MarketWatch | Refined Products

Tuesday, February 1, 2022

Market Commentary

Recap: Oil futures finished higher Monday, capping a sharp January rally that lifted both Brent and WTI by more than 17% for the month, as traders follow the threat of a Russian invasion of Ukraine. Oil futures had their biggest January gain in at least 30 years, as robust demand outpaced fresh supply. The combination of booming demand, scratchy supply and dwindling stockpiles has helped crude soar this month, with top banks and oil companies saying prices may soon pass $100 a barrel. Crude oil prices continue to rally despite a strong U.S. dollar and a weak global stock market. Given these factors, we have to believe that the market is reacting to the true underlying fundamentals, such as increasing demand, spotty supplies amid dwindling stockpiles. Top banks and oil companies are saying that prices have the potential to reach $100 a barrel. Low temperatures in the U.S. have also been boosting demand for fuels. WTI for March delivery added $1.33, or 1.5%, to settle at $88.15 a barrel. The U.S. benchmark tallied a 17.2% monthly rise, according to Dow Jones Market Data. March Brent rose $1.18, or 1.3%, at $91.21 a barrel on, for a monthly rise of 17.3% as the contract expired at the end of the session. Brent and WTI both ended Monday at their highest levels since early October 2014 and with their strongest monthly percentage gains since February of 2021. April Brent, which is now the front-month contract, added 74 cents, or 0.8%, at $89.26 a barrel. Petroleum products ended on a mixed note as the February contracts expired at the end of the session. February RBOB added 0.5% to $2.554 a gallon, for a nearly 15% monthly rise. February heating oil declined by 0.9% to $2.759 a gallon, up over 18% for the month.

Technical Analysis: While geopolitical tensions continue to drive this market, as aforementioned, the underlying fundamentals are playing a key role in its direction. OPEC's oil output in January has again undershot the rise planned under a deal with allies, a Reuters survey found, highlighting some producers' struggle to pump more even as prices trade at a seven-year high. This has not helped balance the supply/demand ratio as the group had anticipated, and in fact, adds to the higher move. Traders will remain on alert as to the situation between Russia and the Ukraine and the tensions in the Middle East between the UAE and Yemen. As for now, we would look for WTI to continue to work its way toward $90.

Fundamental News: According to the EIA, U.S. crude oil production increased over 2% to 11.75 million bpd in November as shale drillers continue with post-pandemic recovery. The U.S. exported 3.11 million bpd in November, up from 2.9 million bpd in October. U.S. total refined oil product exports increased to 2.92 million bpd in November, up from 2.816 million bpd in October. The EIA also reported that U.S. total oil demand in November increased by 9.9% or 1.852 million bpd to 20.595 million bpd. U.S. gasoline demand in November increased by 12.3% or 988,000 bpd to 8.989 million bpd, while distillate demand increased by 7.6% or 295,000 bpd to 4.174 million bpd.

According to Reuters, OPEC's oil output in January totaled 28.01 million bpd, up 210,000 bpd on the month but short of the 254,000 bpd increase allowed under the OPEC+ supply deal. The OPEC+ agreement allowed for a 400,000 bpd production increase in January from all members, of which about 254,000 bpd is shared by the ten OPEC members participating in the deal. OPEC's compliance with its pledged cuts increased to 132% in January, up from 127% in December.

U.S. weekly imports of European gasoline increased to the highest level so far this year in the period ending January 27th. The shipments include a cargo from the Baltic Sea to California. Total gasoline arrivals in the U.S. from Europe increased to 219,000 bpd, the highest since the week ending December 30th. This is compared with 169,000 bpd in the previous week.

IIR Energy reported that U.S. oil refiners are expected to shut in 663,000 bpd of capacity in the week ending February 4th, cutting available refining capacity by 39,000 bpd.

Early Market Call - as of 8:30 AM EDT

WTI - Mar $87.54, down 61 cents

RBOB - Feb $2.5432, down 1.12 cents

HO - Feb $2.6873, down 2.84 cents

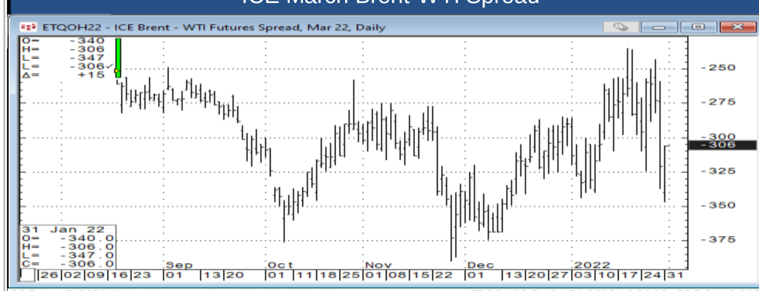
All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Feb-22	2.7592	-0.0263	0.1318
Mar-22	2.7157	0.0033	0.1303
Apr-22	2.6368	0.0100	0.1212
May-22	2.5868	0.0096	0.1099
Jun-22	2.5562	0.0091	0.0992
Jul-22	2.5355	0.0092	0.0923
Aug-22	2.5221	0.0096	0.0884
Sep-22	2.5160	0.0095	0.0823
Oct-22	2.5101	0.0091	0.0859
Nov-22	2.5006	0.0087	0.0821
Dec-22	2.4876	0.0077	0.0765
Jan-23	2.4744	0.0065	0.0709
Feb-23	2.4574	0.0060	0.0674
Mar-23	2.4371	0.0055	0.0650
Apr-23	2.4132	0.0055	0.0643
May-23	2.3937	0.0057	0.0625
Jun-23	2.3788	0.0058	0.0599

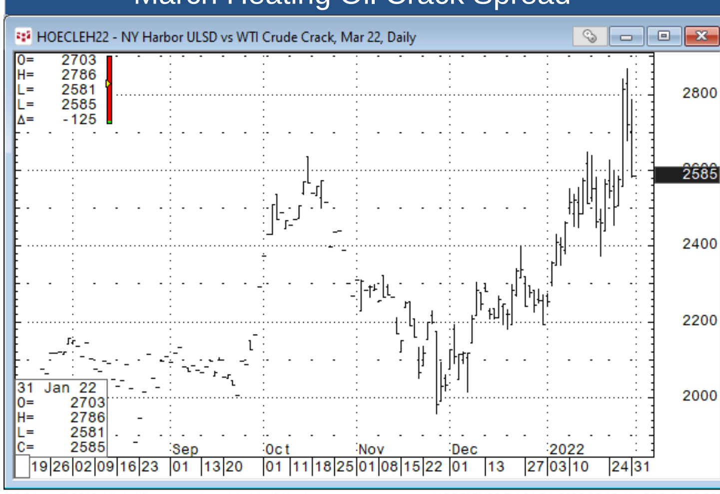
Sprague HeatCurve October 2022-April 2023 **$2.4680**

		Close	Change
Crude - WTI	Mar Brent-WTI Spread $3.06	$88.1500	$1.3300
Crude - Brent		$91.2100	$1.1800
Natural Gas		$4.8740	$0.2350
Gasoline		$2.5543	$0.0120

ICE March Brent-WTI Spread



March Heating Oil Crack Spread



March RBOB Crack Spread