MarketWatch | Refined Products

Monday, October 31, 2022

Market Commentary

Recap: On Friday, the oil market erased some of its previous gains on news that China widened its COVID-19 curbs. Chinese cities from Wuhan in central China to Xining in the northwest increased their COVID-19 curbs, sealing up buildings and locking down districts to halt widening outbreaks after China reported a third straight day of more than 1,000 new COVID cases nationwide on Thursday. The market posted a high of $88.76 in overnight trading before it started to erase its previous gains. It remained mostly range bound early in the session before it breached its previous low and sold off to $87.08 by mid-day. The December WTI contract later traded in a sideways range ahead of the close and settled down $1.18 at $87.90 while, the December Brent contract settled down $1.19 at $95.77. The product markets were mixed, with RBOB market selling down 10.5 cents at $2.9066 and the heating oil market settling up 21.59 cents at $4.5498 after rallying over 35 cents higher during the session. The heating oil market remained the strongest component of the energy complex with shorts being squeezed out of the November contract ahead of its expiration on Monday. The heating oil market remained well supported amid reported that distillates stocks are low and expectations of shortages as we head into the winter.

Technical Analysis: The oil market will likely retrace its losses and attempt to test its resistance at the $90 level on Monday after failing to do so during Friday's session. Initial resistance is seen at its highs of $88.76 and $89.79 followed by the $90 level. Further upside is seen at $91.35, $93.24, $93.64 and $94.37, its 38% retracement level off a high of $123.68 and a low of $76.25. Support is seen at its low of $87.08, $84.14, $84.07, $83.06 and $82.63.

Fundamental News: Two OPEC sources said OPEC's view that world oil demand will keep rising for longer than many other forecasters predict is not expected to change much in its forthcoming major report, despite the growing role of renewables and electric cars. OPEC is scheduled to update its long-term oil demand forecasts in its 2022 World Oil Outlook on October 31st. Its 2021 report sees oil demand plateauing after 2035. Another OPEC source said Russia's invasion of Ukraine could increase oil demand in the near term due to fuel switching, as could the ongoing recovery from the pandemic. Last year, OPEC saw oil demand reaching 108.2 million bpd in 2045, up from 90.6 million bpd in 2020.

According to Reuters, U.S. diesel supplies are becoming critically low with shortages and price spikes likely to occur in the next six months unless and until the economy and fuel consumption slow. Stocks of diesel and other distillate fuel oils were 106 million barrels on October 21st, the lowest for the time of year since the U.S. EIA started collecting weekly data in 1982. According to the EIA, distillate inventories were 26 million barrels below the seasonal average for the previous ten years. The deficit has been worsening steadily since the start of the year when stocks were 15 million barrels below the ten-year average. In terms of consumption, however, inventories at the end of July were equivalent to just 30 days of demand, the lowest seasonal level in monthly records going back to 1945. Since then, the inventory position has tightened even further, with stocks estimated to have fallen to a record seasonal low of fewer than 27 days of demand in October. The twelve-month calendar spread for ultra-low sulfur diesel futures has increased to a backwardation of $50/barrel from less than $10 this time last year, as traders anticipate physical shortages. As a result, retail diesel prices including applicable taxes are now $1.45/gallon higher than for gasoline, a record premium, up from just 24 cents/gallon a year ago. According to Reuters, stabilizing and rebuilding inventories to more comfortable levels will require a significant slowdown in freight movements and manufacturing activity. Rebalancing diesel supply will likely require a further rise in interest rates and tighter financial conditions in the United States and other major economies to reduce fuel consumption to more sustainable levels.

