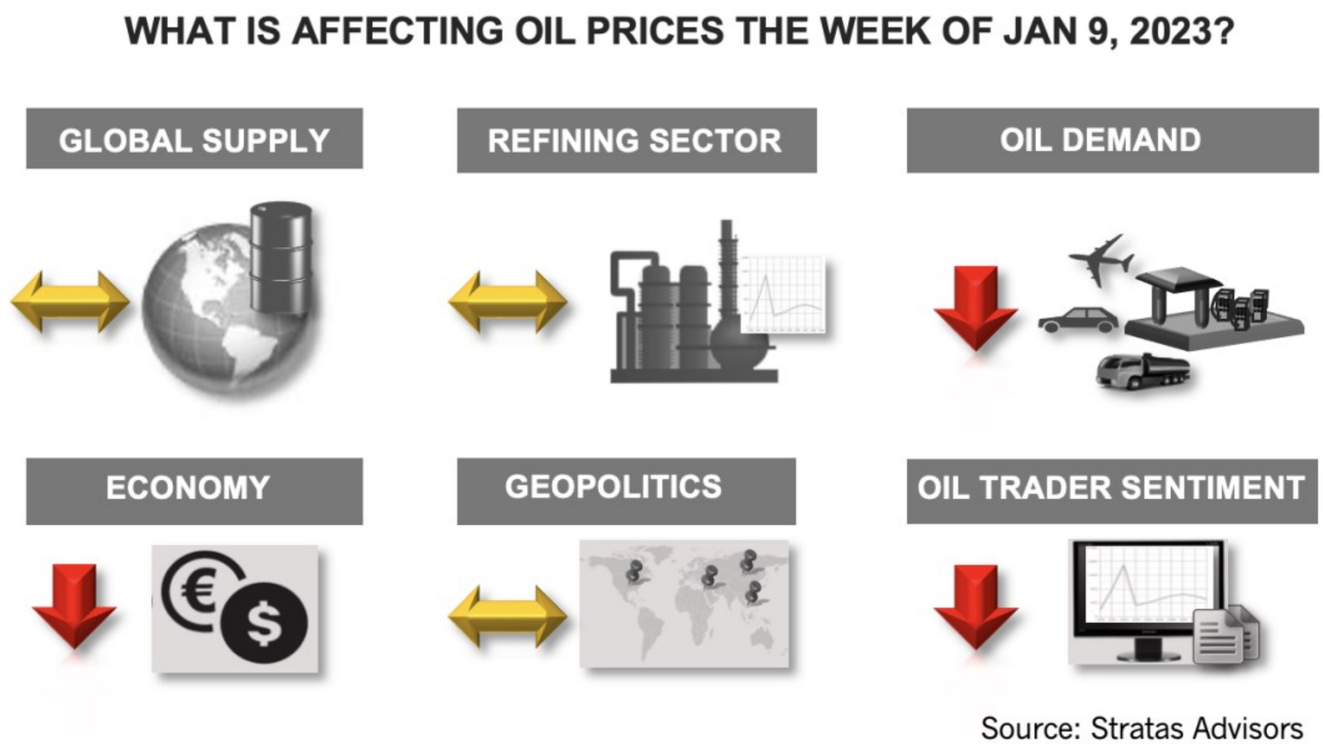
New Year, Same Trends

This weekly report is an excerpt from our Short-Term Outlook service analysis, which covers a period of eight quarters and provides monthly forecasts for crude oil, natural gas, NGL, refined products, base petrochemicals and biofuels. Contact John Paisie (+1-832-517-7544 or E-mail) for the detailed analysis or for more information about the Short Term Outlook.



The price of Brent crude ended the week at $78.57 after closing the previous week at $85.91. The price of WTI ended the week at $73.77 after closing the previous week at $78.40.

Oil prices have moved into contango with future prices being higher than spot prices and to the greatest extent since November 2020, which is a sign that the market is adequately supplied. Further weakness is indicated by Saudi Arabia reducing its official selling price (OSP) for Arab Light destined for Asia in February. The decrease of $1.45 per barrel reduces the premium above Dubai/Oman benchmark to $1.80 per barrel, which is the lowest since November 2021. Saudi Arabia has also reduced its OSP for Europe (northwest Europe and Mediterranean).

Additionally, oil prices continue to be negatively affected by the economic news and data associated with the major economies.

- There are more signs that the US economy is slowing down and moving toward recession. The latest survey from Institute for Supply Management (ISM) shows that the forward-looking indicator for new orders decreased for the fourth consecutive month and has fallen to 45.2 (any reading below 50 indicates contraction), which is the lowest level since May of 2020. Even more worrisome is that the survey shows that the service sector decreased to 49.6 from 56.5 in November, which is the first reading below 50 since May of 2020. It appears that the Federal Reserve is intent on continuing with further increases in interest rates until the job market shows weakness. The jobs report for December indicates that the number of nonfarm jobs increased by 223,000 in December and that the unemployment rate fell to 3.5%. However, the labor force participation rate remains a full percentage point below pre-COVID level at 62.3%. Additionally, wages only increased by 0.3% in comparison to November and 4.6% in comparison to the previous year. Furthermore, the Household Data from the US Bureau of Labor Statistics highlights that the labor market is not near as robust as indicated by the jobs report. The Household Survey shows that the number of fulltime workers in the US has actually declined from August 2022 (132,336,000 to 132,299,000), while parttime positions have increased (26,250,000 to 26,794,000) along with the number of multiple jobholders (7,747,000 to 8,046,000). Furthermore, the survey shows that the number of workers in the age group of 25 to 54 fell from 102,028,000 to 101,848,000.

- China continues to move way from its zero-COVID policies with the process that started in mid-November 2022. However, the reopening and the return to normal economic and social activity has a ways to go as indicated by subway ridership in major cities having only reached two-thirds of the level of the previous year. There are also concerns about an uptick in COVID-19 cases, which are likely to be boosted by the travel associated with the upcoming holidays starting on January 21.
- While Europe is experiencing some reduction in inflationary pressures (in part, because of decreasing cost of energy) prices still increased by 9.2% in December, which give the ECB further support for additional interest rate increases.

From a supply side perspective more of the Russian crude exports are being shifted to Asia with China and India continuing to buy crude oil from Russia, despite the price cap of $60.00 on Russian oil exports that was imposed by the G7 countries, the European Union, and Australia on December 5, 2022. In November, Russia became the largest supplier to India, while major Chinese buyers of Russian crude oil are the independent (teapot) refineries. (*Note: The situation with respect to Russian exports of natural gas is proving to be more difficult for Russia.*)

For a complete forecast of refined products and prices, please refer to our ***Short-term Outlook***

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