MarketWatch | Refined Products

Thursday, May 28, 2020

Market Commentary

Recap: Oil futures nosedived on Wednesday as tensions between the U.S. and China grow and as some traders began to question Russia's commitment to increasing production cuts. July WTI tumbled as much as 6% to a session low of $32.18 a barrel after U.S. President Donald Trump said he was working on a strong response to China's proposed security law in Hong Kong. Light short covering followed on a lack of follow through of the July WTI below its 10 -day moving average, with this spot contract settling at $32.81 a barrel, down $1.54, or 4.5%, while July Brent slipped $1.43, or 4%, to settle at $34.74 a barrel. June RBOB fell by 5.3% to 99.33 cents a gallon and June heating oil shed 1.9% to 97.21 cents a gallon.

Technical Analysis: As expected, oil prices are struggling to the upside after rising from last month's unprecedented move to the downside. Although oil prices have made a significant comeback from negative territory in May, one major factor missing is demand. Before this market can resemble any sense of equilibrium, several factors need to change. This particular drop in demand was unique: It was caused by a pandemic coupled with government interference in business activity. The recovery of oil demand will also be unique and will likely come in three separate stages. The first is legal opening of economies. The second will involve overcoming fear of the coronavirus. The third will be a traditional economic recovery. Some states in the U.S. have already began a slow easing of government ordered shut downs. Much of Europe is reopening, while parts of the Mid-East are still closed, and major Asian economies are already on their way as well. Recreational travel in parts of the U.S. is still seriously depressed, with two of the top consumers of gasoline (New York and California) maintaining restrictions on movement and business. Given these factors, we still believe that this market will continue to struggle to the upside. Support is set at $32.22 and below that at $27.71, the 10 and 50 day moving averages respectively. Resistance is set at $35 and $36.35.

Fundamental News: The International Energy Agency said global energy investment is expected to fall by about 20% or $400 billion in 2020, its largest decline on record, due to the new coronavirus outbreak. The IEA said this could have serious repercussions for energy security and the transition to clean energy as the global economy recovers from the pandemic. At the start of the year, global energy investment was on track for a 2% increase in 2020, its biggest growth in six years. A total of $1.8 trillion was invested in the sector in 2019. The IEA said revenues for governments and industry are set to fall by over $1 trillion in 2020 due to the fall in energy demand and lower prices. Investment in oil and gas is expected to fall by almost one-third. The IEA said if investment in oil stays at 2020 levels, it would reduce the level of global supply in 2025 by almost 9 million bpd, a clear risk of tighter markets if demand moves back to pre-crisis levels.

Rystad Energy estimates that US oil production will reach a bottom of about 10.7 million bpd in June, a two-year low, as low prices forced shut-ins. US monthly output is not likely to exceed 11.7 million bpd before 2022, compared with 12.9 million bpd achieved in March 2020. It stated that after June, oil production is expected to recover a bit in the autumn, ending at about 11.1 million bpd in December. Despite a gradual output increase, monthly production is expected to only reach 11.7 million bpd at the end of 2021, according to its base case price scenario, which assumes a $30/barrel WTI oil price for 2020 and an increase to $39/barrel for 2021.

Russian President, Vladimir Putin, and Saudi Arabia's Crown Prince, Mohammed bin Salman, agreed on further "close coordination" on oil output restrictions.

IIR Energy reported that US oil refiners are expected shut in about 3.7 million bpd of capacity in the week ending May 29th, increasing available refining capacity by 251,000 bpd from the previous week.

Early Market Call - as of 8:20 AM EDT

WTI - July $32.64, down 17 cents

RBOB - June $.9867, down 66 points

HO - June $.9470, down 2.51 cents

All NYMEX | Prior Settlements

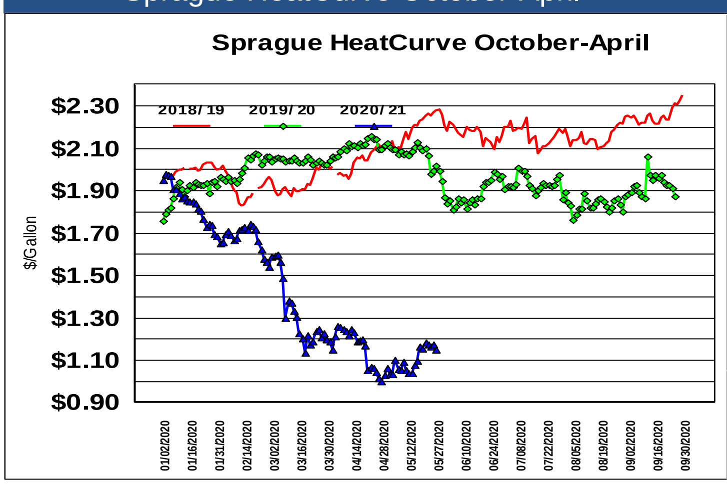
Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Jun-20	0.9721	-0.0187	0.0185
Jul-20	1.0099	-0.0180	0.0270
Aug-20	1.0417	-0.0201	0.0327
Sep-20	1.0721	-0.0223	0.0356
Oct-20	1.0962	-0.0234	0.0365
Nov-20	1.1171	-0.0231	0.0348
Dec-20	1.1339	-0.0224	0.0322
Jan-21	1.1514	-0.0213	0.0296
Feb-21	1.1666	-0.0202	0.0274
Mar-21	1.1792	-0.0188	0.0250
Apr-21	1.1862	-0.0169	0.0232
May-21	1.1937	-0.0154	0.0228
Jun-21	1.2040	-0.0143	0.0215
Jul-21	1.2210	-0.0136	0.0205
Aug-21	1.2368	-0.0129	0.0195
Sep-21	1.2497	-0.0122	0.0183
Oct-21	1.2614	-0.0110	0.0163
Sprague Heat Weighted Strip October -April 20/2021			**$1.1506**

Other Front Month NYMEX		Close	Change
Crude - WTI	July Brent-WTI Spread $1.93	$32.8100	-$1.5400
Crude - Brent		$34.7400	-$1.4300
Natural Gas		$1.7220	-$0.0710
Gasoline		$0.9933	-$0.0556

API Report for the Week Ending May 22, 2019

	Actual	Mkt Expectations
Crude Oil Stocks(exl SPR)	Up 8.7 million barrels	Down 1.9 million barrels
Cushing, OK Crude Stocks	Down 3.4 million barrels	Down 3.4 million barrels
Gasoline Stocks	Up 1.1 million barrels	Up 100,000 barrels
Distillate Stocks	Up 6.9 million barrels	Up 1.8 million barrels
Refinery Runs	Up 332,000 bpd	Up 1%
Crude Imports	Up 2 million bpd	

Sprague HeatCurve October-April



July WTI