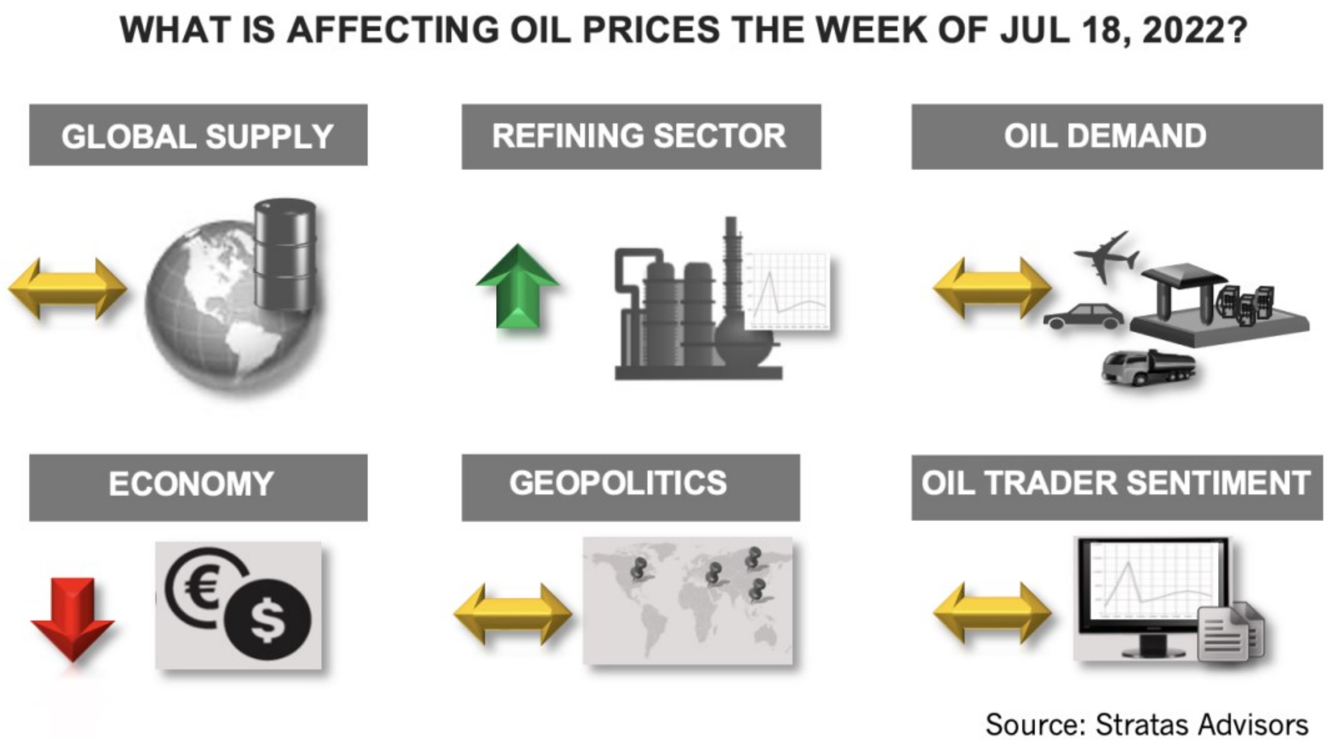
Back in the Channel

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 $101.16 after closing the previous week at $107.02. The price of WTI ended the week at $97.59 after closing the previous week $104.79. As such, while oil prices are revisiting the lower support levels, the price of Brent crude is staying within the channel between $100 and $120.

The most recent data continue to indicate slowing economic growth.

- The US continues to experience elevated inflation with the June report showing that the Consumer Price Index increased by 9.1% from the previous year and 1.3% from the previous month. With inflation running high, wages are lagging well behind the overall increase in prices, which is increasing the risk of a recession, given the importance of consumer spending to support the overall economy. The US economy had negative growth in 1Q of this year, and early indications are that the economic growth will be negative in 2Q. Additionally, much of the inflation is being driven by supply chain issues and shortages, which cannot be addressed through monetary policy. Regardless, the US Federal Reserve seems intent on continuing to raise interest rates. The latest indications are that the Federal Reserve will raise interest rates by 0.75% at its next meeting on July 26-27, which will be the second consecutive such increase.

- The European Central Bank also seems intent on raising interest rates, even though economic activity is slowing down. The most recent PMIs for Euro area declined with the Manufacturing PMI falling from 54.60 to 52.10 and the Services PMI falling from 56.10 to 53.00.
- China's economy also continues to struggle with 2Q growth being reported at only 0.4% from the previous year and a decrease of 2.6% from 1Q. However, China's PMIs for June indicate that its economic activity is picking up. China's composite PMI increased from 48.1 to 51.7. Additionally, China's official Manufacturing PMI increased to 50.2 from 49.6, which is the first expansion since February (readings above 50 indicate expansion, while readings below 50 indicate contraction). However, the impact of COVID-19 and zero-COVID policies in China is not over, with China now dealing with the BA.5 sub-variant, which is highly contagious.

The slowing economic growth is translating into waning growth for oil. The latest weekly report from EIA indicates that gasoline demand in the US decreased to 8.06 million b/d from the previous week of 9.41 million b/d. In comparison, for the same period of the previous year, gasoline demand was 9.28 million b/d. Based on the 4-week average, current gasoline demand is running 750,000 b/d less than for the same period of 2019, which represents a difference of 7.9%. Furthermore, in our most recent quarterly update (***Short-term Outlook***) global oil demand to forecasted to be only 2.63 million b/d greater in 2022 than in 2021, which is around 1.0 million b/d less than our forecast at the beginning of the year

While there is downward pressure on oil prices, there are also factors providing support.

- We are still expecting that overall demand growth for oil will be slightly greater than the growth in oil supply during 3Q, even though the oil supply-side situation has been stabilizing.
- Furthermore, despite the visit to the Middle East by President Biden, we are not expecting any material change in the supply strategy of Saudi Arabia or OPEC+.
- Additionally, as we pointed out in our note of last week, now that oil traders having reduced their net long positions to the lowest level since April of 2020, we are expecting that oil traders will start reversing this trend.

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