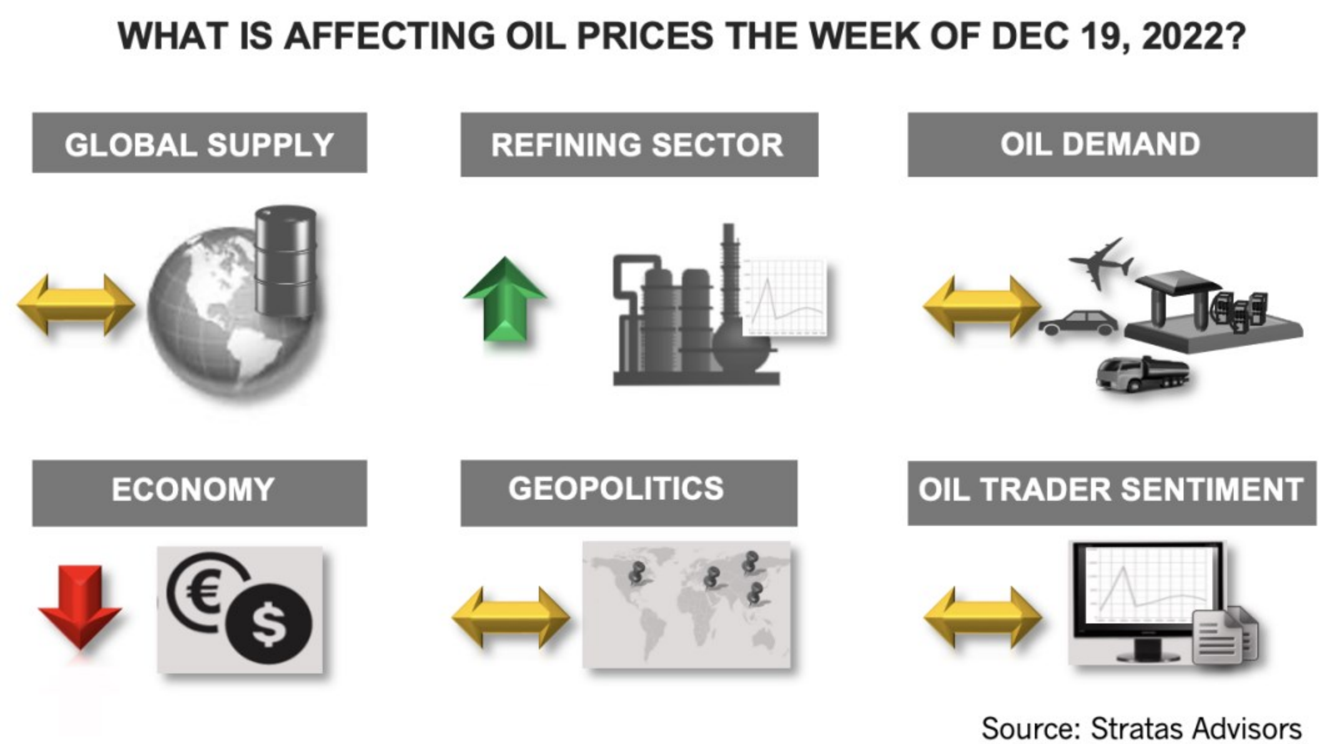
# Pessimism is growing

*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 $79.04 after reaching $82.75 on Wednesday and closing the previous week at $76.10. The price of WTI ended the week at $74.29 after reaching $77.28 on Wednesday and closing the previous week $71.02.

Oil prices have been affected by the economic news and data associated with the major economies

- As expected, the US Federal Reserve raised interest rates last week by 0.50%, which increases the Federal Funds rates to 4.25% - 4.50% and the highest level in 15 years. Additionally, the Federal Reserve indicated the intentions to further increase rates to 5.00% - 5.25% by the end of 2023. The rate increases are continuing even though there are signs that inflation is heading downwards in the US. Early in the week it was reported that the consumer prices increased in November by 7.1% on a year-on-year basis and down from 7.7% in October and from a peak of 9.1% in June. Additionally, core inflation (excluding energy and food) increased by 6.0%. On a month-to-month basis, consumer prices increased by 0.1% and core inflation increased by 0.2% from October to November. We have long voiced the concern that the Federal Reserve would push the US economy into a recession by trying to address inflation, which is not being driven only by monetary factors. The Federal Reserve believes that the labor market is too tight, even though wage continue to increase at slower pace than overall inflation. Additionally, the number of employed Americans lags pre-COVID level by 3.4 million workers and the workforce participation rate for men 16 years old and up stands only at 68%. There are other signs that the job market is not as strong as the relatively low unemployment rate indicates. The Philadelphia Federal Reserve has recently estimated that the job increases in 2Q were only 10,500 and not the 1,121,500 estimated by the Bureau of Labor Statistics. Additionally, the US economy is slowing down, as indicated by the recent monthly manufacturing activity index also from the Philadelphia Federal Reserve, which shows that new orders have dropped to the lowest level since April 2020 and that manufacturing employment is falling.

- The expectations for Europe are even more pessimistic with Europe dealing with high energy prices and slowing business activity coupled with tightening monetary policies.
- China has taken some initial steps to shift away from its zero-COVID policies, but there are significant challenges ahead. As expected, there has been a spike in COVID-19 cases across urban centers. The good news is that China has not reported any COVID-related deaths since the relaxation of restrictions that was initiated on December 7. Besides COVID, China is still dealing with an overleveraged real estate sector and slowing economic activity. Industrial output only increased by 2.2% in November from the previous year. Retail sales decreased by 5.9%, which was the biggest decrease since May. China, however, is not facing elevated inflation, which will allow China to employ supportive monetary policies.

In conjunction with the pessimistic economic news and data, is a supply situation that appears adequate to meet the demand. Neither India nor China has agreed to the price cap and are expected to continue to purchase crude oil from Russia. Additionally, we expect that India's and China's share of Russia's oil exports will continue to increase taking advantage of the available discount and the increased bargaining power resulting from the price cap. Consequently, we hold to our view that the price cap will have limited impact on Russia's exports. Based on our supply and demand forecasts, we are expecting that oil market will move into a slight surplus during the first half of 2023 and remain in surplus through the rest of the year.

While we are forecasting that price of Brent crude will average more than $80.00 during 1Q of 2023, the downside risks are increasing.

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

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