MarketWatch | Refined Products

Tuesday, October 11, 2022

Market Commentary

Recap: Oil futures slipped on Monday as recession fears overshadowed tight supplies. Investors weighed the possibility of a global recession and its impact on demand for fuel, against potentially tighter supplies after OPEC+ agreed to cut 2 million barrels per day of production. Oil prices also struggled as the U.S. dollar gained strength. Trading was subdued due to the U.S. holiday. November WTI lost $1.51 per barrel, or 1.63% to $91.13, while December Brent lost $1.73 per barrel, or 1.77% to $96.19. RBOB Gasoline for November delivery lost 11.18 cents per gallon, or 4.09% to $2.6228 and ULSD for November delivery lost 10.40 cents per gallon, or 2.59% to $3.9147.

Technical Analysis: After five straight sessions of gains, WTI fell below $92 a barrel as traders took profits. This market continues to try and balance itself between tight supply woes and recession fears. OPEC+ production cuts and the potential consequences of the price cap on Russian oil provide support to oil prices. At the same time, the global economy is slowing down, which is bearish for oil markets. Based upon a daily bar chart for the November WTI contract, prices are poised just above the 200-day moving average, giving caution to technical traders. Given how quick this market moved to the upside, we would not discount a pull back toward the 200-day moving average, looking to see how traders react as we get closer to it. If we do break down below the $90 level, then we will test the 50-Day EMA just below. On the other hand, if we do break above the $95 level, then it's likely that we will have a significant shot higher, perhaps reaching the $100 level.

Fundamental News: Fitch Ratings said the actual OPEC+ oil output cut will be lower than the production quota cuts. It said the recessionary economic outlook will lead to lower oil demand. It expects OPEC+ to target a broad balance in the oil market by changing production quotas and available crude supplies. In the medium to long term, Fitch expects oil prices to moderate as geopolitical tensions should ease, with prices moving closer to full-cycle costs.

Investors were encouraged to return to the oil market early last week by the prospect of production cuts by OPEC and its allies, which offset some bearishness induced by the prospect of an imminent recession. According to the CFTC's Commitment of Traders report, hedge funds and other money managers purchased the equivalent of 62 million barrels in the six most important petroleum futures and options contracts in the week ending October 4th. Fund buying was concentrated on crude, with an increase of 46 million barrels rather than fuels, which increased by 15 million barrels and came ahead of a decision by OPEC+ on October 5th to cut the group's combined output allocations by 2 million bpd. The combined crude position climbed to 360 million barrels, up from 314 million barrels the previous week.

Data from CME Group showed that the decision by OPEC and its allies last week to cut oil production has spurred a flurry of activity in the options market. Trading volumes for U.S. crude futures puts and calls for November delivery gained over 40% to Wednesday, the day of the OPEC+ meeting, from Tuesday. CME Group said volume in puts increased to 25,615 for the U.S. crude futures November contract on Wednesday, 10,922 more than during the previous session. By contrast, there were 19,473 call options purchased that day. On Thursday and Friday, volumes in puts totaled 15,579 and 25,771, respectively, while volumes in calls totaled 16,087 and 42,291, respectively.

Saudi Aramco has notified at least seven customers in Asia they will receive full contract volumes of crude oil in November ahead of the peak winter season. The producer is keeping supplies to Asia steady despite likely production cuts by tapping on inventories. The full supply allocation comes despite a decision by OPEC+, to lower their output target by 2 million bpd.

Early Market Call - as of 8:20 AM EDT

WTI - November $89.77, down $1.36

RBOB - November $2.6143, down 85 points

HO - November $3.7596, down 15.44 cents

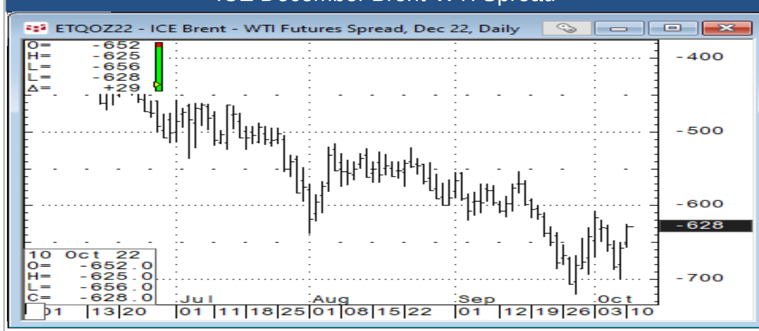
All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Nov-22	3.9147	-0.104	0.5456
Dec-22	3.6903	-0.0957	0.4388
Jan-23	3.5899	-0.0837	0.4076
Feb-23	3.4962	-0.0733	0.3813
Mar-23	3.3958	-0.0658	0.3573
Apr-23	3.2874	-0.0603	0.3348
May-23	3.1968	-0.0546	0.3096
Jun-23	3.1215	-0.0496	0.2813
Jul-23	3.0773	-0.0452	0.2599
Aug-23	3.0469	-0.0417	0.248
Sep-23	3.0233	-0.0386	0.2399
Oct-23	2.9997	-0.0349	0.2312
Nov-23	2.9747	-0.0315	0.2218
Dec-23	2.9483	-0.0296	0.213
Jan-24	2.9213	-0.0263	0.2056
Feb-24	2.8965	-0.0307	0.1951
Mar-24	2.8717	-0.0317	0.1915
Sprague HeatCurve October 2023-April 2024			**$2.9182**

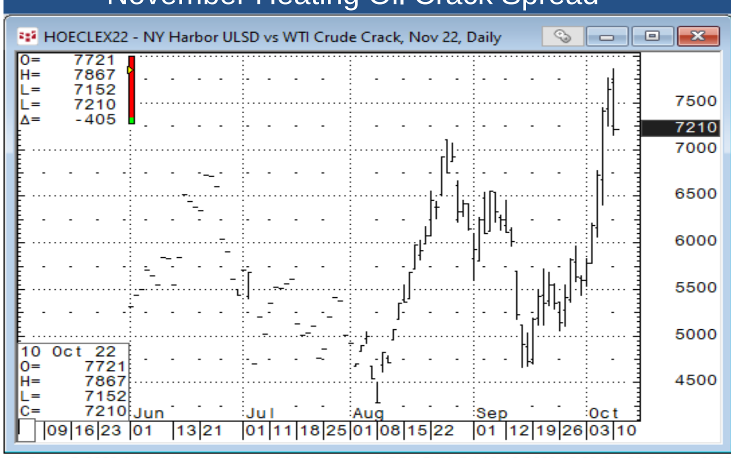
	Close	Change
Crude - WTI	$89.8400	-$1.5100
Crude - Brent	$96.1900	-$1.7300
Natural Gas	$6.4350	-$0.3130
Gasoline	$2.6228	-$0.1118

Dec Brent-WTI Spread $6.35

ICE December Brent-WTI Spread



November Heating Oil Crack Spread



December RBOB Crack Spread