

# Oil Market Edge

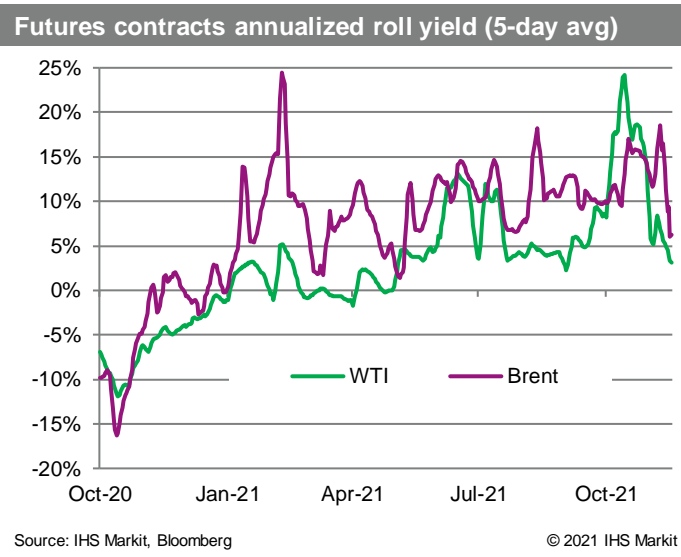
## Oil Market Insight

6 December 2021

### Oil retracement to face stock builds, flatter curve, and more demand risk

Stocks builds in 1Q2022 are in flux and could range anywhere between 1-to-2 MMb/d

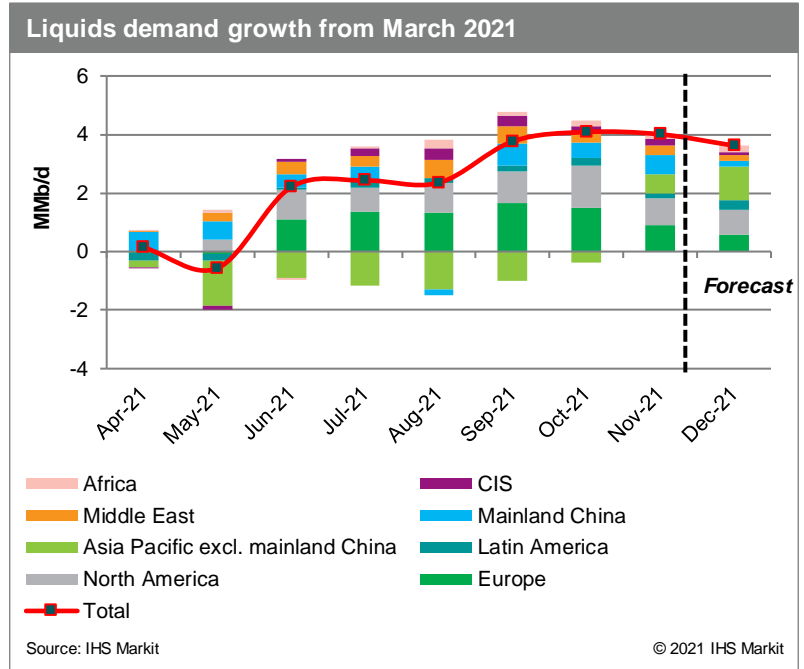
- Stock build confirmation.** The IHS Markit base case had called for 1Q2022 stock builds that were out of alignment with beefed up paper market sentiment even prior to the one-two punch of SPR releases and Omicron. Sentiment is now recalibrating to a more nuanced view of fundamentals through the winter as the market is set to see the first global stock builds in almost a year. The Omicron variant, SPR releases, and a potential OPEC+ response should demand erosion accelerate create uncertainty around the magnitude of the builds, which could come in at about 1.5 MMb/d in our base case, and range up to potentially sensitive thresholds above 2 MMb/d (see [Oil market roundtable – Omicron, SPR, OPEC+ and the harsh winter ahead](#)). After significant draws through the past two quarters across the barrel, there is some room for stock builds that would ease some of the scarcity anxiety in consuming nations without necessarily raising the specter of recovery-busting oversupply. But stock builds will also change the environment from what investors faced for most of 2021 as physical markets tug more forcefully at futures and forward structure. Roll yields are plummeting and both benchmarks are sliding towards contango. Should stock builds warrant contango, it would work to slow paper momentum recovery seen in many of the retracements in 2021. **Absent a major virus disruption, we still expect the price floor of \$65/bbl to hold, yet good news on the virus front would not merit a quick recovery back to the \$85/bbl ceiling, as OPEC+ must still contend with softer base demand in 1Q2022 and pressure from SPR releases.**
- Supply might need managing.** As 1Q2022 balances take shape, it is becoming more apparent that an OPEC+ response may be necessary to limit the size of builds in 1Q2022 within a tolerable threshold underneath 2 MMb/d. The OPEC+ decision to maintain volume increases through December was motivated by political and logistical constraints and imperfect information on Omicron risk to demand (see [OPEC+ resists the urge to react to uncertain market picture](#)). Should Omicron have a relatively muted impact, a temporary pause in production increases would likely do the trick, rather than an outright reversal of production. Higher levels of demand erosion from more travel restrictions would merit a more active response. As opposed to the disruption-shackled production trends for much of 2H2021, supply is also on the mend within and without OPEC+ just as demand faces its first sequential slowdown, with smaller OPEC+ producers nudging back to growth, albeit shallow, while US production data points to stout onshore sequential gains in August and September that could carry global supply (ex-core OPEC+ producers) higher into the winter.



