Daily Oil Fundamentals

Wednesday 14 September 2022

Hot stuff

At first glance, you wouldn't think that a glass of red wine and inflation share much in common. But the fact is that both are best enjoyed at room temperature. Unfortunately, inflation has been sizzling this year and nowhere more so than in the US. Figures released yesterday showed US inflation came in hotter than hoped in August. The US consumer prices index rose by 8.3% in the year to August, down on July's 8.5% – but missing forecasts of a drop to 8.1%. Of more concern is that annual core inflation rose to 6.3% from 5.9% a month earlier.

The latest US inflation report dashed hopes that price pressures might have cooled more quickly. Crucially, the inflation figures will heap further pressure on policymakers at the US central bank for even more sharp rises in interest rates to tame inflation. The Federal Reserve is now widely expected to raise rates by three-quarters of a point next week, with some even surmising that it will hike borrowing costs by a full percentage point. Either way, the Fed is far from done with raising rates and will keep the pedal to the metal in its tightening approach.

The spectre of more aggressive rate rises sent the risk-asset complex into a tailspin. Leading US stock indices suffered their worst sell-off in two years. Oil was dragged lower by the sea of red on Wall Street. Brent and WTI pared early gains to end the day lower but off the session's lows. The two leading crude markers are coming under fresh downside pressure at the time of writing as attention shifts to swelling US oil stockpiles. Overnight, API data showed US crude inventories rose by 6 million bbls last week. This follows a hefty 9 million bbls build in the prior week. Crude oil inventories appear to be at a turning point with builds becoming the norm as demand takes a hit. All the while, gasoline stocks fell by 3.2 million bbls and distillate fuel stockpiles rose by 1.8 million bbls.

Putting on a brave face

It doesn't take long to gauge the theme of OPEC's latest monthly report, released yesterday. The word "robust" was mentioned twice in its featured article regarding the health of the global economy and went on to make a further 14 appearances throughout the rest of the report. OPEC continues to view the global economy with rose-tinted glasses despite the threat of recession in several key economies. In view of this stubborn optimism, economic growth is forecast to remain robust at 3.1% in 2022, unchanged from last month's assessment.

The oil cartel's positive outlook for the global economy is reflected in its demand forecasts. World oil demand growth in 2022 remained unchanged from the previous month's assessment at a healthy level of 3.1 mbpd. Total oil demand is projected to average 100 mbpd. That said, some noteworthy adjustments were made. Consumption in the current quarter was revised lower to the tune of 260,000 bpd due to fresh COVID-19 restrictions in China. This comes on top of last month's 720,000 bpd downgrade for the same period.

Yet this latest revision was offset by an upgrade to the final quarter of the year. OPEC expects a strong finish to the year on the back of gas-to-oil substitution for power and ongoing global economic growth. Accordingly, it now sees global oil demand rising by almost 2 mbpd q-o-q in 4Q22. As for next year, its forecast for world oil demand growth also remained unchanged from the previous month's assessment to 2.7 mbpd, surpassing the pre-COVID-19 levels, to stand at 102.7 mbpd. OPEC's message is clear: the demand side of the oil equation is healthy going forward hence current demand-side concerns are unwarranted.

Turning our attention to the supply front, OPEC left its forecast for supply from rival producers broadly unchanged from the previous assessment. Non-OPEC liquids supply growth in 2022 is forecast at 2.11 mbpd, down 40,000 bpd compared to last month's forecast. As for OPEC's own

OTC Prices & Futures Spreads 13/09/2022

	Close	±
November 30-Day BFOE ($/bbl)	94.58	-1.69
November Brent/Dubai EFS ($/bbl)	5.96	0.23
October Urals CFD MED ($/bbl)	-20.60	0.00
ICE November/December Brent ($/bbl)	0.95	-0.12
NYMEX October/November WTI ($/bbl)	0.42	0.05
November WTI/Brent Arb ($/bbl)	-6.28	0.31

Futures Prices 13/09/2022

	Open	High	Low	Close	±	% ±
ICE Nov Brent ($/bbl)	94.31	95.53	91.05	93.17	-0.83	-0.88%
NYMEX Oct WTI ($/bbl)	88.09	89.31	85.06	87.31	-0.47	-0.54%
ICE Nov Murban ($/bbl)	96.16	96.16	95.31	94.28	-1.23	-1.29%
NYMEX Oct Heating Oil (¢/gal)	360.97	365.96	348.50	354.13	-6.18	-1.72%
NYMEX Oct RBOB (¢/gal)	247.32	250.91	241.72	248.04	3.56	1.46%
NYMEX Oct Natural Gas ($/mmBtu)	8.381	8.456	8.155	8.284	0.035	0.42%
ICE Oct Gasoil ($/mt)	1072.75	1089.00	1038.25	1057.50	-35.00	-3.20%

production, it averaged 29.65 mbpd in August, according to secondary sources, an increase of 618,000 bpd from the prior month. This was the biggest monthly gain in more than two years and brings the group's output one step closer to the symbolic 30 mbpd threshold. Gains were led by Libya whose output climbed back above 1 mbpd after a four-month hiatus. Saudi Arabia also chipped in as its production edged tantalising close to 11 mbpd.

Even so, those committed to unwinding cuts implemented at the onset of the pandemic 2020 continued to lag behind their targets. The unwinding process was supposed to be concluded in August, yet OPEC-10 output came in 1.4 mbpd below its quota. And there is no saying if this shortfall will be addressed given the group's reticence and in most cases inability to meaningfully increase output levels. This is particularly pertinent given the backdrop of rising demand for OPEC crude. By its own estimates, the call in its crude is set to jump from 28.1 mbpd in 3Q22 to 29.87 mbpd in the final quarter of 2022. OPEC's implied balances therefore suggest a return to a balanced market is on the cards. This is in keeping with its positive take on oil fundamentals heading into the year-end period. There is, however, a very real risk that this could turn out to be more wishful thinking than fact.

Stephen.Brennock@pvm.co.uk