MarketWatch | Refined Products

Monday, July 27, 2020

Market Commentary

Recap: Oil futures posted modest gains on Friday, as traders responded to signs of economic improvement against tensions between China and the U.S, both of which may influence global energy demand. Investors are also keeping a close eye on the rising cases of COVID-19, which has impacted global businesses and lead to an economic slowdown. Oil prices also received a boost from optimistic manufacturing news out of the Eurozone as the PMI rose to 51.1 from 47.4 in June and the services PMI rose to 55.1 from 48.3 in June as the composite PMI of 54.9, a 25-month high. September WTI added 22 cents or 0.5%, to settle at $41.29 a barrel, while September Brent tacked on 3 cents, or 0.07%, to settle at $43.34 a barrel. For the week, front-month WTI futures saw a 1.3% weekly gain, and Brent rose 0.5%, according to Dow Jones Market Data. August RBOB rose 2.1%, to $1,2848 a gallon, ending the week up 4.9%, while August heating oil added 0.2% to $1.2563 a gallon, for a nearly 3.1% weekly rise.

Technical Analysis: At the onset of the coronavirus in the U.S; demand for diesel fuel remained relatively strong, resulting in an increase in the heating oil crack spread. In response to this, refiners ramped up yields for diesel way into the middle of April. At that time, refiner yields of distillate reached 40%, the highest level in EIA data going back to 2010. While refiners were busy turning out diesel, the coronavirus was busy spreading across the country, and began to take a huge bite out of demand. The ramped up production of diesel and the drop in demand, lead to an overhang of supply. Diesel inventories have remained above 170 million barrels for the past eight weeks, reaching a high of 178 million barrels the week ending July 17, and are about 27% above the five-year average for this time of year. After peaking in March, heating oil crack spreads began to steadily decline, as high inventory levels put downward pressure on product prices, while distillate demand slipped to 3.0 million barrels per day by the week of May 1, to the lowest level since 1996. There is a lot of uncertainty about demand right now, due to the coronavirus pandemic. As some states begin to ease stay-at-home advisories, other states have been pummeled by the virus, which is affecting demand for diesel. While demand for heating oil is seasonal, there are unprecedented circumstances due to variables such as the pandemic, global supply and weather as we get into the winter heating months, not to mention the financial impact the pandemic is having on businesses and families, as many have applied for unemployment. Given the current scenario, we are not too confident that heating oil crack spreads will make a significant recovery; we would keep a close eye on the aforementioned variables and their impact on demand

Fundamental News: U.S. energy firms cut the number of oil and natural gas rigs to a record low for a 12th consecutive week, although they added an oil rig for the first time since March as a recovery in crude prices prompt some producers back to the well pad. Baker Hughes reported that the U.S. oil and gas rig count fell by two to an all-time low of 251 in the week ending July 24th. U.S. oil rigs increased to 181, while gas rigs fell by three to 68, their lowest on record.

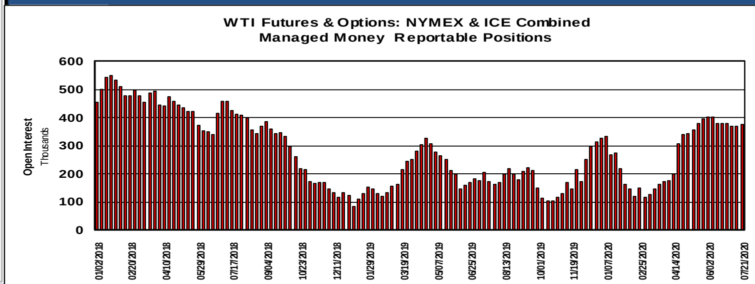
According to traders and Refinitiv Eikon data, the United States has increased oil supply to Europe in July for the first month since May, making up for output cuts from OPEC+ members. U.S. crude supply to Europe reached nearly 31 million barrels in July. With crude prices back above $40 a barrel, U.S. producers have rushed to claim market share while the Organization of the Petroleum Exporting Countries and allies, known as OPEC+, is still cutting supply drastically. U.S. supply to Europe peaked at 35 million barrels in April before falling to 24 million and 27 million in May and June, respectively. European refiners are buying cheaper U.S. crude rather than local grades that are more expensive due to OPEC+ limiting supply.

Early Market Call - as of 8:55 AM EDT
WTI - Sep $41.57, up 28 cents
RBOB - Aug $1.2743, down 1.05 cents
HO - Aug $1.2574, up 11 points

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Aug-20	1.2563	0.0022	-0.0372
Sep-20	1.2638	0.0021	-0.0324
Oct-20	1.2763	0.0022	-0.0298
Nov-20	1.2903	0.0021	-0.0280
Dec-20	1.3036	0.0025	-0.0273
Jan-21	1.3170	0.0032	-0.0262
Feb-21	1.3270	0.0039	-0.0249
Mar-21	1.3321	0.0041	-0.0238
Apr-21	1.3329	0.0043	-0.0234
May-21	1.3369	0.0042	-0.0223
Jun-21	1.3430	0.0048	-0.0216
Jul-21	1.3558	0.0054	-0.0214
Aug-21	1.3682	0.0058	-0.0214
Sep-21	1.3790	0.0060	-0.0212
Oct-21	1.3891	0.0061	-0.0205
Nov-21	1.3990	0.0063	-0.0198
Dec-21	1.4070	0.0064	-0.0187
Sprague Heat Weighted Strip October -April 20/2021			$1.3143

		Close	Change
Crude - WTI	Sep Brent-WTI Spread $2.05	$41.2900	$0.2200
Crude - Brent		$43.3400	$0.0300
Natural Gas		$1.8080	$0.0230
Gasoline		$1.2848	$0.0262



Commitment of Traders Report for the Week Ending July 21, 2020