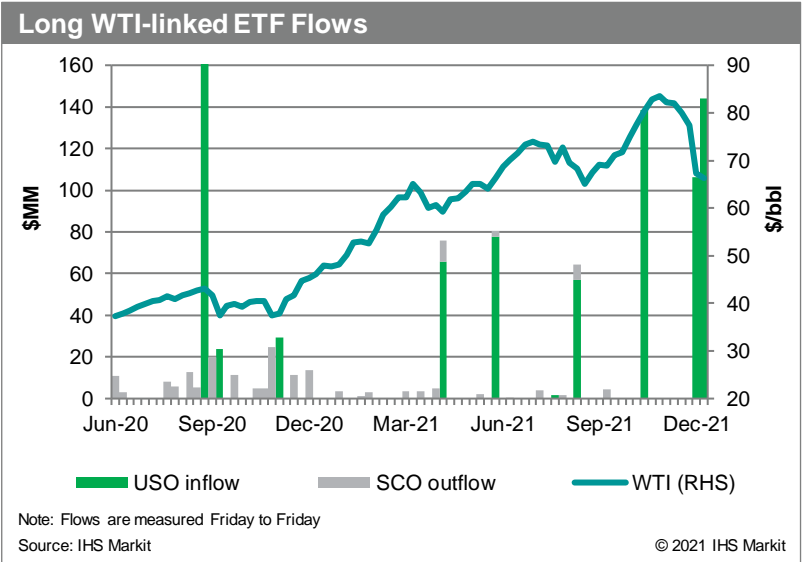
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- Discretionary demand at risk.** From a pre-vaccine base of 95.2 MMb/d in March, global liquids demand has expanded this year by 5 MMb/d through November. Main refined fuels consumption has expanded by 3.6 MMb/d (+1.66 MMb/d from gasoline and 1.91 MMb/d from jet fuel) over the same time. Expansion in base demand from consumer-oriented travel fuels that have a discretionary element is the main downside risk should Omicron challenge vaccine efficacy. The first tranche of demand risk is approximately 500,000 b/d of jet fuel, mainly in Europe and Asia, with US jet fuel demand more insulated. Some of this will start to show up in high frequency data, with some airports in Japan already shutting down international travel. Behavioral adaptation since April 2020 tilted consumer demand to durable goods and away from services and favored a swift recovery in diesel, which would likely prove more immune to subsequent waves of the virus, supported by shipping, industry and manufacturing, except in a worst-case scenario with widespread lockdowns in Europe carving out more transportation demand.



- Longer road to recovery.** Oil prices that have continuously rallied from bouts of selling this year may have a harder time recovering from the recent drop. The \$10/bbl slide from Black Friday ushered in waves of bets on a sharp rebound, with over \$239 million landing on the USO ETF last week, and some non-commercial traders leaning into lower prices through last Tuesday. Yet oil benchmarks are sliding dangerously toward contango as expectations for surplus oil in 1H2022 are increasingly confirmed. Oil markets can rally into contango, but it becomes riskier for speculators without the tailwind of roll yields. CFTC data shows a rather muted commercial response to the end-November selloff, which could accelerate if Omicron risk increases, which would pressure prices down.



- Back to neutral.** Open interest in crude across Nymex and ICE at 6 million contracts is the lowest in a year, since the announcement of successful vaccine trials. Net speculative length is also at its lowest point since November 2020. In the latest week, new short speculative positions offset some of the continued long liquidation, and have a little more room to run, as attempts to rebound through last week were continually sold off. Gross speculative shorts have surged to a 2021 high, albeit remaining thin by historical comparison. Renewed strength in product cracks would send a strong financial signal that demand risk has passed, yet product premiums to crude have been sliding, with Nymex diesel the only contract above the \$20/bbl mark that would motivate refineries to run more crude, and the picture in Europe is looking even weaker as refineries must contend with higher natural gas prices.
- Iran deal sours.** Prospects for an Iranian deal did not improve last week in line with expectations, as negotiators from Tehran came in with outsized requests difficult to accommodate. Negotiators left Vienna last week with very few of the

elements needed to complete a deal, as opposed to earlier in the year, when much of the framework for an agreement had been completed. After missing a strategic window earlier in the year, prospects for an imminent deal are increasingly dim. Negotiations will likely continue, but we remain several meetings away from the type of tangible progress that would signal to markets that a timeline for a return of Iranian barrels to the market is emerging.

