

Investing in Energy

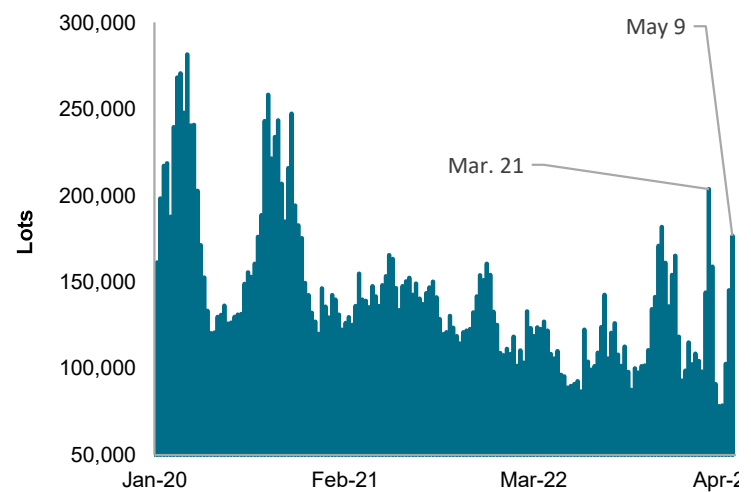
Speculative Shorts Return to Oil Markets

May 15, 2023

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- **Barely a couple of weeks into implementation, the short investors that squeezed out by the surprise OPEC+ cuts have returned as the producer group's deterrence proves short-lived.** Enforcing a price floor in a macro fears-driven market was always akin to catching a falling knife. While physical markets remain in good shape, price and positioning data point to an inability to decisively reverse momentum. The past two weeks mark the year's second sharp increase in gross speculative short positions, which approached their mid-March highs again last week. Financial and macro uncertainty remain the more likely culprits of the return of short appetite, but the inability of fundamentals to decisively give an all-clear signal to bullish momentum has left the back door ajar, despite OPEC+'s best efforts.
- **Searching for a physical catalyst to counter the macro tape.** OPEC+ cuts are starting to take effect, and the protracted outage of flows from northern Iraq of ~450,000 b/d further pressuring Mideast exports (and helping narrow discounts on sour grades). Russia's monthly volumes are falling, but from record levels, with crude flows still holding amid falling product exports (also from high levels). Yet physical markets continue to struggle, partly owing to wild swings in Chinese crude imports, which declined heavily (~2 MMb/d) in April after a bumper March, with some recovery likely in May. The Chinese import volatility remains a supply/demand wild card and distorts perceptions of the demand recovery, which underpins much of the trajectory of fundamentals this year. **We expect seasonality in the Atlantic Basin and tightening supply to ultimately commandeer the oil train from demand fears, with a potential unwinding of shorts turbocharging initial price upside, but this seasonal transition period will remain choppy.** The only path in which we see markets avoiding significant sequential tightening is one where demand severely disappoints, and even in the West, where industrial activity remains weak, demand continues to march on, reflected in product stock declines. We are also in the price range where some intervention mechanisms are liable to kick in, with Chinese buying likely picking up as plants run through maintenance and some initial US SPR purchases may finally be announced. OPEC+ has much to consider in the run-up to Jun. 4, although we maintain our view that the group is unlikely to overreact to short-term price weakness.

