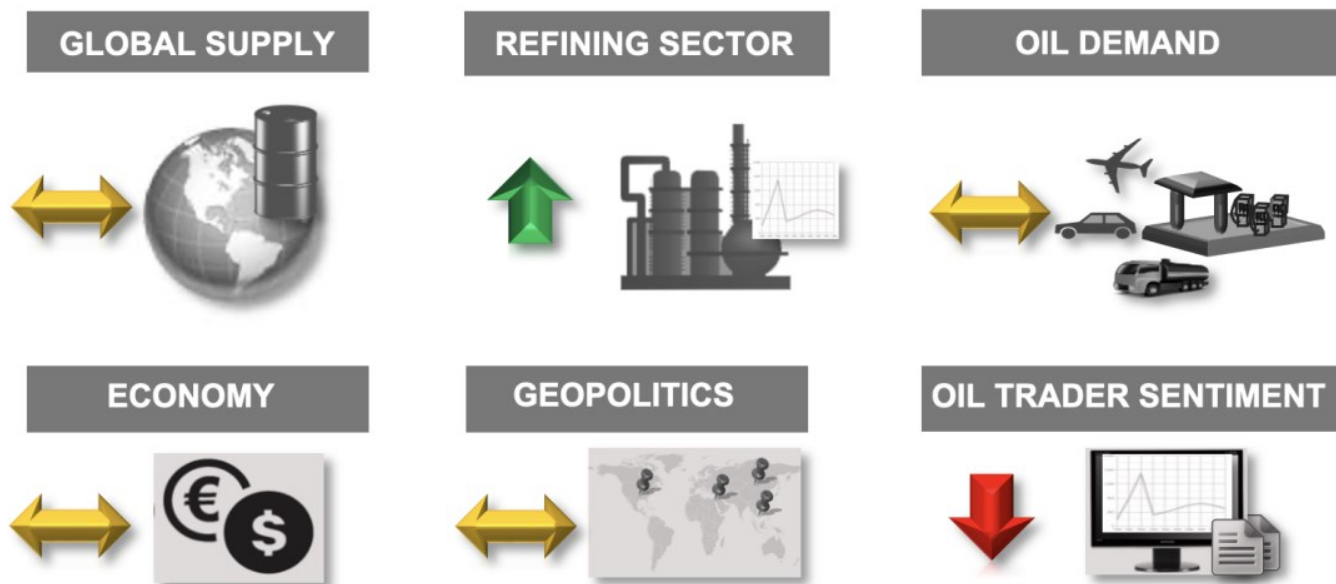


## A Case for Optimism?

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.

### WHAT IS AFFECTING OIL PRICES THE WEEK OF JAN 17, 2023?



Source: Stratas Advisors

The price of Brent crude ended the week at \$85.28 after closing the previous week at \$78.57. The price of WTI ended the week at \$79.86 after closing the previous week at \$73.77. Essentially, oil prices reverted to the levels at the end of 2022.

In recent days, there has been a shift toward more optimistic views from the major banks, including Barclays, JP Morgan, and Goldman Sachs with respect to the economic outlook and apparently because of indications that inflation is waning in the US, China is continuing to reopen its economy, and Europe's growth is holding up better than expected. It is our view, however, that there are obvious challenges still ahead for the global economy and each of the major economies.

- Last week we highlighted that the US labor situation is not as strong as the headline numbers imply. This view is further supported by wages growth continuing to lag overall inflation with real wages falling for 22 consecutive months (however, it must be noted that median real wages are essentially on par with pre-COVID levels because

median wages increased sharply in the first months of COVID-19 but have been falling since the middle of 2020). The number of average weekly hours has also declined from 34.8 in December 2021 to 34.3 in December 2022. Household debt is also very high in the US after increasing by 7.65% during 2022 and household debt service payments as a percentage of disposable income has increased significantly since 1Q of 2021 and while the percentage is similar to pre-COVID levels the trend is moving in the wrong direction after falling sharply during 2020 and 2021. In addition to the weakening position of the US workers, the US will hit a debt limit on this Thursday according to the US Treasury Department. Once this limit is reached the US Treasury will need to draw down the \$346 billion it currently holds to prevent a default; but it is expected that these funds will only last through early June of this year. While we do not think the US will default, the path to a compromise is likely to be complicated, in part, from the recently adopted rules by the Republican majority in the US Congress, which requires that any increase to the debt limit includes spending cuts along with blocking increases to mandatory spending for social programs, and a supermajority to raise taxes. It is also likely that the uncertainty will weigh on the US dollar. Last week, the US Dollar Index continued its downward slide decreasing from 103.88 of the previous week to 102.20, and well below the 114.10 at the end of September 2022.

- While China is reopening its economy is still facing challenges, in part, from the ramp-up in deaths and infections, which is reducing the labor supply along with self-imposed isolation. There are also concerns with a potential surge from the upcoming Chinese New Year. Given the current trends, it is expected that the peak of COVID-19 will not occur until mid-March. As such, China's economy will still be struggling during the first half of this year after growing by only 2.8% in 2022 with expected growth of only 1.9% in 4Q of 2022. A troubling factor is that total consumption and investment accounted for only 2.0% of GDP growth, which is significantly below 6.7% of pre-pandemic. Because of the uncertainty associated with the Chinese economy and falling net wealth stemming from the downturn in real estate and equity markets, Chinese households have increased their savings rate to 40.3% of GDP in 3Q of 2022, which is a record level.
- While the latest economic numbers from Germany exceeded expectations and Europe is experiencing some reduction in inflationary pressures, EU's inflation rate was still 9.2% in December, which gives the ECB further support for additional interest rate increases.

At Stratas Advisors, we prefer not to chase the news flow and change our forecasts frequently on this basis. Instead, we focus on assessing the underlying factors driving our forecasts through robust qualitative and quantitative analysis. In 2Q of 2022, we forecasted that oil prices would moderate in the second half of 2022 with the price of Brent averaging \$88.43 in 4Q 2022. Additionally, for several months, we have been forecasting that the supply/demand situation will move towards balance (and slight surplus in 2023) and that oil prices will average \$89.25 in 1Q 2023.

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

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