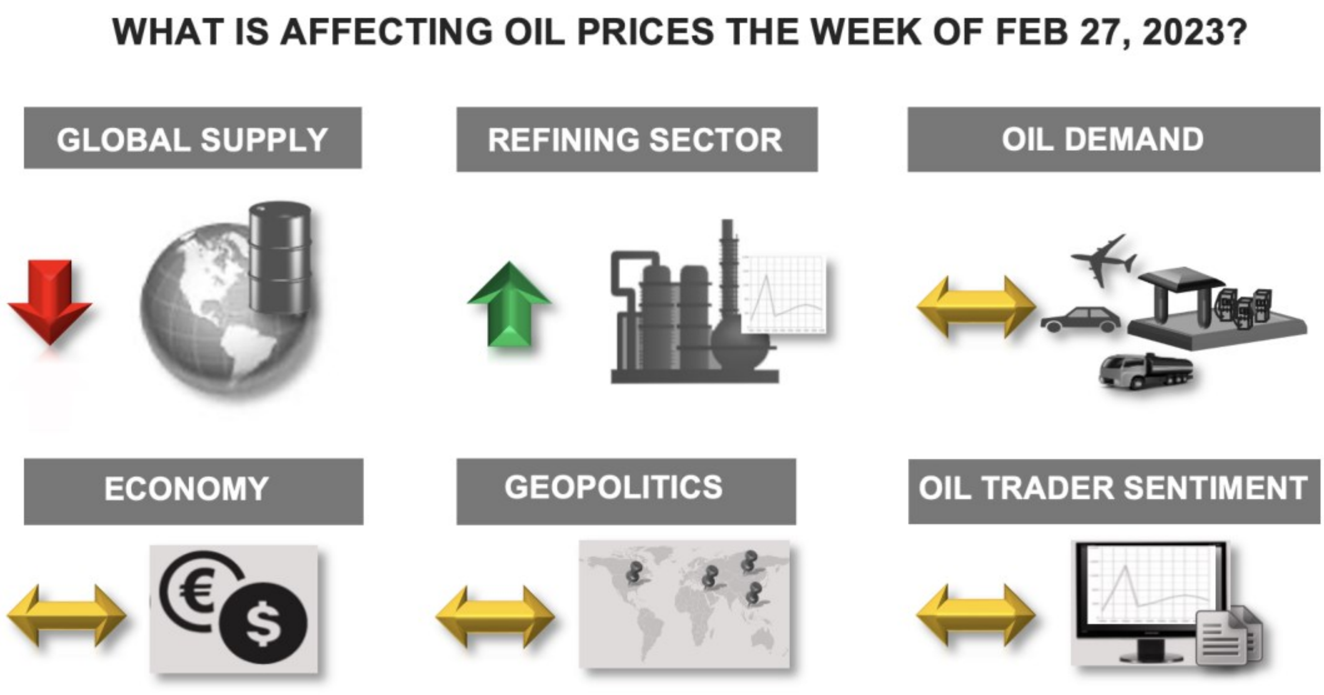
Lull Before the Storm?

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.



Source: Stratas Advisors

The price of Brent crude ended the week at $83.16 after closing the previous week at $83.00. The price of WTI ended the week at $76.32 after closing the previous week at $76.34. Interestingly, in our note from the previous week, we had indicated that each of the key factors (global supply, geopolitics, economy, oil demand, refining sector and oil trader sentiment) would have a neutral effect on oil prices – and consistent with that assessment – oil prices were essentially unchanged.

As we have previously highlighted, we are forecasting that global supply will be essentially balanced with demand for 1Q. One reason is the muted demand associated with the US. Based on the 4-week average, current gasoline demand is running 495,000 b/d less than for the same period of 2019, which represents a difference of 5.49%. Gasoline demand is also lagging last years' demand for the last four weeks by 119,000 b/d. Based on the four-week average diesel demand is 415,000 b/d less than for same period of 2019, which represents a difference of 9.89%. Diesel demand is also lagging last years' demand for the last four weeks by 600,000 b/d. Based on the four-week average, jet fuel demand is running 128,000 b/d less than in 2019, which is 8.00% less. Jet fuel demand, however, is running above last years' demand for the last four weeks, but by only 9,000 b/d. Additionally, based on the average of the last four weeks, exports of crude oil from the US are running at 3.53 million b/d, which compares to 2.61 million b/d during the previous year – and 2.70 million b/d in 2019. Concurrently, US imports of crude oil are running at 6.73 million b/d, which compare to 6.99 million b/d for the same period in 2019. At the same time, US crude inventories are greater than in recent years. In comparison to the same period of the previous year, crude inventories are 63.02 million barrels greater, and 24.53 million barrels greater than the level of 2019, and 58.56 million barrels greater than in 2018. The situation for crude inventories is positioned to get relatively better, given that we are forecasting that US production will continue to increase throughout the year and will average 12.50 million b/d in 2023, which is 630,000 b/d more than in 2022. Additionally, crude inputs to refineries continue to lag that of 2019 – based on the most recent four-week average, crude inputs are running 1.04 million b/d less than in 2019.

A notable geopolitical development that occurred last week is the attempt by China to be a mediator between Russia and Ukraine, which included the release of a peace plan that involves a cease-fire and peace talks along with removing the sanctions on Russia. While the proposed peace plan was quickly rejected by the US and EU, what we find interesting is the more active role that China is taking with respect to the conflict. This development along with the inability of the US and EU to convince unaligned countries to cooperate more fully with their initiatives pertaining to the conflict is another sign of a shifting geopolitical landscape.

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

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