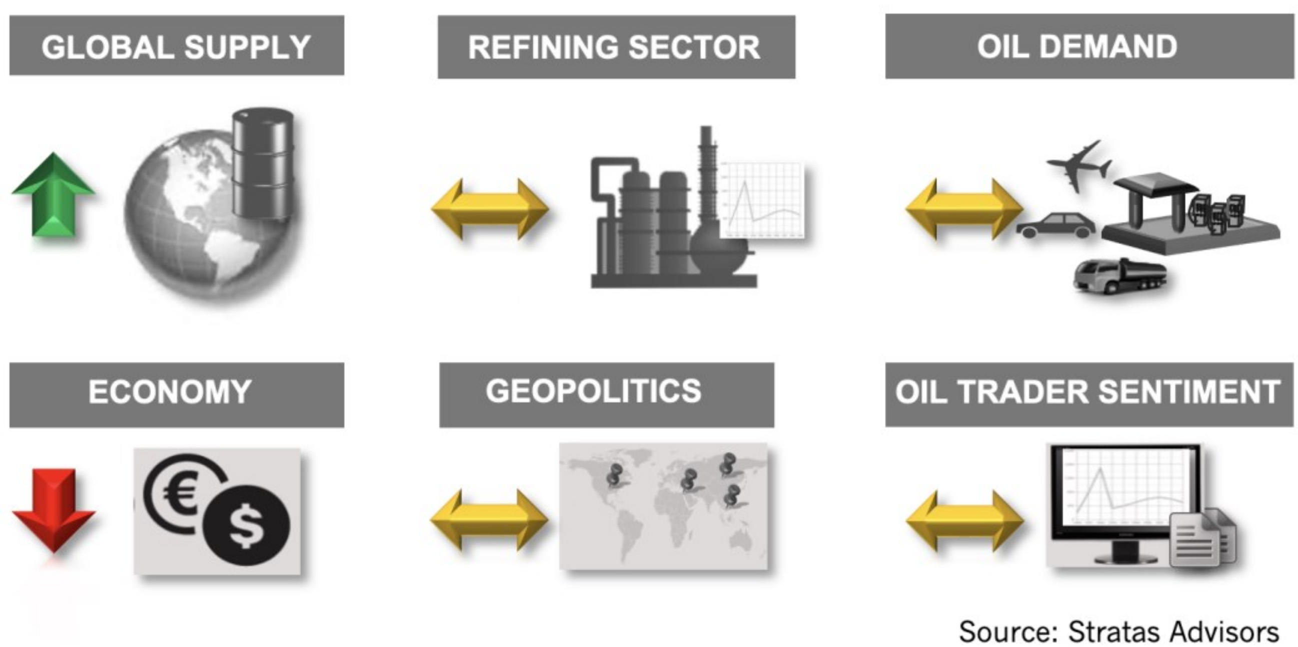
Reaching a Plateau?

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 SEP 12, 2022?



Source: Stratas Advisors

The price of Brent crude ended the week at $92.84 after closing the previous week at $93.02. The price of WTI ended the week at $86.79 after closing the previous week $86.87. Prices rebounded in the latter part of the week after declining though Wednesday. The price of Brent, however, remains below the 200-day moving average.

Additionally, there remain factors that are putting downward pressure on oil prices.

- The major economies continue to show signs of slowing down. While the US continues to add jobs, the PMIs are trending downwards with the composite PMI declining to 44.60 from 47.70 in July. The Service PMI declined to 43.70 from 47.30 and the manufacturing PMI declined to 51.50 from 52.30. The other major economies are also seeing similar weakness.

- China's composite PMI declined to 54.0 from 53.0
- Japan's composite PMI declined to 49.4 from 50.2
- Germany's composite PMI declined to 46.9 from 48.1
- UK's composite PMI declined to 49.6 from 52.1
- One exception is the economy of India, whose composite PMI increased to 58.2 from 56.6.

- The US dollar remains strong with the US Dollar Index ending the week at 109.00 after closing the previous week at 109.53. The strong US dollar is putting further pressure on the economies of other countries because it is making dollar-denominated commodities more expensive.
- Growth in oil demand continues to weaken, and in response Stratas Advisors has reduced its forecast. In our latest quarterly update of our global outlook for the oil markets, we are forecasting that global oil demand in 3Q will increase by 1.5 million b/d in comparison to 2Q of this year, which is around 300,000 b/d less than our previous forecast. For 4Q we are forecasting that demand will increase by 1.10 million b/d in comparison to 3Q. In 4Q oil demand is expected to average 101.1 million b/d. On average, we are forecasting that global demand will increase by 2.20 million b/d in 2022, which compares to 2.6 million b/d in our previous forecast.
- Oil traders continue to trim their net long positions, which remain at the low levels last seen in April of 2020.

On the other hand, there are factors offering support for oil prices – all supply-related.

- Upstream activity remains muted. Last week, the number of operating oil rigs in the US decreased by 5 and now stands at 591 rigs, which compares to the pre-COVID level of 683 that occurred during the week of March 13, 2020. The number of operating oil rigs in Canada decreased by 3 and now stands at 140, which compares to 87 operating rigs for the same period of the previous year. From a global perspective the total oil and gas rig count reached 1,825 at the end of August, which compares to 1,361 of the previous year, but is still well below that of 2019, when the rig count was 2,206. While the US and Canadian rig count lags 2019 level by 15%, the rig count in the other regions lags by 22%. The rig count in Europe lags by 31%, Africa by 32%, Middle East by 26%, Asia by 13%, and Latin America by 9%.
- We have long been skeptical of a renewal of the Iran nuclear deal and the current negotiations appears to be reaching a breaking point. The US Secretary of State stated last week that recent demands from Iran have taken the negotiations backwards. European negotiators have also voiced concerns about the lack of seriousness being exhibited by the Iranian negotiators.
- The level of inventories in the Strategic Petroleum Reserve (SPR) declined last week by 7.53 million barrels. Since the beginning of the year, inventories in the SPR have been drawn down by 151 million barrels. In comparison, commercial inventories have increased by only 9.34 million barrels.

Looking forward, there is support at $85.00 price level for Brent crude. Also, OPEC+ will want to keep the oil price from collapsing and will attempt to adjust supply to align with demand. As such, we think oil prices will stabilize through the rest of the year with the risk of an upward spike in oil prices fading.

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