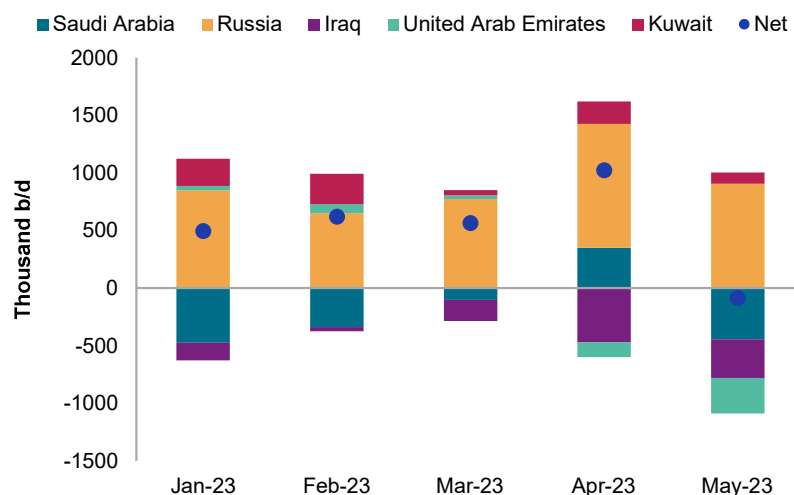
Gross speculative short crude positions



Data compiled May 12, 2023.
Sources: S&P Global, ICE, CFTC, Nymex.
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- Loadings from the major countries in the OPEC+ surprise cuts are down 1 MMb/d on the month so far according to leading indicators in May. They remain a moving target with lots of noise to work out between now and their June meeting.** April seaborne exports from Saudi Arabia, Iraq, the UAE, Kuwait and Russia were up 1 MMb/d from December levels. They would have been up nearly 1.5 MMb/d if not for the drop in flows from the Turkish port of Ceyhan curtailing Iraqi output. Crude exports month-to-date in May from this group are down 1.1 MMb/d and back at December 2022 levels. Saudi Arabia leads the group, with exports down nearly 800,000 b/d MTD, likely reflecting the combination of production cuts and domestic demand increases. The outright level of Russian crude exports remains high at 3.7 MMb/d (down from April levels of 4 MMb/d). High Russian output is a thorn in the side of market managers, as it keeps east of Suez markets softer and the Oman futures curve in near-contango. Importantly, Russia's product exports are falling. Based on our estimates of loading data, total product exports in May are averaging roughly 2 MMb/d compared to 2.7 MMb/d Jan-April. Diesel is struggling at 700,000 b/d compared to records in March and April in excess of 1 MMb/d.

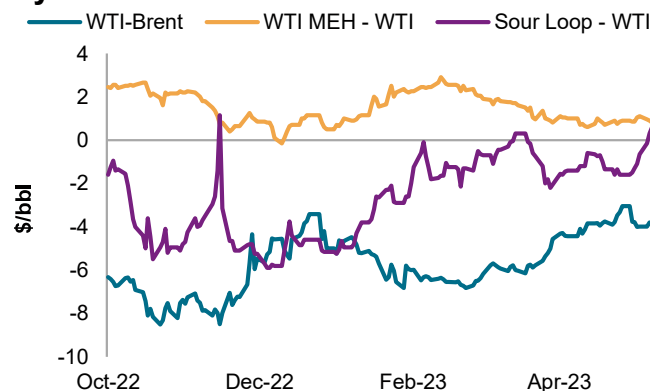
Cumulative crude export increases from Dec. 2022



Data compiled May 15, 2023.
Source: S&P Global Commodity Insights.
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- The US loads 1 MMb/d to China in April.** Discounts in the US Gulf made these grades advantageous to Dubai in April, with loadings indicators from our Commodities at Sea service pointing to 1 MMb/d of US crude heading to China during the month. If confirmed in the monthly stats, it would be the biggest import number from the US since 2020. The buying helps explain narrowing differentials (and even the rare premium) for Gulf Coast sour grades compared to WTI. Physical markets felt the pressure of the China import slowdown in April after a bumper March surge above 12 MMb/d, but data suggests recovering into May and June. Further, the second tranche of export quotas is higher than last year, which will keep markets on guard for surplus products flowing to Asian markets. Chinese import demand is now likely to rotate back to Dubai, as the US arbitrage has effectively shut, but signs of bargain-buying have yet to show up in the Oman futures forward curve, which remains soft.

Nymex WTI differentials



Data compiled May 15, 2023.
Source: S&P Global Commodity Insights, ICE, Nymex.
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- Reversing the flow – US policymakers signal willingness to refill SPR after latest 26 MMbbl sale is finished.** Last week, US Energy Secretary Jennifer Granholm said the DOE would seek to start repurchasing SPR barrels by the end of June. December 2023 WTI is \$69/bbl, and June 2024 WTI is \$67/bbl as of mid-May — both below the previously stated threshold of \$72/bbl. Whereas markets may have been disappointed earlier in the year after the DOE balked on buying oil as benchmarks swung under \$70/bbl, those particular circumstances were complicated by the pending release of previously approved barrels, as well as site maintenance, both ending in June. The DOE released its historic 180 MMbbl in 2022 at an average price of \$96/bbl, leaving it plenty of room to repurchase and still make money, and, after appropriations, it still has roughly \$4.5 billion to do so, or enough for 60 MMbbl at an average price of \$75/bbl before having to secure additional funds. After the latest sale is completed, US SPR stocks of 354 MMbbl are still 50 days above the 90 days of net import (compared to prewar levels of 300 days in excess of 90 days), so any refill is likely opportunistic rather than necessary from a strict “days of cover” dimension. In our view, after having passed the efficacy test last year as a valuable part of the US geopolitical arsenal, as well as generating a profit, policymakers will favor holding higher-than-necessary levels of SPR, making the purchases likely so long as market conditions allow. We do not believe the Administration’s promises to refill the SPR are disingenuous, but they remain at the aspirational stage, and the mechanics (given slower fill rates) and timing will likely be slower and choppy, likely over a period of years rather than an immediate market-boosting gush of demand, particularly if prices rise into an election cycle.