Early Market Call - as of 8:20 AM EDT

WTI - December $85.92 Down 1.78

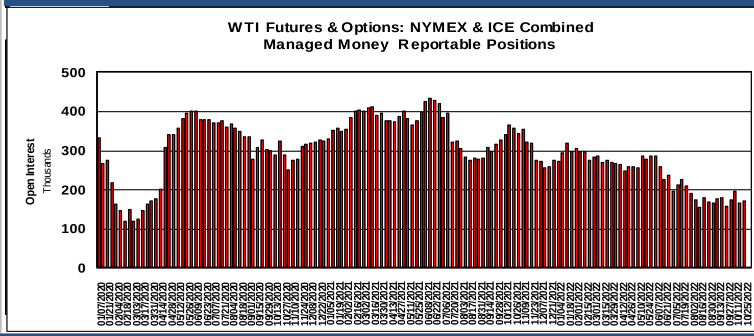
RBOB - November $2.5927 Down 0.0602

HO - November $3.7086 Down 0.0368

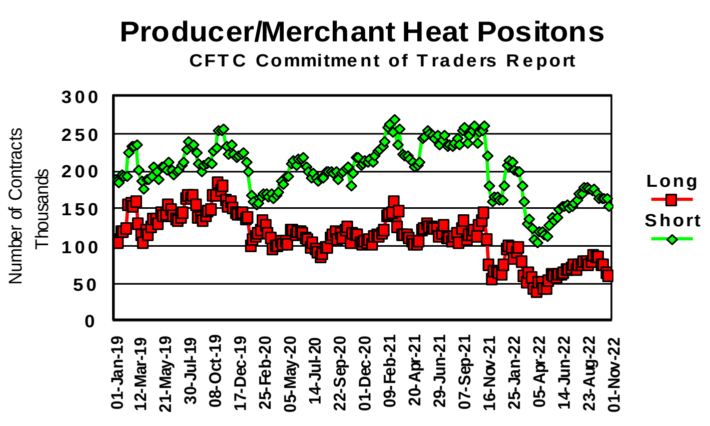
All NYMEX | Prior Settlements

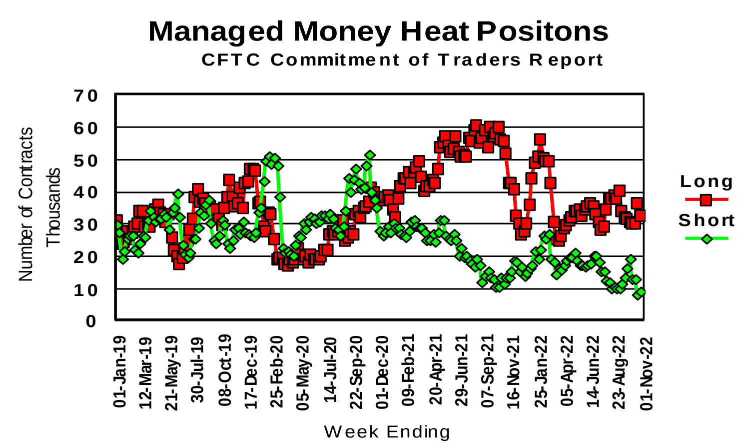
Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Nov-22	4.5498	0.2159	0.7175
Dec-22	3.7455	0.0388	0.1923
Jan-23	3.5896	0.0251	0.1529
Feb-23	3.4678	0.0165	0.1287
Mar-23	3.3467	0.0085	0.1068
Apr-23	3.2232	0.0002	0.0888
May-23	3.1294	-0.0052	0.0821
Jun-23	3.0578	-0.0058	0.0829
Jul-23	3.0158	-0.0044	0.0818
Aug-23	2.9858	-0.0037	0.0787
Sep-23	2.9617	-0.0032	0.0769
Oct-23	2.941	-0.0026	0.0777
Nov-23	2.922	-0.0014	0.0804
Dec-23	2.9046	-0.0001	0.0848
Jan-24	2.884	0.0001	0.0857
Feb-24	2.8626	0.0003	0.0826
Mar-24	2.83	-0.0007	0.0774
Sprague HeatCurve October 2023-April 2024			$2.8754

		Close	Change
Crude - WTI	Dec Brent-WTI Spread $7.87	$87.9000	-$1.1800
Crude - Brent		$95.7700	-$1.1900
Natural Gas		$5.6840	-$0.1910
Gasoline		$2.9066	-$0.1050



Commitment of Traders Report for the Week Ending October 25, 2022





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