Daily Oil Fundamentals

Friday, 07 July 2023

Stock Draws Counter Labour Market Woes

After the morning climb oil prices started to reverse course when two sets of US jobs data were released. Private payrolls added 497,000 jobs in June, up from 267,000 in May, and significantly higher than forecast. Initial jobless claims rose marginally to a seasonally adjusted 248,000 for the latest reporting period, a tad above expectations. Laid off workers are going through a shorter period of unemployment before finding a new jobs. The US labour market is still causing headaches and if a July rate increase was ever in doubt after Tuesday's Fed minutes, the job data made it abundantly clear that the tightening will continue next month. The silver lining was the surprise growth in the service sector implying unabated slowing of service inflation.

Equities, however, came under immense pressure bringing oil down with them. An inspiringly and refreshingly positive US oil inventory report turned the sentiment around once again, nonetheless. Prices recovered from the jobs data-induced dip, and they did so justifiably. All major categories registered falling stockpiles with crude oil inventories shrinking 1.5 million bbls, gasoline stocks a forecast-beating 2.5 million bbls and distillate stockpiles by 1 million bbls. Commercial oil inventories thinned 2.8 million bbls taking the combined drawdown of the past two weeks to 8 million bbls. Further comfort was drawn from the 21.24 mbpd of products refiners supplied last week. The 500,000 bpd growth in distillate proxy demand stands out but gasoline reaching 9.6 mbpd, the highest since the end of 2021 must not be dismissed either. In layman's terms, it was a robust set of data, and the bounce that followed indicates that changes in stock levels, US, OECD or global, might just start playing a relevant role in influencing oil prices.

Overnight Pricing

Current Futures Prices 07/07/2023						
	Open	High	Low	Current	±	% ±
NYMEX August WTI ($/bbl)	71.89	72.24	71.69	72.21	0.41	0.57%
NYMEX August Heating Oil (¢/gal)	248.64	249.86	248.24	249.80	1.86	0.75%
NYMEX August RBOB (¢/gal)	255.34	256.50	254.43	256.26	1.88	0.74%
NYMEX August Natural Gas ($/mmBtu)	2.635	2.641	2.623	2.637	0.028	1.07%
ICE September Brent ($/bbl)	76.52	76.98	76.38	76.94	0.42	0.55%
ICE September Murban ($/bbl)	78.16	78.16	78.16	78.16	0.50	0.64%
ICE July Gasoil ($/mt)	732.75	736.50	732.75	736.50	16.00	2.22%

Current Futures Spreads 07/07/2023		
	Current	±
ICE September/October Brent ($/bbl)	0.32	0.02
CME August/September WTI ($/bbl)	0.03	0.02
September WTI/Brent Arb ($/bbl)	-4.76	-0.03
CME August/September Heating Oil (¢/gal)	1.23	0.14
CME August/September RBOB (¢/gal)	8.39	0.09
ICE July/August Gasoil ($/mt)	15.50	2.25

Global product inventories are slimming

No doubt there is a tug-of-war taking place. One might call it uncertainty or even a guessing game. What will come out on top? Will there be a recession that will have an adverse impact on global oil demand? Is China failing to live up to expectation, can it continue to be relied upon as the engine of oil demand growth? Will the OPEC+ alliance deliver on its pledge and reduce their output levels considerably? Is the expected depletion in global and OECD inventories going to materialize in the second half of the year? Or will scepticism increase, and fear of entrenched inflation outweigh the currently undeniably bullish oil balance in the second half of this year?

There are lots of questions and 'if' without definite answers. There is also a cornucopia of indicators, sometimes contrasting ones, that could occasionally provide a helping hand to form a view of the immediate future. Changes in inflation, central banks' action, rising/falling unemployment and the performance of the manufacturing sector are all salient gauges that ultimately influence global oil demand. While on the supply front the strategy of OPEC+, the

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(in)effectiveness of sanctions on Russian oil exports and the behaviour of friendly nations towards Russia have a significant impact. The net effect of all of the above is embodied in inventory levels. As supply somewhat exceeded demand in the first half of the year they remained at elevated levels. It is mirrored by the combined stock levels of the US as reported by the EIA, in the ARA region, followed by PJK International and in Singapore, where data is published by Enterprise Singapore. There has, however, been a promising decline in aggregate stocks from around 2Q and in case the trend continues the impact will be auspicious for those betting on higher prices.

The message is that present product inventories in the three major regions that are comprised of light distillates (gasoline), middle distillates (gasoil) and fuel oil, are slightly high but shrinking. This year's weekly average is 455 million bbls, some 16 million bbls above the 2022 average and 9 million bbls higher than the corresponding period of 2022. The main culprit is probably middle distillates, which is about 8 million bbls over last year's mean. The encouraging development is that current combined stockpiles are considerably lower than the seasonal 5-year average, some 8% lower to be precise chiefly due to the 15% or 25 million bbls deficit in gasoil.

Looking at the different regions, the US is a neat reflection of the global trend. Both gasoline and distillate inventories are somewhat above the year-ago level but significantly under the 5-year average – especially middle distillates, which show a 15% shortfall to the historic norm. The curious data set here is found in the so-called 'other product' category, which is the collective stockpiles of oxygenates such as ethanol, residual fuels and propane/propylene. Inventories of this group have a clearly visible seasonality whereas stockpiles usually build between April and September (they were up 2.3 million bbls last week) and plummet in the other six month of the year. When this year's depletion starts it will go a long way to support and accelerate global drawdowns in product and total commercial stocks.

In Europe all the major categories display a hefty surplus to last year although gasoil is below the 5-year average. Combined product inventories in the ARA region, which also includes jet/kerosene and naphtha are more than 10% higher than the same week of 2022 but 5% below the 5-year norm. Singapore inventories seem the tightest. During the latest week ending July 5, two out of the three categories drew – light distillates fell to seven-month low, middle distillates shrank 293,000 bbls to a one-month low but fuel oil inventories rose by 177,000 bbls. Cumulative stockpiles are 10% lower than last year and 11% below the 5-year average. Combined product inventories have been on a downward path since March, they have thinned by 35 million bbls in the three regions and in case consumption picks up during the summer in the northern hemisphere as projected, stockpiles ought to keep dwindling.

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