Page 1: Crude Prices

Crude price movements (weekly averages)

Latest: 5/12/2023

	WTI	Brent
Price	\$ 72.14	\$ 76.00
1-week change	\$ 0.92	\$ 1.05
1-month change	\$ (9.57)	\$ (9.90)
YTD change	\$ (4.12)	\$ (4.62)
3-1 time spread	\$ (0.27)	\$ (0.52)
Time status	Backwardation	Backwardation

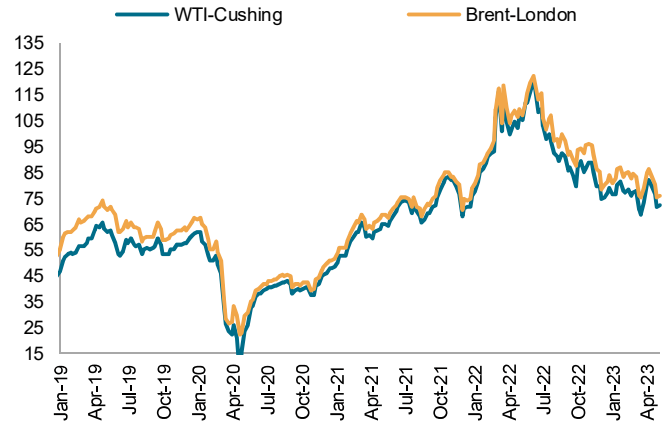
Last 60d trend



Source: S&P Global Commodity Insights, Argus Media Ltd.

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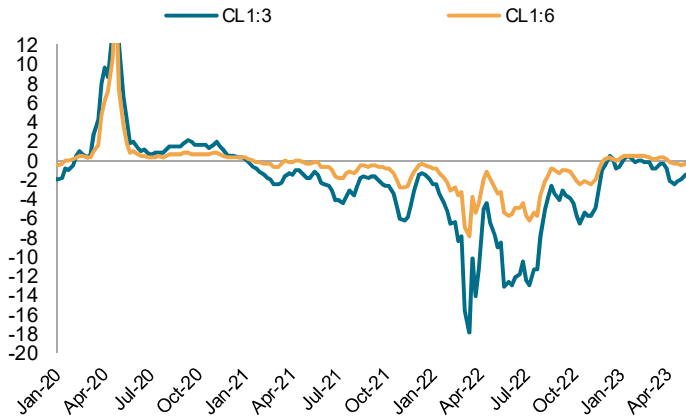
Benchmark crude prices (\$/bbl - weekly average c1)



Source: S&P Global Commodity Insights, ArgusMedia Ltd.

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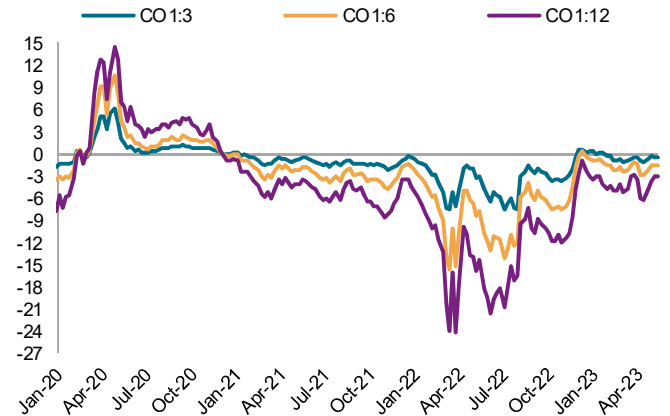
WTI futures time spreads (\$/bbl)



Source: S&P Global Commodity Insights, Argus Media Ltd.

