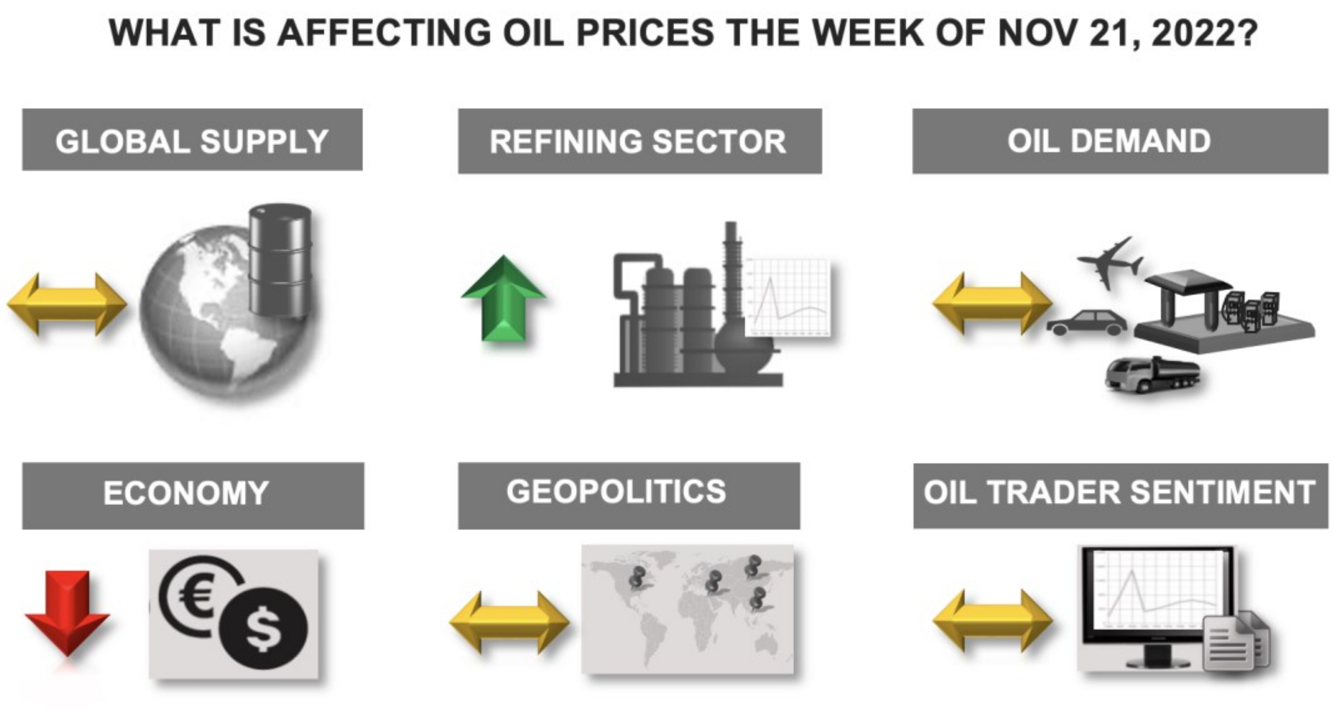
Back in a Channel?

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.



Source: Stratas Advisors

The price of Brent crude ended the week at $87.74 after closing the previous week at $95.99. The price of WTI ended the week at $80.11 after closing the previous week $88.96.

For the last couple of months, we have been putting forth the view that the price of Brent crude would be around $90 during 4Q of this year. Additionally, we expect that the price of Brent crude will remain, for the most part, in the channel between $85.00 and $95.00 because of upside resistance coupled with downside support. The upside resistance stems from the weakening and fragile economic conditions, which is translating into muted oil demand growth. The downside support stems from the relatively tight oil supply conditions. While there is sufficient supply to prevent oil prices from breaking out to higher levels, we are forecasting that oil demand will slightly outpace oil supply during 4Q by around 240,000 b/d, excluding any changes pertaining to inventories held in strategic reserves. (In 1Q of 2023, we are forecasting that there will be a shift to a slight surplus with supply outpacing demand in 1Q of 2023 and continue to do so throughout 2023). Additionally, there is some uncertainty about security of supply with the US and its G7

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allies continuing to contemplate the implementation the imposition of additional sanctions. While we think the additional sanctions (including a price cap) will be of limited effectiveness (as we have been previously highlighting, including in last week's note), the uncertainty provides the basis for a risk premium, which otherwise would not be part of oil prices.

While not directly affecting oil prices in the short-term, COP 27 being held in Egypt ended on Sunday with some interesting developments, including the following:

- A fund is to be created to support nations that are vulnerable to climate with the funds to be provided by existing financial institutions
- The funds are not expected to be established for several years, in part, because the agreement does not include details on major items such as which party will be responsible for overseeing the fund
- Limited progress was made in updating national climate targets and there is no language pertaining to achieving the objective of emissions peaking before 2025
- Additionally, it appears that the setting of targets will shift back to a five-year cycle and away from the annual process agreed to at COP 26
- There is also no commitment to phase out fossil fuels with the nations agreeing only to accelerating efforts to phase out unabated coal power and inefficient fuel subsidies
- Some participants have expressed a concern about the potential of using low-emissions energy, such as natural gas, which would still contribute to the emissions of CO2 and methane

The above developments highlight the difficulty of balancing the need to support economic activity, while addressing the objective of reducing emissions.

For a complete forecast of refined products and prices, please refer to our ***Short-term Outlook***

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