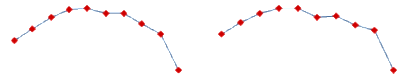
## Page 1: Crude Prices

## Crude price movements (weekly averages)

Latest: 12/3/2021

	WTI	Brent
Price	\$ 67.64	\$ 70.49
1-week change	\$ (9.02)	\$ (9.35)
1-month change	\$ (14.38)	\$ (12.45)
YTD change	\$ 21.17	\$ 15.70
3-1 time spread	\$ (0.60)	\$ (0.85)
Time status	Backwardation	Backwardation

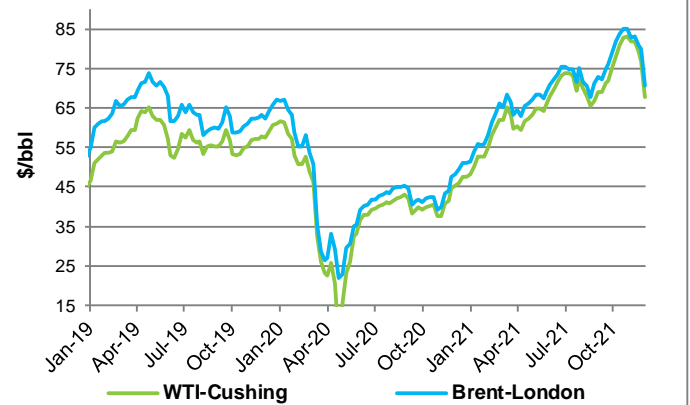
Last 60d trend



Source: IHS Markit, Argus Media Ltd.

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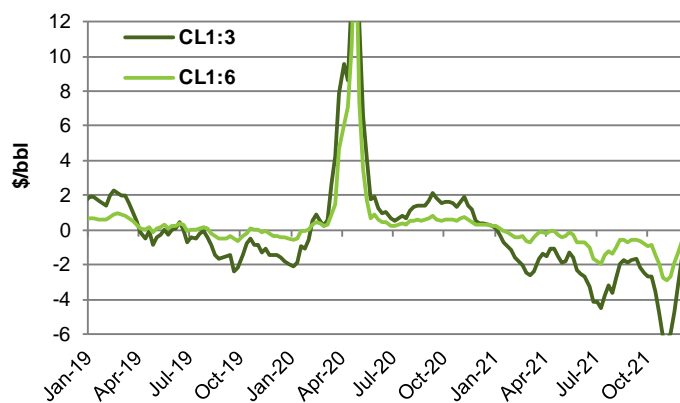
## Benchmark crude prices (weekly average c1)



Source: IHS Markit, Argus Media Ltd.

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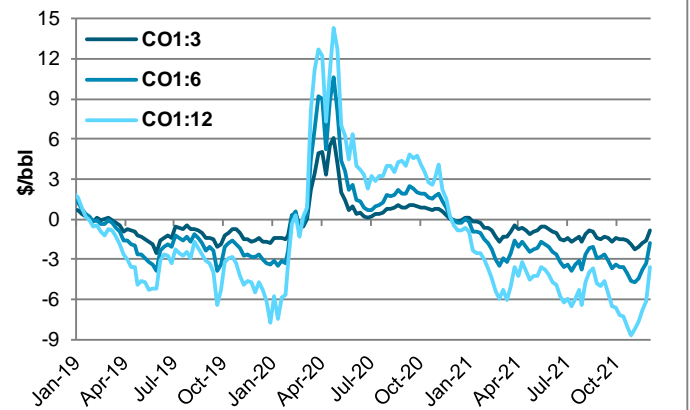
## WTI futures time spreads



Source: IHS Markit, Argus Media Ltd.

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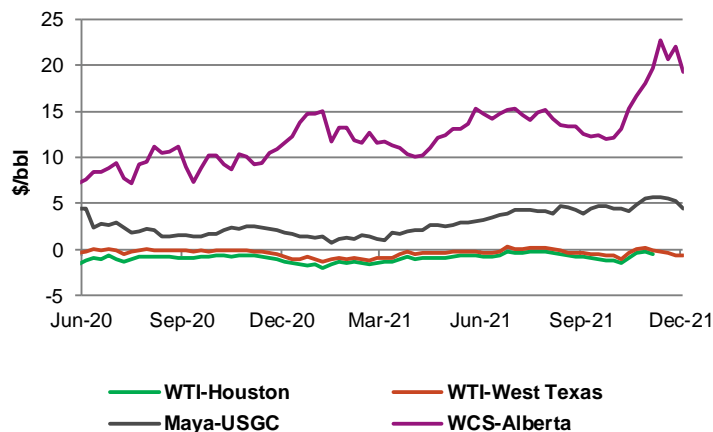
## Brent futures time spreads



Source: IHS Markit, Argus Media Ltd.