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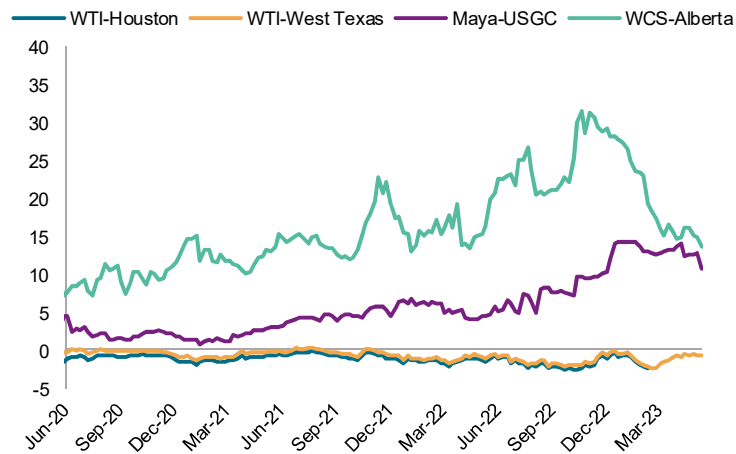
Brent futures time spreads (\$/bbl)



Source: S&P Global Commodity Insights, ArgusMedia Ltd.

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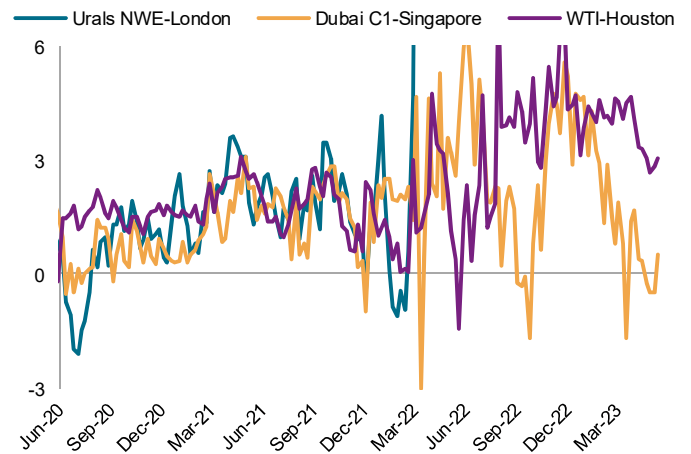
Differential to WTI-Cushing (\$/bbl - weekly avg)



Source: S&P Global Commodity Insights, ArgusMedia Ltd

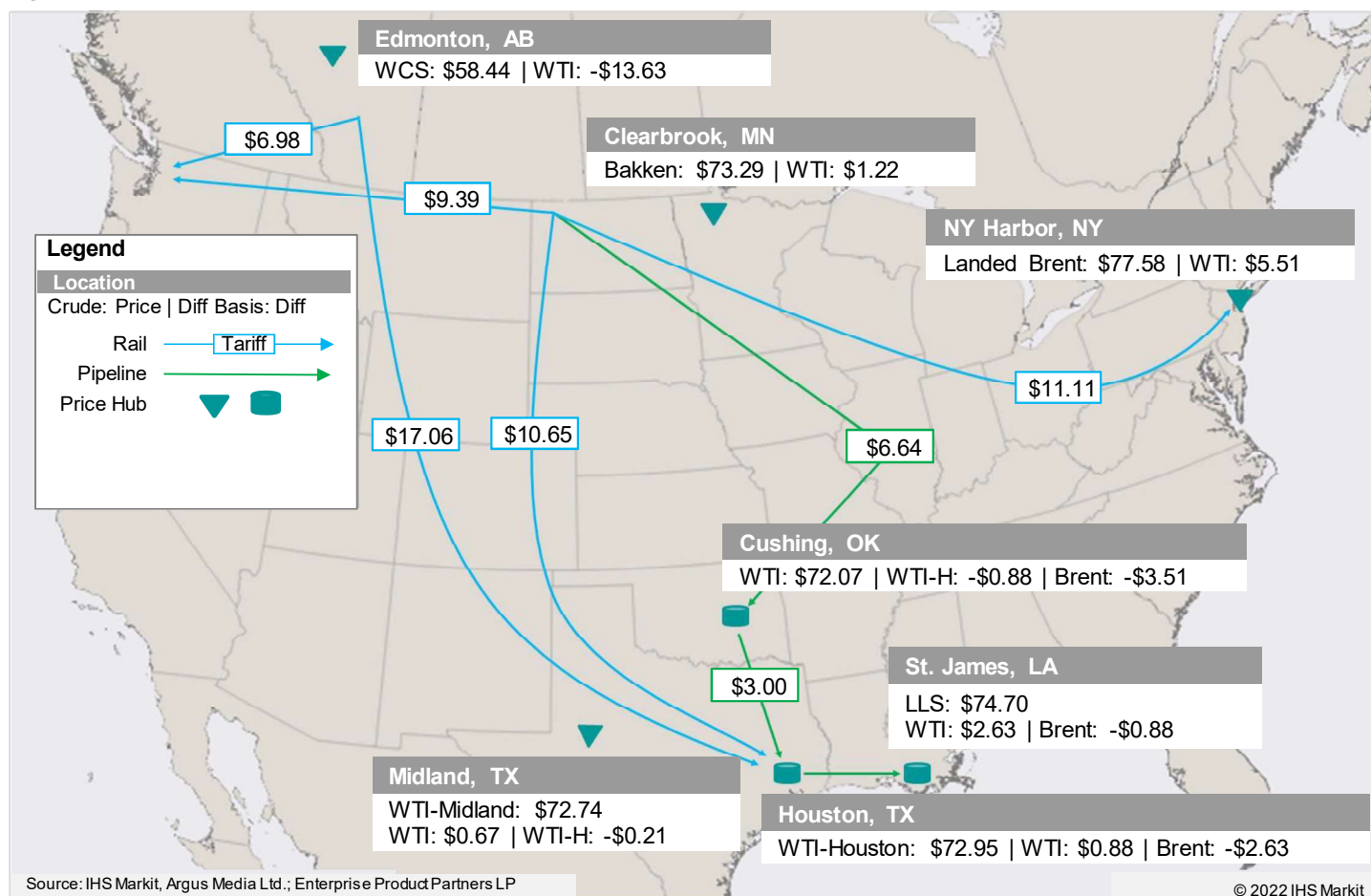
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Differential to Brent (\$/bbl - weekly avg)



