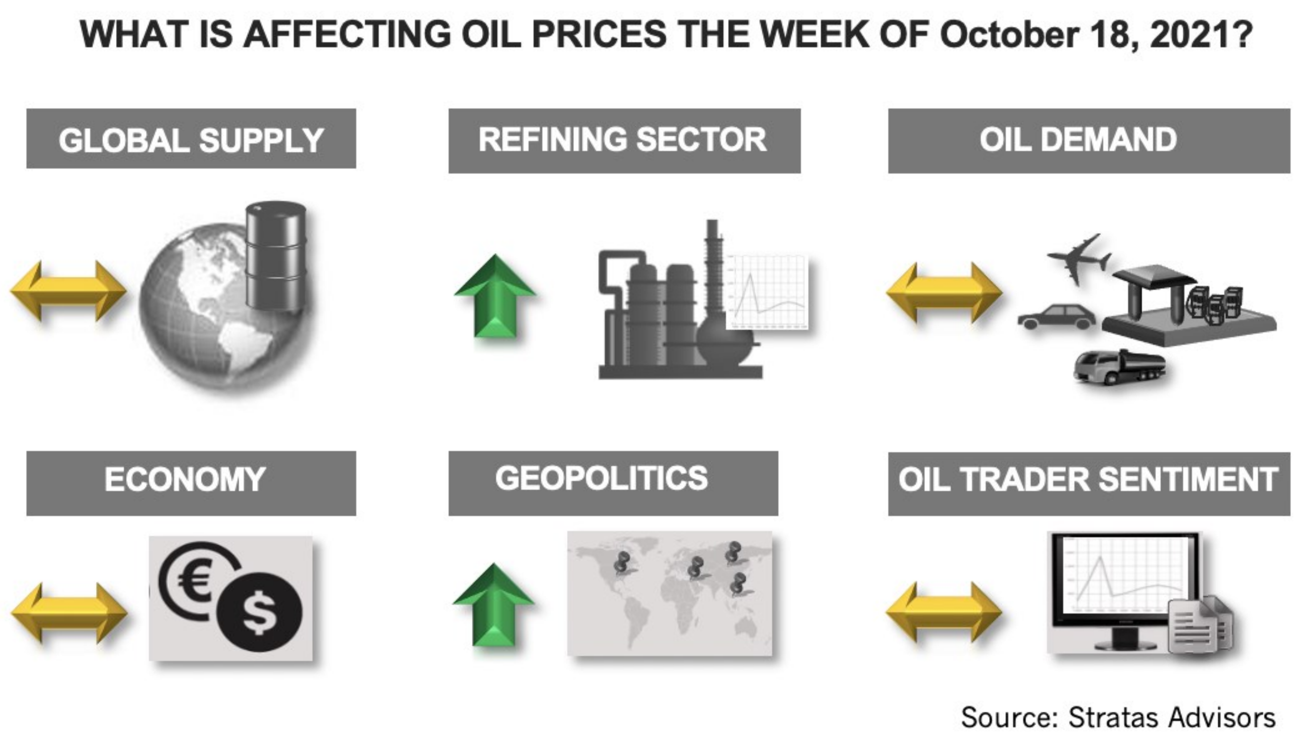
There remain moderating factors

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.



As we expected, crude prices continued going up last week, but more moderately than the prior week. The price of Brent crude ended the week at $84.92 after closing the previous week at $82.58. The price of WTI ended the week at $82.66 after closing the previous week at $79.59.

The movement of oil prices has been negatively correlated with the movement of COVID-19 cases – when COVID cases are increasing, oil prices have weakened and when COVID-19 cases have been waning, oil prices have strengthened. When COVID-19 cases started moving upwards and peaked in the beginning of September, oil prices went from $77 down to $65. With the subsequent decline in COVID-19 cases, oil prices have rebounded to new highs. So, the question now is how much longer will crude prices remain on the upward trend?

While the news about COVID-19 and supply/demand fundamentals remain favorable, we do see other factors that will moderate oil prices, including the following:

- We still hold the view that OPEC+ is comfortable with prices being around the $80 level but does not want prices to spike – nor does OPEC+ want to lose market share. OPEC+ will continue to monitor demand – and the pace of increases in non-OPEC supply, including US shale producers – as well as the oil price. As such, we think OPEC+ will add supply, when required, to achieve these goals. From a global perspective, we are forecasting that crude supply in 4Q21 will be 5.60 million b/d more than in 4Q20. In comparison with 3Q21, supply in 4Q21 is forecasted to be greater by 1.75 million b/d.
  - OPEC supply to increase by 0.560 million b/d
  - Non-OPEC supply to increase by 1.19 million b/d
  - US production to increase by 0.500 million b/d
- The global economy remains fragile with the US and Europe facing monetary and fiscal challenges, which provide the potential for policy stumbles and disappointments. Additionally, there are still supply chain issues that are not only affecting consumers, but manufacturing sectors, including the automotive sector. For example, last Friday, Toyota announced that it is reducing its global production by some 15% in November because of a chip shortage.
- Besides higher oil prices, the global economy is dealing with elevated natural gas and coal prices. Additionally, major economies, such as China and India, are facing energy shortages, which are requiring rationing and restrictions. While countries are taking steps to address the shortages, including the increase in coal production, it will take time.
- Last week, the US Dollar Index declined slightly (93.95 vs. 94.1). However, we are still expecting that the US Dollar Index will continue to increase through the rest of the year and will approach 96.00.

For the upcoming week, we are expecting that crude prices will move sideways, in part, because traders are pulling back some from the bullish sentiment that has been increasing during the prior month. And the above factors will moderate the upward trend of oil prices during last quarter of this year.

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