MarketWatch | Refined Products

Monday, October 24, 2022

Market Commentary

Recap: Oil prices rose in choppy trade on Friday as hopes of stronger Chinese demand and a weakening U.S. dollar outweighed concern about a global economic downturn and the impact of interest rate rises on fuel use. To fight inflation, the U.S. Federal Reserve is trying to slow the economy and will keep raising its short-term rate target, Federal Reserve Bank of Philadelphia President Patrick Harker said on Thursday in comments that weighed on oil. But crude is gaining support from a looming European Union ban on Russian oil, as well as the recent 2 million-barrels-per-day output cut agreed by the Organization of the Petroleum Exporting Countries and allies including Russia, known as OPEC+. Traders were squaring up positions ahead of the weekend after the WTI's November contract expiry, increasing volatility. WTI December delivery gained 40 cents per barrel, or 0.47% to $85.05 this week, up 54 cents or 0.64% on the session. Brent Crude for December delivery gained $1.87 per barrel, or 2.04% to $93.50 this week, up $1.12 or 1.21% for the session. Heating oil for November delivery lost 14.79 cents per gallon or 3.72% to $3.8323 this week but finished the session up 7.55 cents or 2.01%. RBOB Gasoline for November delivery gained 3.11 cents per gallon, or 1.18% to $2.6620 this week, up 1.42 cents or 0.54% for the session.

Technical Analysis: Oil prices remain trapped in a cycle of tighter global supplies and economic woes and its impact on demand. The U.S. dollar remains strong, thereby reducing foreign purchasing power in other currencies; and thus demand for oil. As a result, the U.S. Federal Reserve reinforced expectations that the central bank could raise rates aggressively early next month, which should contribute to a significant slowdown in activity and demand. As for inflation, it barely fell in the United States in September over one year, to 8.2% against 8.3% in August. Given the mixed signals traders have been receiving, crude oil prices have been fluctuating between gains and losses. Unless there is a major shift in the underlying fundamentals of this market, we do not see this type of activity disappearing anytime soon. Friday's activity saw a cross of the 10-day moving average below the 50-day moving average, which is a bearish signal for prices. That being said, we would look for a push toward the bottom of the symmetrical triangle that can be depicted on a daily spot continuation chart, which should bring WTI below the $80 mark. Below $80, additional support is seen at $78 and below that at $76.25.

Fundamental News: Saudi Arabia's Energy Minister, Prince Abdulaziz bin Salman, said OPEC+ is doing the right job to ensure stable and sustainable oil markets. He was responding to questions on a recent decision by OPEC+ to cut oil output by 2 million bpd.

The Saudi state news agency SPA reported that Saudi Arabia's Energy Minister, Prince Abdulaziz bin Salman, and the Director of China's National Energy Administration, Zhang Jianhua, stressed the importance of stable long-term supplies to crude oil markets. The two agreed to continue cooperation efforts to maintain stability in oil markets.

Barclays has cut its Brent oil price forecasts for this year and 2023, flagging risks to demand from COVID-19 flare-ups in China and a broader global economic slowdown. Barclays analysts said the oil market was likely to see "turbulence" given the uncertainty created by several factors at play at present, including the Ukraine war. However, overall they were still "constructive" on oil prices given the prevalent supply risks. The bank cut its 2022 Brent price forecast by $3/barrel to $100/barrel, and its 2023 outlook, by $5/barrel to $98/barrel.

U.S. energy firms this week added oil and natural gas rigs for the second consecutive week. Baker Hughes reported that the oil and gas rig count increased by two to 771 in the week ending October 21st, its highest since March 2020. U.S. oil rigs increased by two to 612 this week, their highest since March 2020, while gas rigs were unchanged at 157.

IIR Energy reported that U.S. oil refiners are expected to shut in about 1.5 million bpd of capacity in the week ending October 21st, increasing available refining capacity by 288,000 bpd.

Early Market Call - as of 8:25 AM EDT

WTI - December $83.81, down $1.25

RBOB - November $2.6209, down 4.11 cents

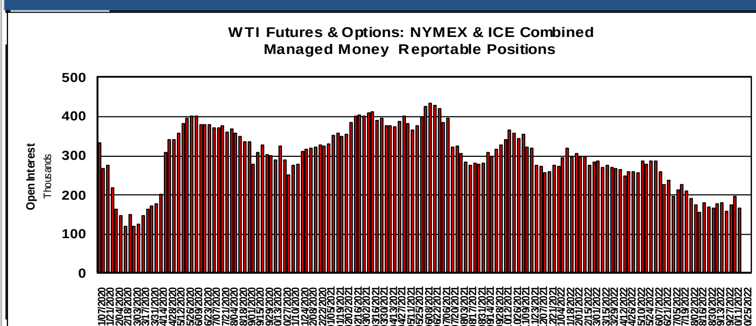
HO - November $3.8208, down 1.15 cents

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Nov-22	3.8323	0.0755	-0.1479
Dec-22	3.5532	0.0694	-0.0494
Jan-23	3.4367	0.0625	-0.0459
Feb-23	3.3391	0.0507	-0.0492
Mar-23	3.2399	0.0403	-0.0524
Apr-23	3.1344	0.031	-0.0533
May-23	3.0473	0.0202	-0.0557
Jun-23	2.9749	0.0127	-0.0589
Jul-23	2.934	0.0091	-0.0613
Aug-23	2.9071	0.0078	-0.061
Sep-23	2.8848	0.0061	-0.0613
Oct-23	2.8633	0.0039	-0.0619
Nov-23	2.8416	0.0026	-0.0621
Dec-23	2.8198	-0.0003	-0.0625
Jan-24	2.7983	-0.0006	-0.06
Feb-24	2.78	0.0001	-0.0561
Mar-24	2.7526	0.0008	-0.0553
Sprague HeatCurve October 2023-April 2024			$2.7941

	Close	Change
Crude - WTI	$85.0500	$0.5400
Crude - Brent	$93.5000	$1.1200
Natural Gas	$4.9590	-$0.3990
Gasoline	$2.6620	$0.0142

Dec Brent-WTI Spread $8.45



Commitment of Traders Report for the Week Ending October 18, 2022