Source: S&P Global Commodity Insights, ArgusMedia Ltd

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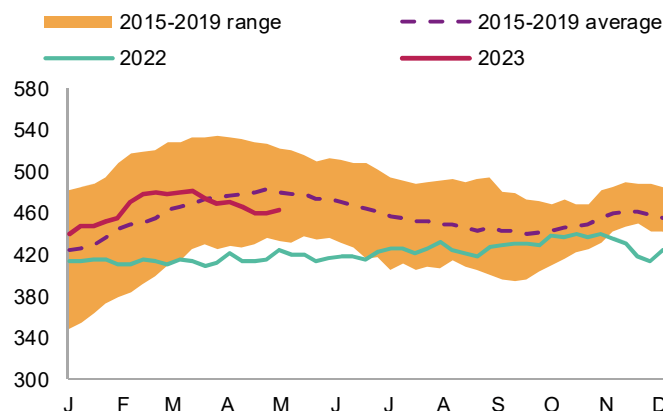


Average differentials for the week ending 5/12/23, \$/bbl

	WTI-Cushing	WTI-Midland	Bakken	WCS	Mars	Maya	LLS	WTI-Houston	Arab Light	Brent
WTI-Cushing	-	(0.67)	(1.22)	13.63	(0.36)	10.70	(2.63)	(0.88)	(6.33)	(3.51)
WTI-Midland	0.67	-	(0.55)	14.30	0.31	11.37	(1.96)	(0.21)	(5.66)	(2.84)
Bakken	1.22	0.55	-	14.85	0.86	11.92	(1.41)	0.34	(5.11)	(2.29)
WCS	(13.63)	(14.30)	(14.85)	-	(13.99)	(2.93)	(16.26)	(14.51)	(19.96)	(17.14)
Mars	0.36	(0.31)	(0.86)	13.99	-	11.06	(2.27)	(0.52)	(5.97)	(3.15)
Maya	(10.70)	(11.37)	(11.92)	2.93	(11.06)	-	(13.33)	(11.58)	(17.03)	(14.21)
LLS	2.63	1.96	1.41	16.26	2.27	13.33	-	1.75	(3.70)	(0.88)
WTI-Houston	0.88	0.21	(0.34)	14.51	0.52	11.58	(1.75)	-	(5.45)	(2.63)
Arab Light	6.33	5.66	5.11	19.96	5.97	17.03	3.70	5.45	-	2.82
Brent	3.51	2.84	2.29	17.14	3.15	14.21	0.88	2.63	(2.82)	-
	Inland				Coastal				Imported	