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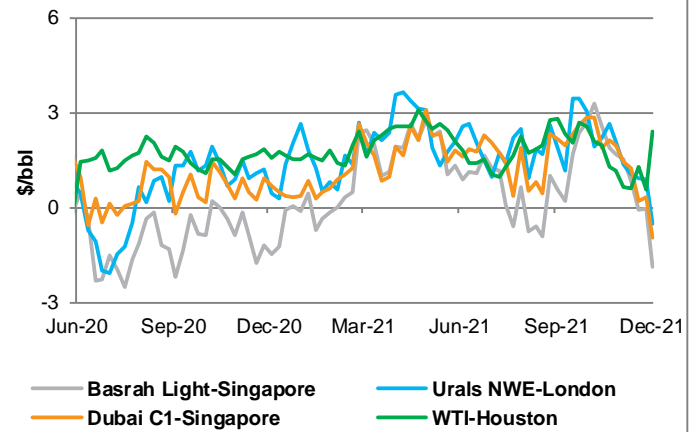
## Differential to WTI-Cushing (weekly avg)



Source: IHS Markit, Argus Media Ltd

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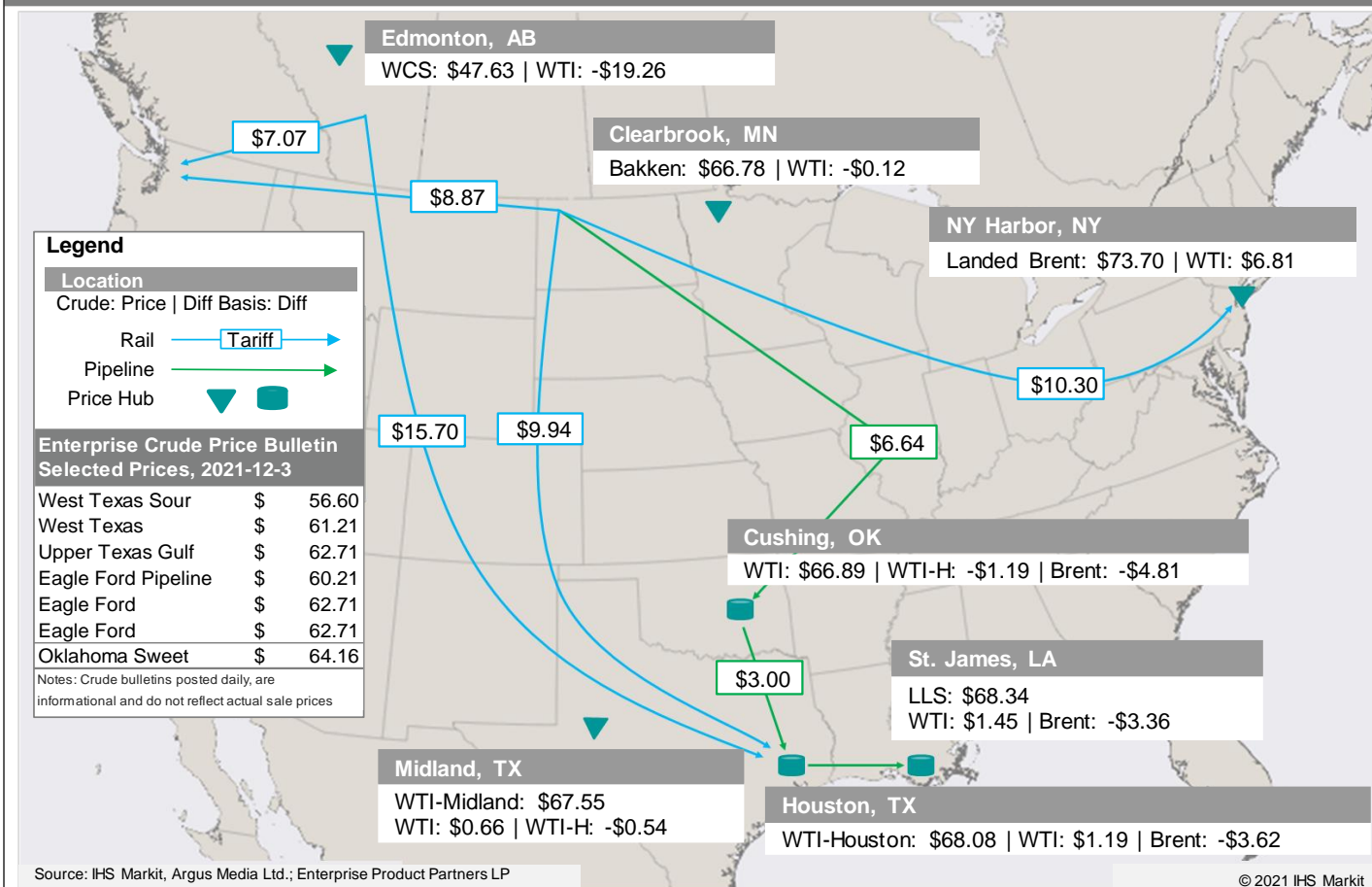
## Differential to Brent (weekly avg)



