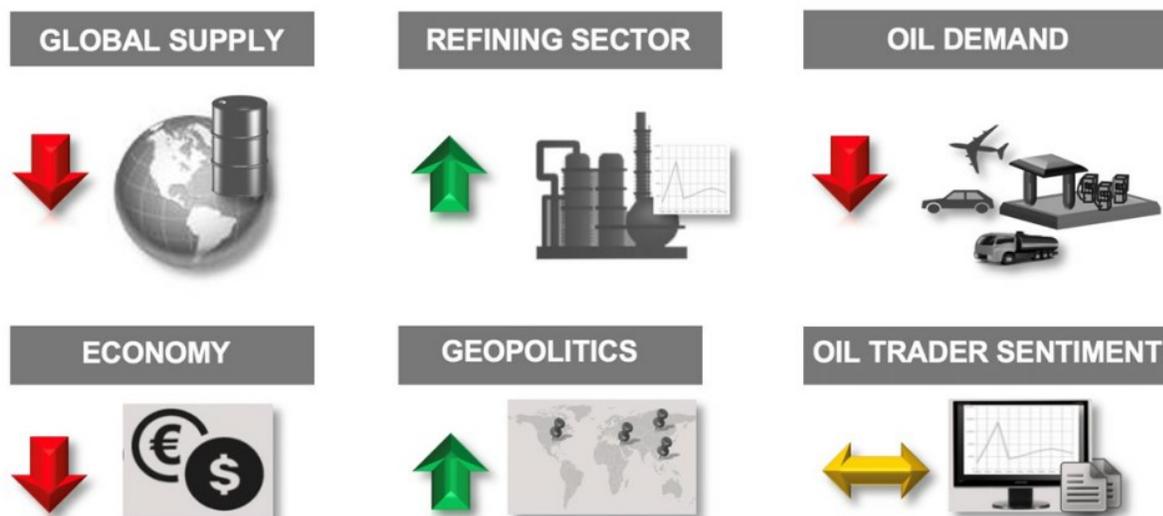


Possibility of Price Breakdown

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 May 2, 2022?



Source: Stratas Advisors

The price of Brent crude ended the week at \$107.22 after closing the previous week at \$106.65. The price of WTI ended the week at \$104.69 after closing the previous week at \$102.07.

Since February 25, the price of Brent crude continues to go through cycles of lower highs before the price of Brent crude retreats to the lower support level, and it appears that a similar pattern has happened for the fourth such cycle. Given the negative news about global economy and the pessimism about future economic growth, it is possible that the price of Brent crude will break below the support level of \$98.00 and then continue to fall below \$90.00. The likelihood of this occurring continues to grow the longer there is no actual fundamental change in the supply picture for crude oil.

Furthermore, there continues to be downside risks associated with oil demand because of the possibility of an economic

slowdown:

- During 1Q of 2022 the US economy declined by 1.4% on an annualized basis and shrunk by 0.4% from the previous quarter. Economic growth was affected by decreases in inventory investments and defense spending coupled with a record-level trade deficit. These negative factors outweighed the increase in consumer spending, which grew by 2.7%. In addition to the negative growth, the GDP price index deflator increased by 8.0% and the personal consumption expenditures price index, excluding food and energy, increased by 5.2%.
- The economies of the Eurozone grew by only 0.2% during 1Q of 2022. Additionally, future growth will be hampered by higher energy prices and supply disruptions.
- China's economy is also showing weakness with the official manufacturing Purchasing Managers' Index (PMI) declining to 47.4 in April from 49.5 in March. The reported PMI is the second consecutive month of declines with China's economy being negatively affected by a troubled real estate sector and lockdowns associated with COVID-19.

Further downward pressure is placed on the oil price by the strength of the US Dollar, which is indicated by the US Dollar Index reaching 102.96. This is the highest level for the US Dollar Index since the second half of 2002 when the price of Brent crude was around \$25.00.

There are also increasing risks associated with food supply, which is highlighted by the elevated costs of agricultural commodities. The price of corn has increased to more than \$8.00 per bushel, which is near a record high. In comparison, from mid-2014 through 2020, the price of corn remained between \$3.25 and \$4.25. The price of soybeans is also extremely high with the price reaching \$1.685.

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