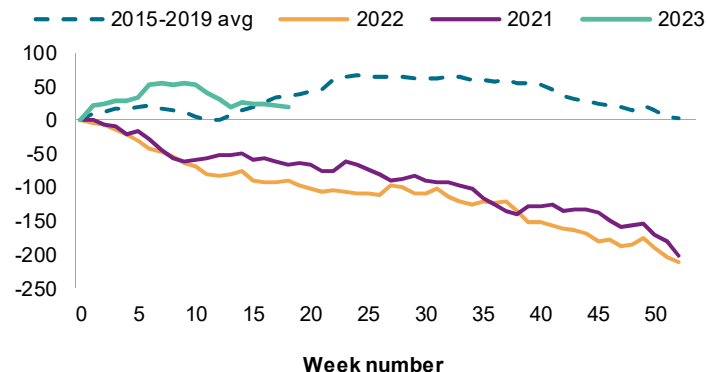
Page 3: Crude Trade and Physical

US commercial crude stocks (MMbbl)



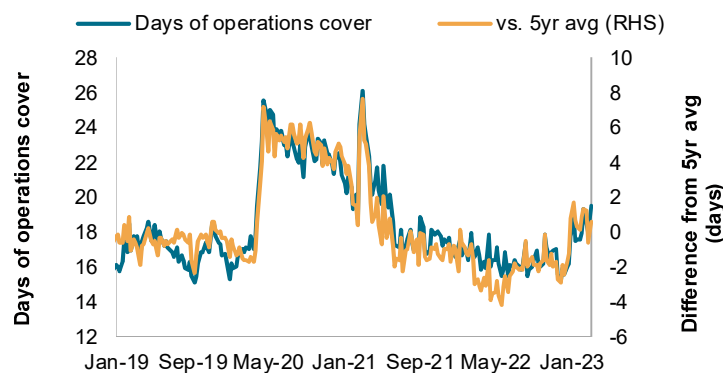
Source: S&P Global Commodity Insights, EIA.
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Cumulative weekly change in total US crude and petroleum product stocks (including SPR) (MMbbl)



Source: S&P Global Commodity Insights, EIA.
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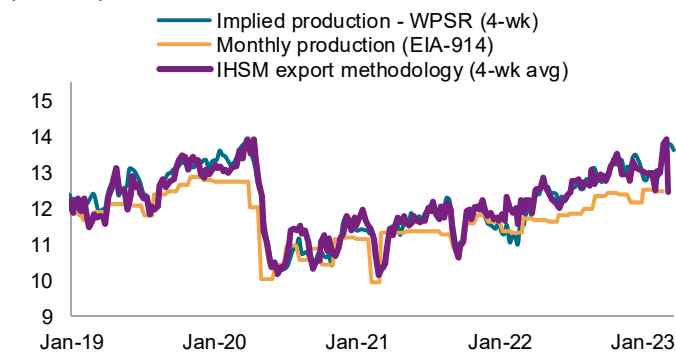
US commercial crude inventories



Notes: Days of crude operations cover - commercial crude inventories / (crude throughputs + gross crude trade)

Source: S&P Global Commodity Insights, EIA.
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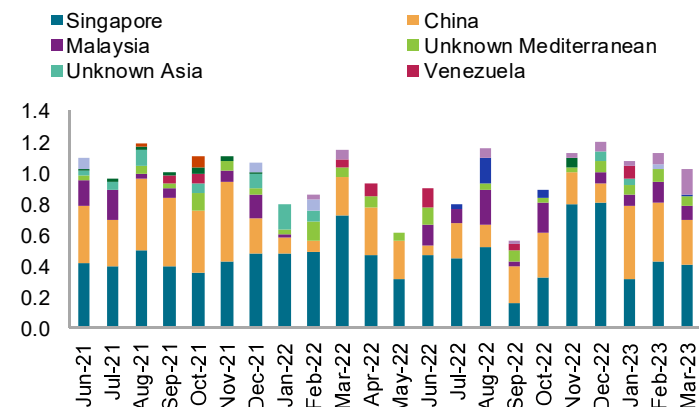
Monthly reported vs. implied US crude production (MMb/d)



Note: Implied weekly production estimates are derived from stock changes, refinery throughputs and net imports

