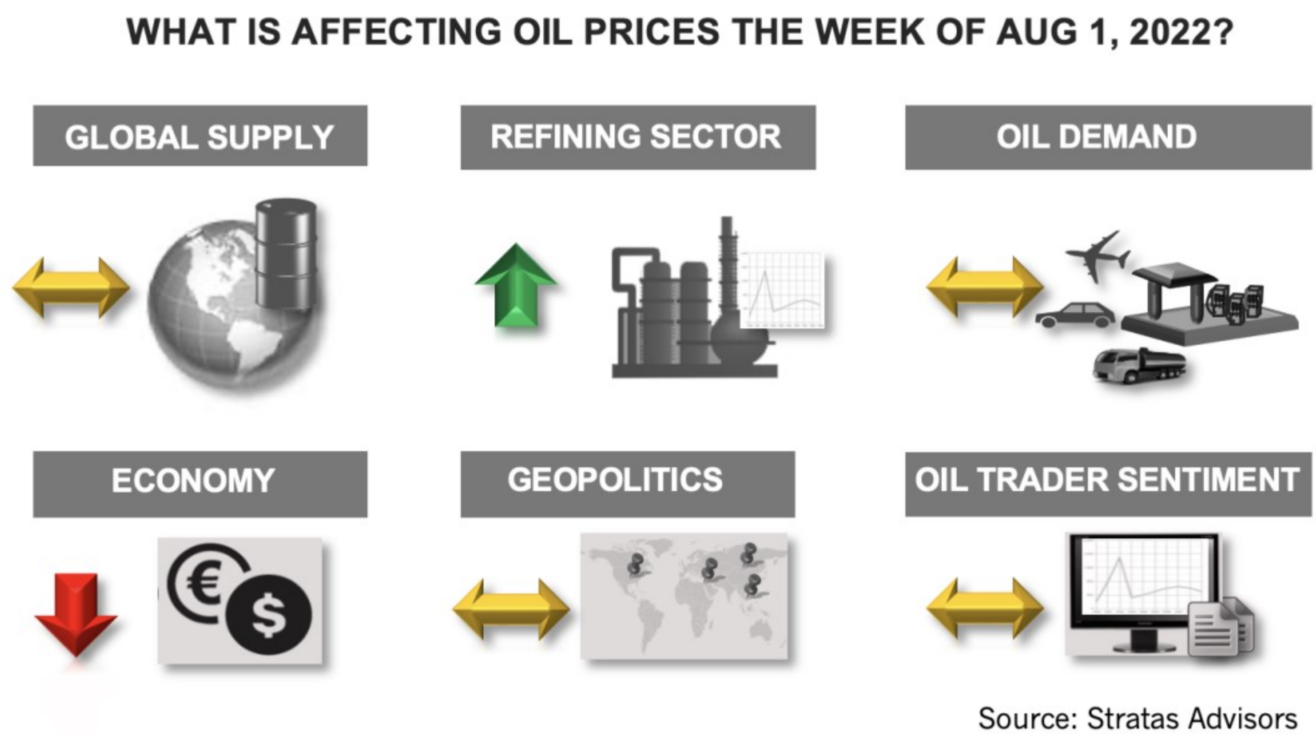
Less Pressure for Action

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 $103.97 after closing the previous week at $103.20. The price of WTI ended the week at $98.62 after closing the previous week $94.70.

The latest GDP numbers for the US confirm our view that the US economy has been slowing down. The GDP data show that the GDP declined at an annual rate of 0.9% during 2Q after declining at an annualized rate of 1.6% in 1Q. Despite the economic slowdown, the US Federal Reserve moved forward with the expected interest rate increase of 0.75%. Oil demand in the US continues to be tepid. The latest weekly report from EIA indicates that gasoline demand in the US increased to 9.25 million b/d from the previous week of 8.52 million b/d. In comparison, for the same period of the previous year, gasoline demand was 9.33 million b/d. Based on the 4-week average, current gasoline demand is running 740,000 b/d less than for the same period of 2019, which represents a difference of 7.75%. Diesel demand in the US increased to 3.75 million b/d from the previous week of 3.70 million b/d. In comparison, for the same period of the previous year, diesel demand was 4.36 million b/d. Based on the four-week average, diesel demand is running 17,000 b/d less than for the same period of 2019, which represents a difference of 0.45%. Jet fuel demand increased to 1.77 million b/d from 1.64 million b/d of the previous week. In comparison, for the same period of the previous year, jet fuel demand was 1.65 million b/d. Based on the four-week average, jet fuel demand is running 208,000 b/d less than in 2019, which is about 11% less.

China's economy is also showing weakness. China's economy continues to be affected by COVID-19, as indicated by the recently announced official purchasing managers' index (PMI) for July. The PMI for manufacturing declined to 49.0 from 50.2 in June when the manufacturing PMI increased from 49.6 and was the first expansion since February. Further weakness is indicated by the index for new orders declining by 2 points. Additionally, the non-manufacturing PMI declined to 53.8 from 54.7 in June – and the composite PMI declined to 52.5 from 54.1. (Readings above 50 indicate expansion, while readings below 50 indicate contraction). China's economy is also being hampered by weakness in the property sector, which represents about 25% of China's overall economy. The difficulties associated with the property sector are highlighted by Evergrande, one of the largest property developers in China, which is struggling to restructure its $300 billion in liabilities. While China's official growth target for 2022 is 5.5%, Stratas Advisors has been forecasting a GDP growth rate of 4.31%

In contrast, the European Union reported economic growth of 4.0% in comparison to the previous year and 0.6% in comparison to the first quarter. The economic growth occurred even though the Germany's economic growth was flat during 2Q. While the region grew it is still facing the challenge of elevated inflation, which was 8.9% in July along with future energy challenges.

A significant development on the sanctions front is that Europe is delaying plans to lock Russia out of the Lloyds of London maritime insurance market. As reported by the Financial Times, the sanctions approved by the UK in July only prohibit insurance for vessels shipping Russian oil to the UK (taking effect at the beginning of next year) and does not ban insurance on oil shipments from Russia to other countries. While the EU insurance ban remains with no new insurance allowed on vessels shipping Russia oil and existing insurance becoming invalid after December 5, the EU is allowing European companies to deal with some Russia state-owned entities, including Rosneft. The EU has taken the steps "to avoid any potential negative consequences for food and energy security around the world." In previous weekly notes, we have put forth our view that the insurance ban would be counterproductive.

Members of OPEC+ are scheduled to meet on Wednesday, August 3. We are expecting that OPEC+ will not announce any significant changes in supply considering the weakness in the economies of the US and China, and that the EU and the US are wavering with respect to sanctions on Russia's oil-related exports.

For the upcoming week, we are expecting that oil prices will be under pressure from the weakening economic outlook – and from a technical perspective with the recent price movement resembling a descending triangle, which is a bearish chart pattern.

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