Source: IHS Markit, Argus Media Ltd

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## Page 2: US Differentials

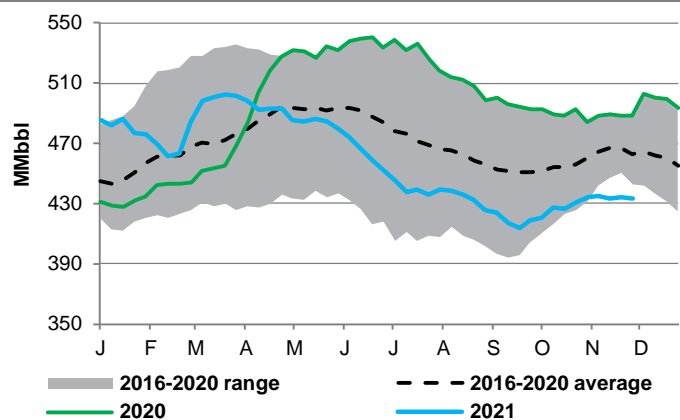


## Average differentials for the week ending 12/3/21, \$/bbl

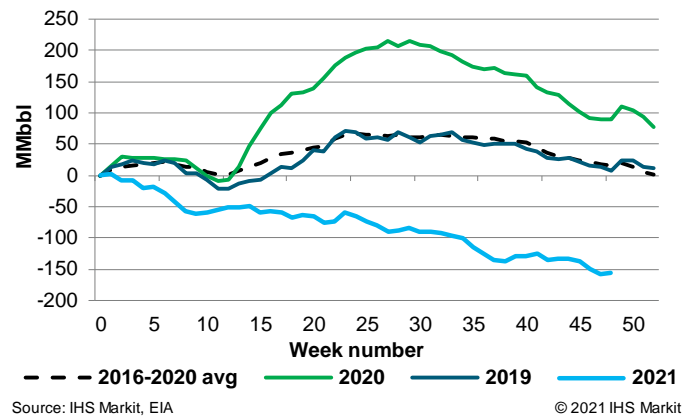
	WTI-Cushing	WTI-Midland	Bakken	WCS	Mars	Maya	LLS	WTI-Houston	Arab Light	Brent
WTI-Cushing	-	(0.66)	0.12	19.26	1.69	5.56	(1.45)	(1.19)	0.18	(4.81)
WTI-Midland	0.66	-	0.77	19.92	2.35	6.21	(0.80)	(0.53)	0.83	(4.16)
Bakken	(0.12)	(0.77)	-	19.15	1.58	5.44	(1.57)	(1.31)	0.06	(4.93)
WCS	(19.26)	(19.92)	(19.15)	-	(17.57)	(13.70)	(20.71)	(20.45)	(19.08)	(24.07)
Mars	(1.69)	(2.35)	(1.58)	17.57	-	3.86	(3.15)	(2.88)	(1.52)	(6.51)
Maya	(5.56)	(6.21)	(5.44)	13.70	(3.86)	-	(7.01)	(6.75)	(5.38)	(10.37)
LLS	1.45	0.80	1.57	20.71	3.15	7.01	-	0.26	1.63	(3.36)
WTI-Houston	1.19	0.53	1.31	20.45	2.88	6.75	(0.26)	-	1.37	(3.62)
Arab Light	(0.18)	(0.83)	(0.06)	19.08	1.52	5.38	(1.63)	(1.37)	-	(4.99)
Brent	4.81	4.16	4.93	24.07	6.51	10.37	3.36	3.62	4.99	-
	Inland				Coastal				Imported	

## Page 3: Crude Trade and Physical

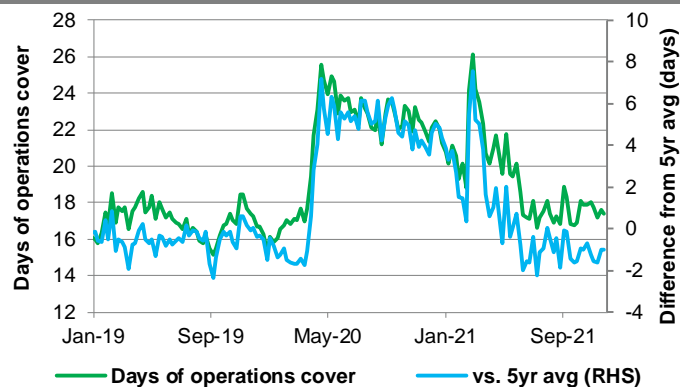
## US commercial crude stocks



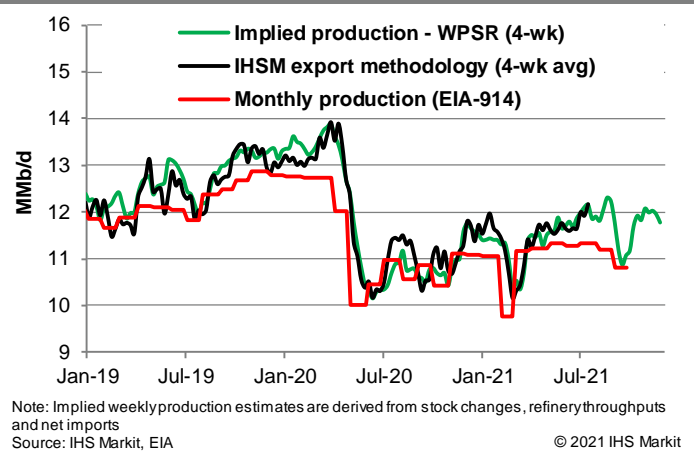
## Cumulative weekly change in total US crude and petroleum product stocks



