

## Market Commentary

**Recap:** Oil prices finished lower on Friday, ending the longest streak of gains for WTI in 9 years and the longest streak of gains in 10 years for Brent. Global economic woes weighed on the market amidst non-committal trade talks between the U.S. and China. Prices climbed out of a bear market Wednesday and as of Friday's settlement, have climbed by about 21% from the 52-week low of \$42.53 made on Dec. 24. February WTI settled at \$51.59 a barrel, down \$1.00, or 1.9%, while Brent for March delivery fell \$1.20, or 1.95%, to settle at \$60.48 a barrel. February RBOB fell 2.1% to \$1.401 a gallon, climbing by about 3.9% for the week, while February heating oil slipped 1.4% to \$1.88 a gallon, ending roughly 6.3% higher on the week. Back in October, WTI oil futures rose to their highest level in almost 4 years, reaching a high of \$77.40 a barrel, but quickly fell into a downward spiral, falling more than 45% by the end of December, to a low of \$42.53. At the same time, the S&P 500 posted record gains, and closing at 2933.00 in late September. By the end of December, this index had fallen 25%, to a low of 2314.75. This is a similar situation that occurred back in late 2015 and early 2016, where both oil prices and the S&P 500 bottomed out before recovery to the upside. Back in December the correlation between WTI and the S&P 500 reached a high of 89.72%. A correlation of 100% would mean prices moved in perfect unison.

According to recent studies, the correlation between stocks and the price of oil becomes more significant during "demand-supply driven shocks." Currently, the price of oil is being affected by the OPEC lead output cuts, trade wars between the U.S. and China and the health of China's economy, which in turn would have a significant impact on supply and demand. Worth noting, is that over the past 20 years, the correlation between the price of WTI and the S&P 500 is just 17.75%, mainly caused by a flip between positive and negative correlations across time. From 2011 through the end of 2018, the correlation is negative 63.7%. A perfect negative correlation of 100% would mean that prices moved in perfect mirror images of each other.

**Technical Analysis:** Friday was the second straight session that February WTI came down to test the descending trend line only to bounce off of it. Perhaps prices have moved too high too fast, and as a result we are going to see a pause in the market. This could lead to a period of sideways trading before a resumption of the previous move, in this case to the upside, follows. Resistance is set at \$53.60 and \$54.87. Support is set at the 50-day moving average of \$52.12 and \$51.56, the aforementioned line.

**Fundamental News:** Baker Hughes reported that US energy firms cut the number of rigs searching for oil for a second consecutive week. Total oil rigs fell by four in the week ending January 11<sup>th</sup> bringing the total count down to 873.

Oil Movements reported that OPEC oil shipments are expected to decline by 390,000 bpd to 26.34 million bpd in the four week period ending January 26<sup>th</sup>.

According to tanker data and industry sources, Iran will see its crude exports severely cut for a third month in January as it struggles to find new buyers amid US sanctions. Iran's crude exports in November fell to 1 million bpd from regular sales of 2.5 million bpd in April as sanctions went into effect.

Russia cut its oil production to 11.38 million bpd on average on January 1-10 from a record high of 11.45 million bpd in December.

IIR Energy reported that US oil refiners are expected to shut in 697,000 bpd of capacity in the week ending January 11<sup>th</sup>, cutting available refining capacity by 544,000 bpd from the previous week.

Global refinery outages totaled 2.3 million bpd as of January 9<sup>th</sup>.

**Early Market Call - as of 8:05 AM EDT**

WTI - Feb \$51.05, down 54

RBOB - Feb \$1.3940, down 71 points

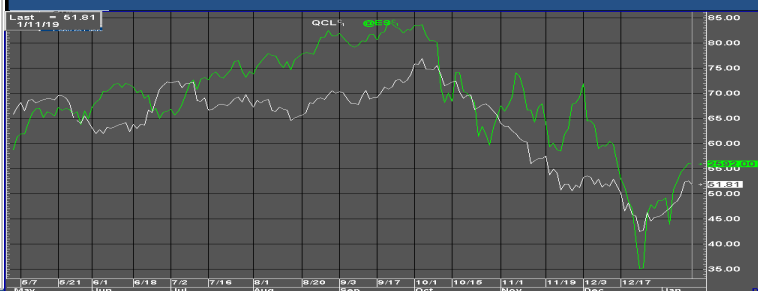
HO - Feb \$1.8822, up 25 points

## All NYMEX | Prior Settlements

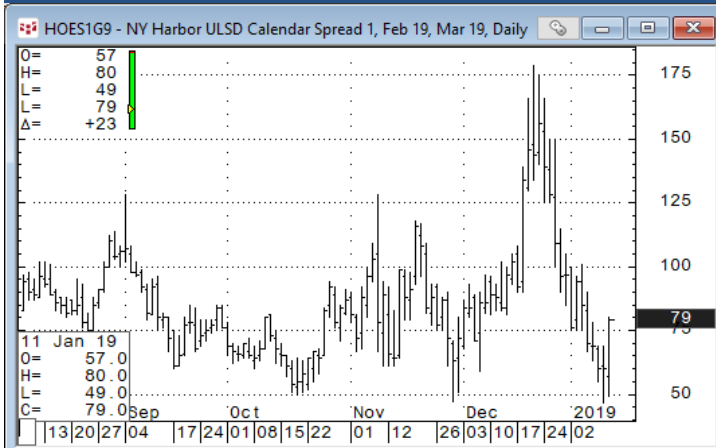
Month	ULSD (HO)	Prior Settle	Change In
	Close	Change	One Week
Feb-19	\$1.8797	-\$0.0264	\$0.1105
Mar-19	\$1.8718	-\$0.0287	\$0.1108
Apr-19	\$1.8576	-\$0.0310	\$0.1100
May-19	\$1.8539	-\$0.0310	\$0.1101
Jun-19	\$1.8567	-\$0.0313	\$0.1073
Jul-19	\$1.8650	-\$0.0316	\$0.1050
Aug-19	\$1.8734	-\$0.0317	\$0.1035
Sep-19	\$1.8826	-\$0.0316	\$0.1023
Oct-19	\$1.8914	-\$0.0317	\$0.1013
Nov-19	\$1.8994	-\$0.0318	\$0.1009
Dec-19	\$1.9065	-\$0.0320	\$0.1010
Jan-20	\$1.9128	-\$0.0321	\$0.1008
Feb-20	\$1.9134	-\$0.0320	\$0.1008
Mar-20	\$1.9100	-\$0.0320	\$0.1005
Apr-20	\$1.9020	-\$0.0321	\$0.0980
May-20	\$1.9019	-\$0.0321	\$0.0957
Jun-20	\$1.9050	-\$0.0328	\$0.0908

Other Front Month NYMEX		Close	Change
Crude - WTI	Mar Brent-	\$52.9100	-\$1.0000
Crude - Brent	WTI Spread	\$60.4800	-\$1.2000
Natural Gas	\$7.57	\$3.0990	\$0.1300
Gasoline		\$1.4007	-\$0.0300

NYMEX WTI vs Mini S&P



## NYMEX Feb-Mar Heating Oil Spread



## NYMEX Feb-Mar RBOB Spread

