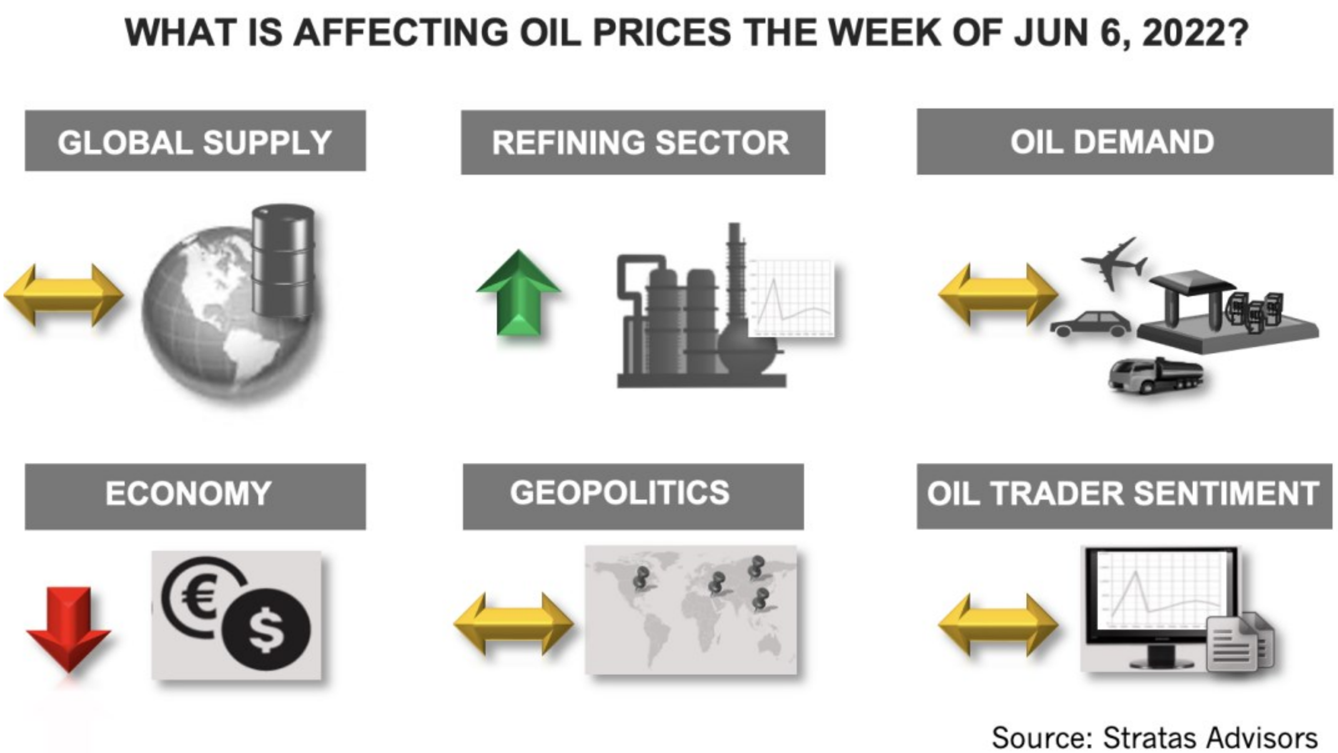
More Developments – but how much impact?

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 $119.72 after closing the previous week at $119.43. The price of WTI ended the week at $118.87 after closing the previous week $115.07.

During the previous week there were some newsworthy developments. Firstly, OPEC+ met last week on June 3 and decided to increase supply by 648,000 b/d in July and August. The additional increase stems from bringing forward the planned September volumes and spreading them across July and August with the intent to match the increased demand associated with the summer months in the northern hemisphere. While OPEC+ continues to increase supply quotas, OPEC+ is struggling to increase actual supply, and in April supplied 2.7 million b/d below the agreed quotas. Besides Russia, several of the African producers – Libya, Angola, and Nigeria – are continuing to underproduce because of internal conflict.

Additionally, the EU finally reached an agreement to ban imports of crude oil (and refined products) from Russia, with the initial focus on imports delivered via ship, with the intent that imports via pipeline will ultimately be banned. We have been expecting that the EU would reach a formal ban and once in place that

Russian exports of crude oil would decline by a net 1.5 million b/d with a portion of the lost volumes to Europe being offset by increased exports to Asia and other markets. However, we expect that the net loss will be reduced overtime, as Russia (and importing countries) finds ways to mitigate the barriers hindering Russian oil exports.

The EU is also working to implement a ban on insurers covering oil tankers (oil and refined products) that will be phased in over six months. The ban would affect insurance for physical damage and losses from oil spills and insurance providing protection and indemnity against liability from third parties. The EU is hoping that since European companies provide insurance for most of the world's oil trade, the ban will hamper Russia's ability to export oil to Asia and other regions outside of the EU. And it is most likely the ban will create more friction; however, because of the importance of oil to the economies of major growing and developing economies, and to the economy of Russia, we believe that the proposed insurance ban will ultimately have limited impact on Russian exports of crude oil and refined products.

From a demand perspective, US gasoline demand continues to lag. The latest weekly report from EIA indicates that gasoline demand in the US increased to 8.98 million b/d from the previous week of 8.80 million b/d. In comparison, for the same period of the previous year, gasoline demand was 9.15 million b/d. Based on the 4-week average, current gasoline demand is running 584,000 b/d less than for the same period of 2019. Diesel demand is also last robust, as indicated by the latest four-week average, which shows that diesel demand is running 158, 000 b/d less than in 2019.

In our note of the previous week, we suggested that oil prices would not move significantly higher than $120.00 over the next few months, in part, because our expectation that the supply situation would stabilize, and that global demand growth would remain moderate. After the developments of last week, we are still holding to that view.

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