

Market Commentary

Recap: After reaching fresh seven year highs on Thursday, oil futures pulled back, as traders appeared to be taking profits amid concerns around global economic growth. Rising coronavirus cases in Eastern Europe and Russia have led to the resurgence of lockdowns, threatening the global economic recovery that has been an accelerator for oil prices. As winter approaches, worldwide economic lockdowns hamper the bullish outlook for oil demand. In a sign of market tightness, WTI futures are currently in steep backwardation, where later-dated contracts trade at a lower price than the current contracts. Normally, later months trade at a higher price, reflecting the costs of storing oil. The steep backwardation encourages companies to sell oil sooner rather than hold it in storage. WTI for December delivery fell 92 cents, or 1.1%, to settle at \$82.50 a barrel. December Brent declined by \$1.21, or 1.4%, to \$84.61 a barrel. November RBOB lost 1.1% to \$2.48 a gallon and November heating oil shed 1.7% to \$2.549 a gallon.

Technical Analysis: With technical indicators indicating an overbought market, WTI fell below near-term support but managed to hold on to the \$81 level. The pullback is not surprising given the extent of the rally over the past few weeks and as we have previously mentioned, we were looking for buyers waiting down below. This is what appears to have happened given the paring of losses made during the trading session. Demand continues to rebound, while supplies are in deficit, and will continue to provide a floor for this market. This market still has more room to the upside, but corrections should not be discounted. Oil refiners are ramping up output to meet a synchronized uptick in demand across Asia, Europe and the United States, but plant maintenance and high natural gas prices are expected to constrain supply in the fourth quarter. Support is seen at \$81.14 and below that at \$80, \$78 and \$75. Resistance rests at \$85 and above that at \$86.

Fundamental News: UBS sees Brent crude prices at \$90/barrel in December and March, before falling to \$85/barrel for the rest of 2022. It previously estimated a price of \$80/barrel for all tenors. It said it expects the oil market to remain tight and OPEC+ will likely add supplies "only gradually". It stated that inventories in OECD countries are at the lowest level since 2015 and demand for oil is set to reach 100 million bpd in December. The bank stated that investors with high risk tolerance can still add exposure to longer-dated Brent oil contracts.

JPMorgan analysts said if withdrawals from Cushing continue at the current pace, the oil market could be weeks away from the storage hub effectively running out of crude. Cushing's "operational tank bottoms are likely 20-25% of capacity" or 20 million barrels. They stated that if nothing changes in Cushing balances, WTI spreads could increase to record highs.

Euroilstock reported that European refiners produced 9.794 million bpd of oil products in September, down 0.5% on the month but up 6.3% on the year. European refiners produced 2.321 million bpd of gasoline in September, down 1% on the month, but up 3.5% on the year, while their middle distillates production fell by 1.8% on the month but increased by 4.1% on the year to 4.833 million bpd, its fuel oil output fell by 1.2% on the month but increased by 18.2% on the year to 882,000 bpd and its naphtha output in September increased by 2.8% on the month and by 6.4% on the year to 909,000 bpd. European refinery crude intake in September fell by 1.3% on the month but increased by 6.4% on the year to 9.29 million bpd.

Kuwait's Oil Minister, Mohammad al-Fares, said the country began increasing its crude production in accordance with the OPEC+ agreement. He said Kuwait's plan to increase its oil output includes production from the shared zone with Saudi Arabia.

The EPA reported that the U.S. generated 385 million biodiesel (D4) Blending credits in September, down from 421 million in August. It also reported that the U.S. generated 1.16 billion ethanol (D6) blending credits in September, down from 1.21 billion in August.

Early Market Call - as of 8:30 AM EDT

WTI - Dec \$83.15, up 65 cents

RBOB - Nov \$2.5005, up 2.04 cents

HO - Nov \$2.5625, up 1.34 cents

All NYMEX | Prior Settlements

Month	ULSD (HO)	Prior Settle	Change In
	Close	Change	One Week
Nov-21	\$2.5491	-\$0.0432	-\$0.0123
Dec-21	\$2.5407	-\$0.0431	-\$0.0091
Jan-22	\$2.5281	-\$0.0422	-\$0.0075
Feb-22	\$2.5079	-\$0.0417	-\$0.0078
Mar-22	\$2.4805	-\$0.0415	-\$0.0079
Apr-22	\$2.4464	-\$0.0411	-\$0.0090
May-22	\$2.4215	-\$0.0409	-\$0.0102
Jun-22	\$2.4036	-\$0.0406	-\$0.0106
Jul-22	\$2.3919	-\$0.0401	-\$0.0116
Aug-22	\$2.3816	-\$0.0397	-\$0.0126
Sep-22	\$2.3742	-\$0.0395	-\$0.0200
Oct-22	\$2.3678	-\$0.0395	-\$0.0134
Nov-22	\$2.3617	-\$0.0397	-\$0.0131
Dec-22	\$2.3551	-\$0.0396	-\$0.0131
Jan-23	\$2.3479	-\$0.0395	-\$0.0127
Feb-23	\$2.3337	-\$0.0391	-\$0.0123
Mar-23	\$2.3142	-\$0.0388	-\$0.0119

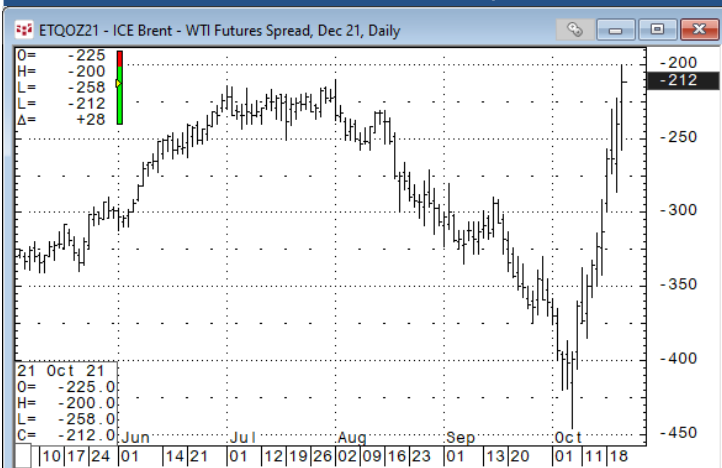
Settlements

		Close	Change
Crude - WTI	Dec Brent- WTI Spread \$3.25	\$81.3600	-\$1.0200
Crude - Brent		\$84.6100	-\$1.2100
Natural Gas		\$5.1150	-\$0.0550
Gasoline		\$2.4801	-\$0.0283

EIA Working Gas Storage Report

	15-Oct-21	08-Oct-21	Change	15-Oct-20
East	862	834	28	921
Midwest	1,027	997	30	1,102
Mountain	211	210	1	244
Pacific	253	251	2	323
South Central	1,108	1,079	29	1,329
Salt	283	269	14	361
Nonsalt	825	810	15	968
Total	3,461	3,369	92	3,919

ICE December Brent-WTI Spread



Winter 2021 Outlook