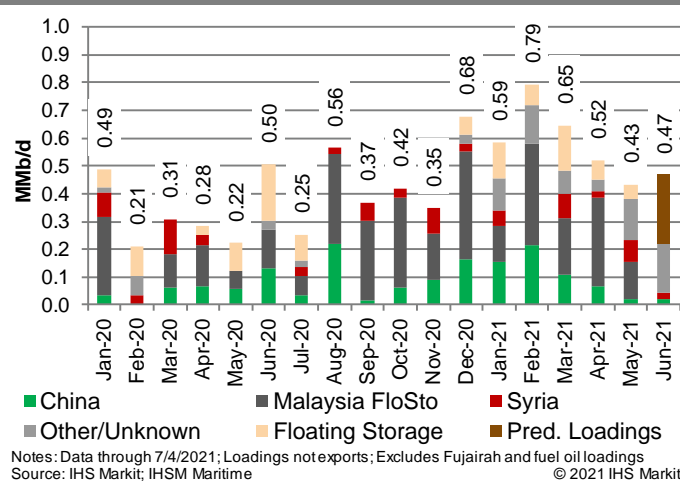
## US commercial crude inventories



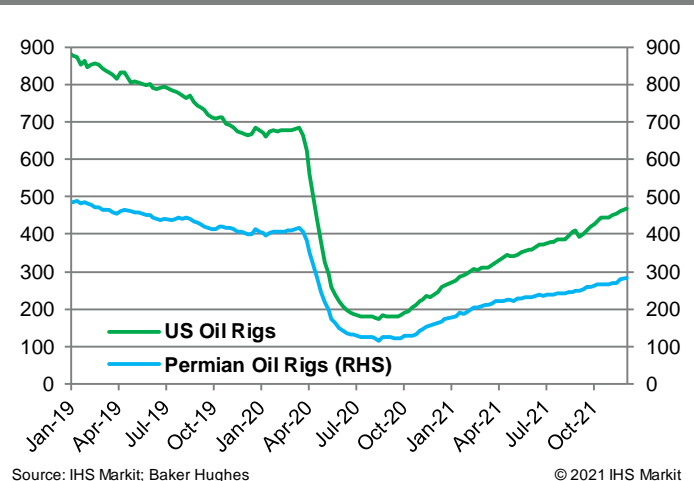
## Monthly reported vs. implied US crude production



## Iran crude and condensate loadings



## US weekly oil rig count



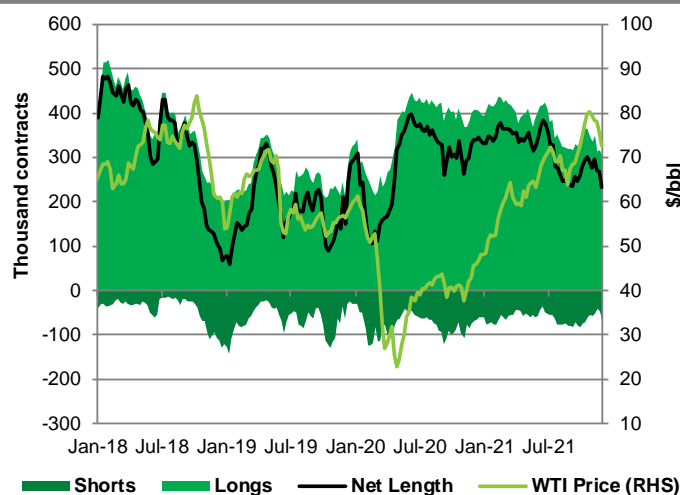
## Page 4: Commitment of Traders data and macroeconomic indicators

		Money managers' net length	Money managers' gross longs	Money managers' gross shorts	Long/Short Ratio	Open interest
<b>WTI</b>	<b>11/30/2021</b>	<b>233,706</b>	<b>301,458</b>	<b>67,752</b>	<b>4.4</b>	<b>2,033,286</b>
	<b>Weekly change</b>	<b>(34,634)</b>	<b>(14,621)</b>	<b>20,013</b>	<b>(2.2)</b>	<b>4,713</b>
<b>BRENT</b>	<b>11/30/2021</b>	<b>138,859</b>	<b>249,603</b>	<b>110,744</b>	<b>2.3</b>	<b>2,199,659</b>
	<b>Weekly change</b>	<b>(54,631)</b>	<b>(41,095)</b>	<b>13,536</b>	<b>(0.7)</b>	<b>(92,829)</b>