Source: S&P Global Commodity Insights, EIA.
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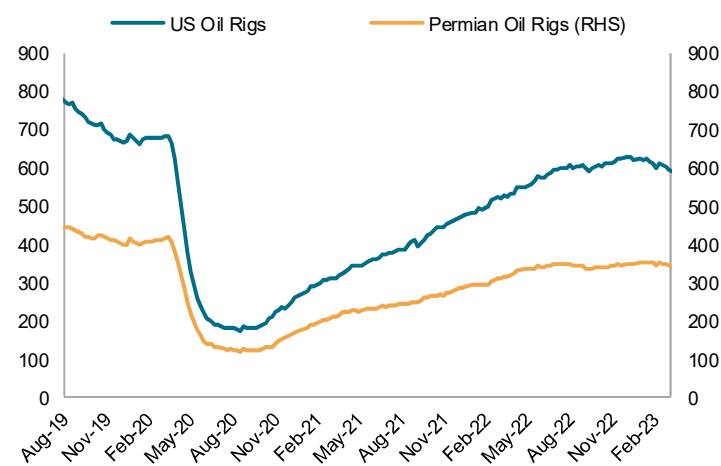
Iran crude and condensate loadings (MMb/d)



Notes: Data through 7/4/2021; Loadings not exports; Excludes Fujairah and fuel oil loadings

Source: S&P Global Commodities at Sea.
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US weekly oil rig count



Source: S&P Global; Baker Hughes.
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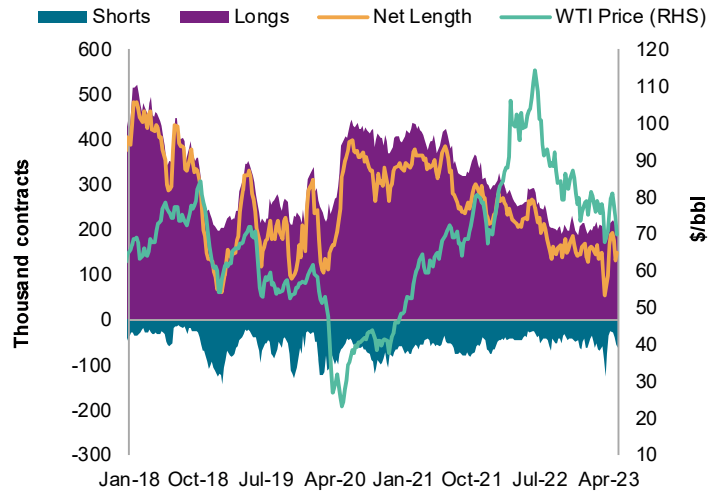
Page 4: Commitment of Traders data and macroeconomic indicators

		Money managers' net length	Money managers' gross longs	Money managers' gross shorts	Long/Short Ratio	Open interest
WTI	5/9/2023	147,256	209,337	62,081	3.4	1,885,886
	Weekly change	▲ 15,425	▲ 20,727	▲ 5,302	▲ 0.1	▼ (22,413)
BRENT	5/9/2023	99,501	213,763	114,262	1.9	2,174,692
	Weekly change	▼ (28,499)	▲ 2,979	▲ 31,478	▼ (0.7)	▲ 25,860

Source: CFTC, ICE

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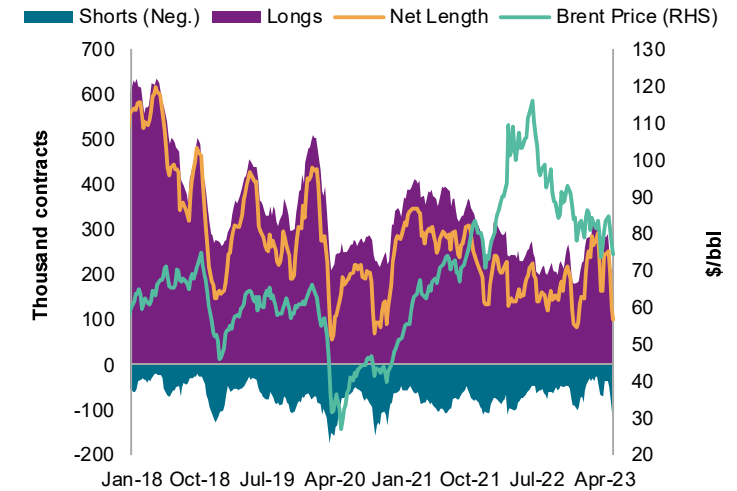
Money managers' gross positions - WTI



Source: S&P Global Commodity Insights, CFTC, ICE.

