May 20, 2020

Strong Bullish Support: Stocks in the US Declined Almost 5 million B/D last week

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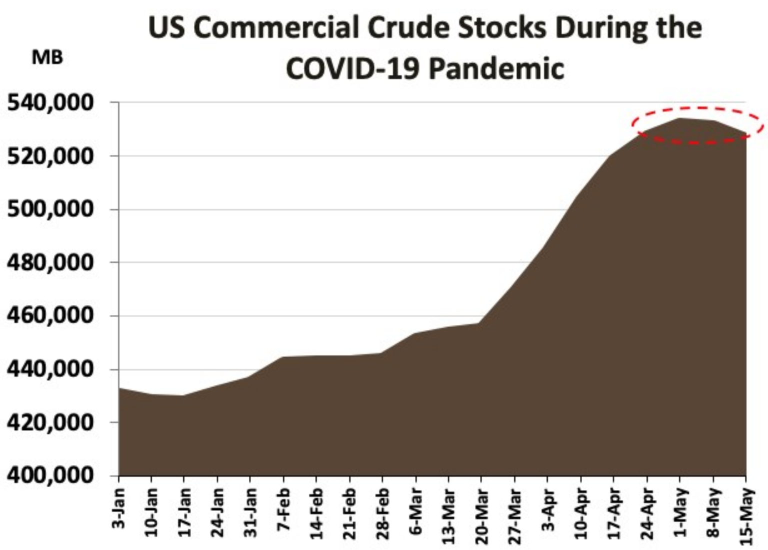
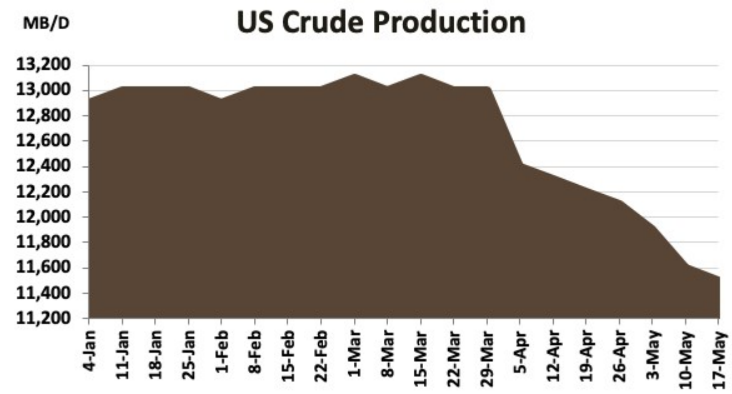


Source: EIA

The combination of both higher refinery utilization and less crude production resulted in a second consecutive week of crude stock draws in the United States. This is a robust combination that provides the much needed support for crude prices because it shows that the US crude balance has turned the corner and decreased the possibility of logistics bottlenecks that pushed prices down have lost momentum by now.

Most importantly, unlike the limited stock draw seen during the previous week before (less than 800 thousand B/D) the sheer amount of the draw (4.98 million B/D) associated with this week's report implies that the US Upstream sector has adjusted to the new refining operation rates, which was the largest concern in the global industry over the last 12 weeks.

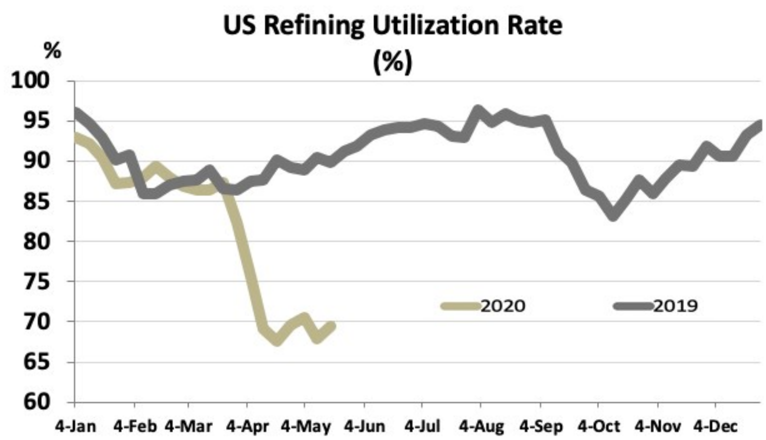
Additionally important is that US crude production declined another 100 thousand B/D last week. The aggregated decline in US crude production is now 1.6 million B/D in reference to the highest production level that was achieved in mid-March. In the context of a total US production of 13.1 million B/D (reached in mid-March) the cumulative decline might look marginal, but when compared to all other producers in the world this decline is massive. To put things in perspective, the reduction in US production is nearly the same as the total crude supplied by individual countries such as Mexico or Nigeria.



Source: EIA

Refinery utilization increased by 2%

Refining utilization bounced back despite lower than normal refining margins. This is consistent with the decline in crude stocks figure with refiners avoiding or delaying crude nominations and preferring to consume their stored barrels, thus avoiding purchases when the price differentials to products are too narrow. This will impact crude differentials in the short term, by forcing Canadian sellers -- and other suppliers -- to increase their discount relative to WTI.



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