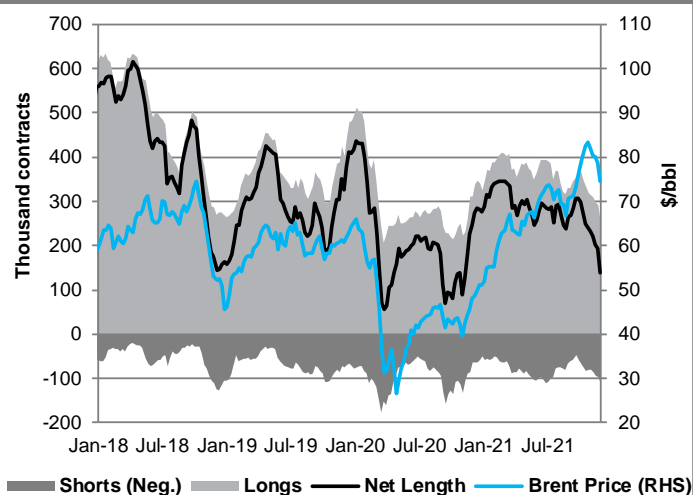
Source: CFTC, ICE

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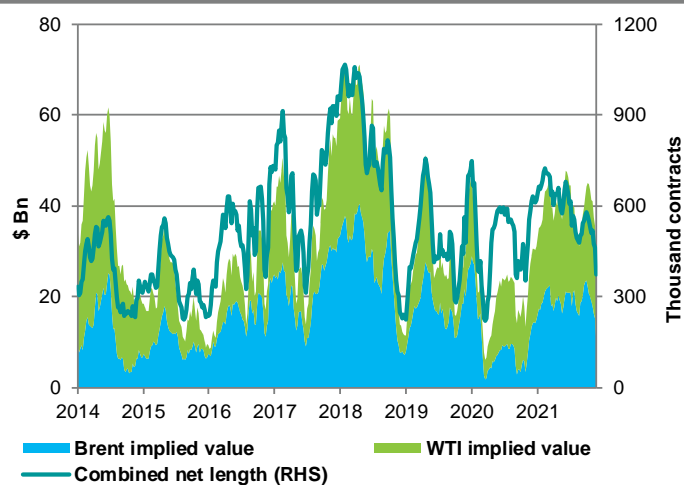
Money managers' gross positions - WTI



