084	0.0596	0.0669
Sep-23	2.6087	0.0613	0.0682
Oct-23	2.6069	0.0612	0.0675
Nov-23	2.5996	0.0601	0.0642
Dec-23	2.5888	0.0583	0.0602
Jan-24	2.5802	0.0567	0.0551
Feb-24	2.5693	0.0553	0.0502
Mar-24	2.5525	0.0533	0.0453
Apr-24	2.5283	0.0501	0.0400
May-24	2.5137	0.0458	0.0352
Jun-24	2.5013	0.0416	0.0305
Jul-24	2.4964	0.0399	0.0271
Aug-24	2.4915	0.0381	0.0241
Sep-24	2.4842	0.0344	0.0200
Sprague HeatCurve October 2023-April 2024			**$2.5613**

		Close	Change
Crude - WTI	May Brent-WTI Spread $4.49	$80.4400	$4.6400
Crude - Brent		$84.9300	$5.0400
Natural Gas		$2.0970	-$0.1190
Gasoline		$2.7575	$0.0765

ICE June Brent-WTI Spread



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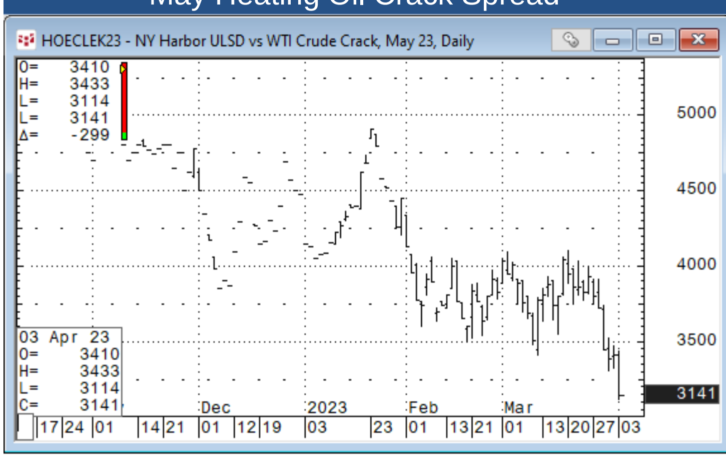
May Heating Oil Crack Spread



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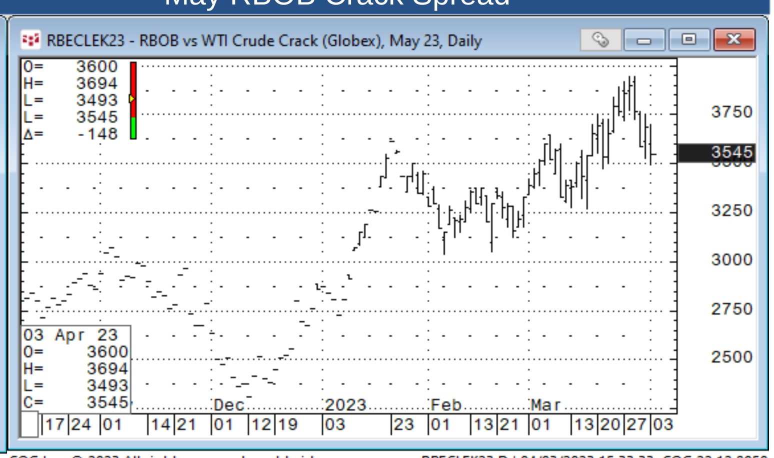
May RBOB Crack Spread



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