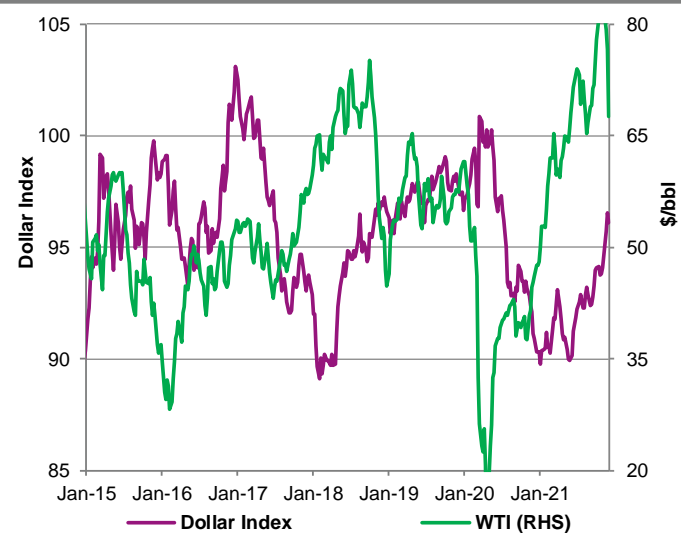
Money managers' gross positions - Brent



WTI and Brent combined net length



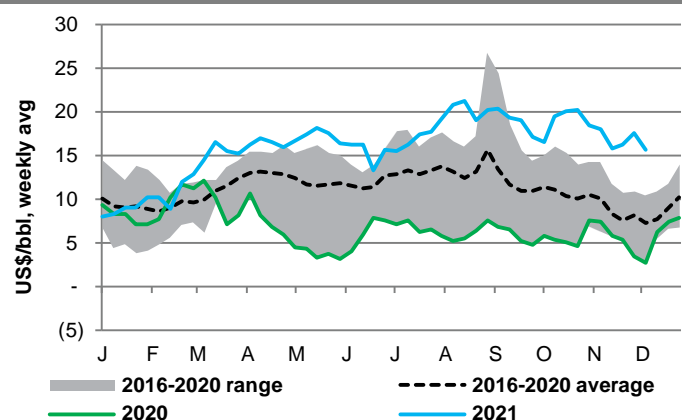
US dollar index vs. NYMEX WTI price



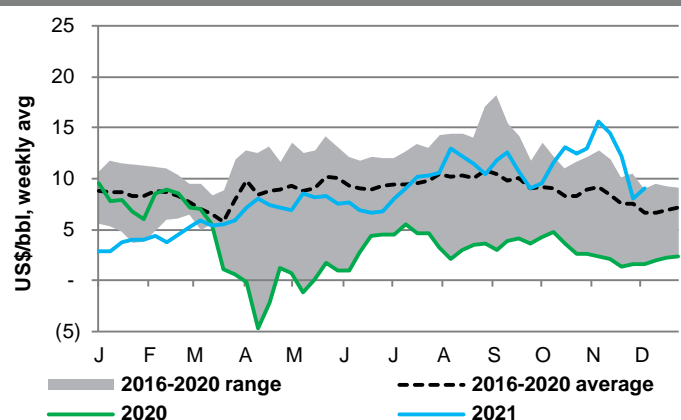


## Page 5: Refining and Products

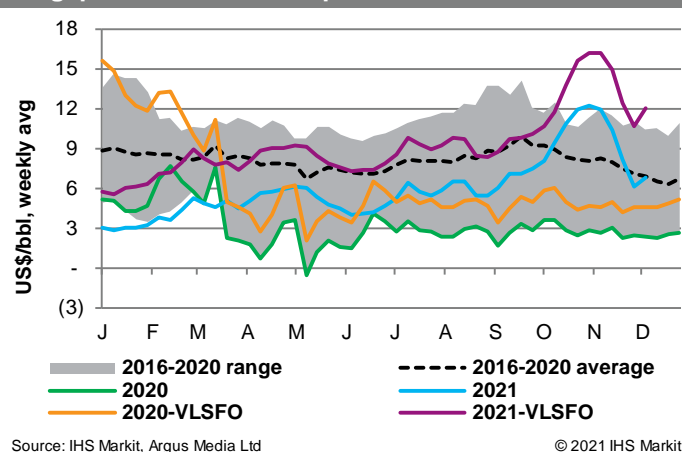
Houston 3-2-1 crack spread to LLS



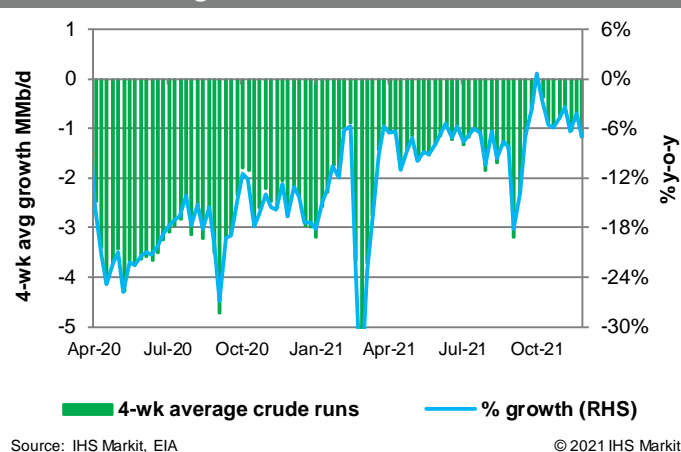
ARA 3-2-1 crack spread to Brent



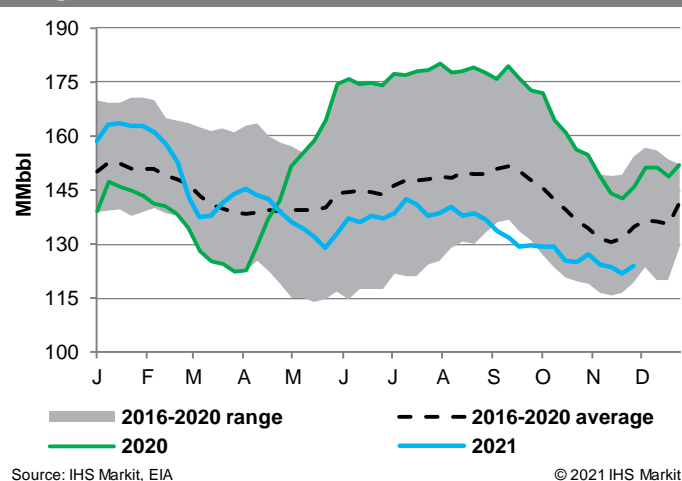
Singapore 6-3-2-1 crack spread to Dubai



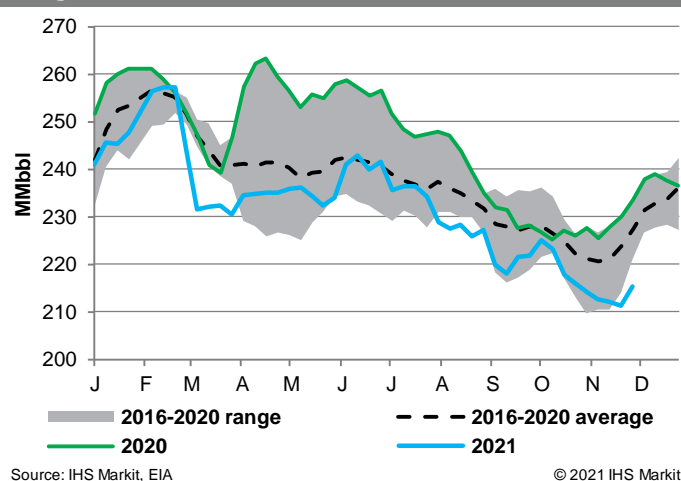
US crude runs growth vs. 2019



US gasoil inventories



US gasoline inventories





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