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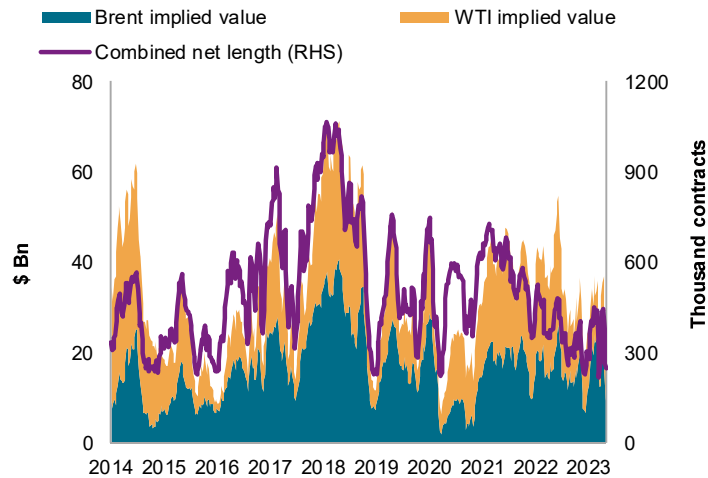
Money managers' gross positions - Brent



Source: S&P Global Commodity Insights, CFTC, ICE.

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WTI and Brent combined net length

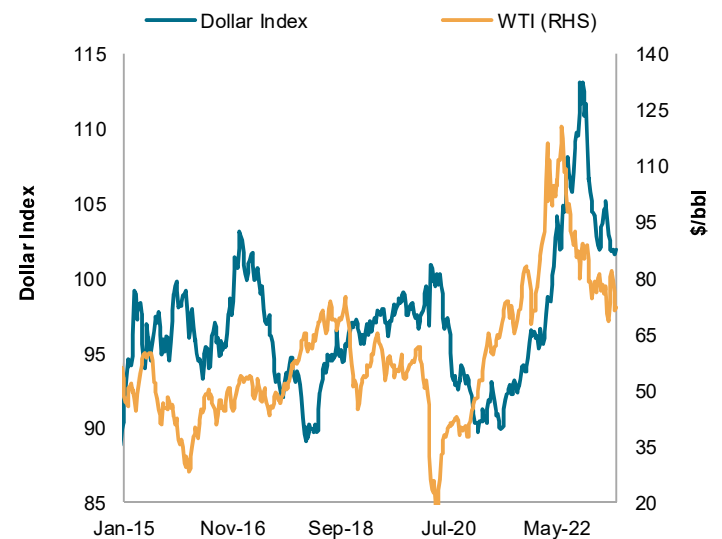


Note: Implied value calculated as: MM net length (contracts) * benchmark price - using average Brent and WTI futures prices over the first six months of respective forward curves as of the weekly COT publication date

Source: S&P Global Commodity Insights, CFTC, ICE.

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US dollar index vs. NYMEX WTI price

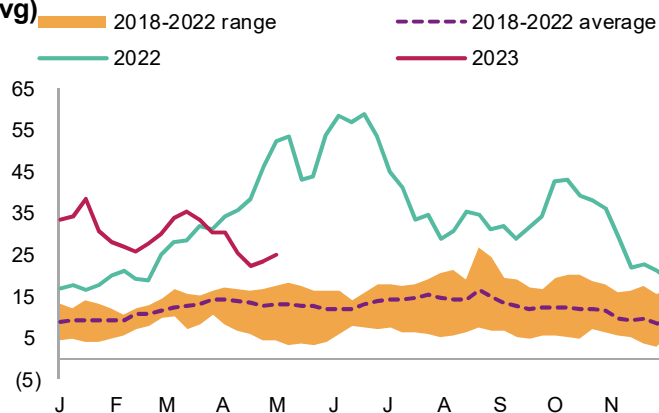


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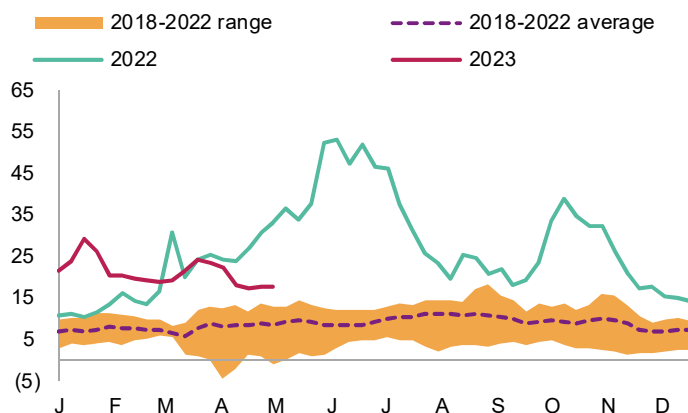
Page 5: Refining and Products

Houston 3-2-1 crack spread to LLS (US\$/bbl, weekly avg)



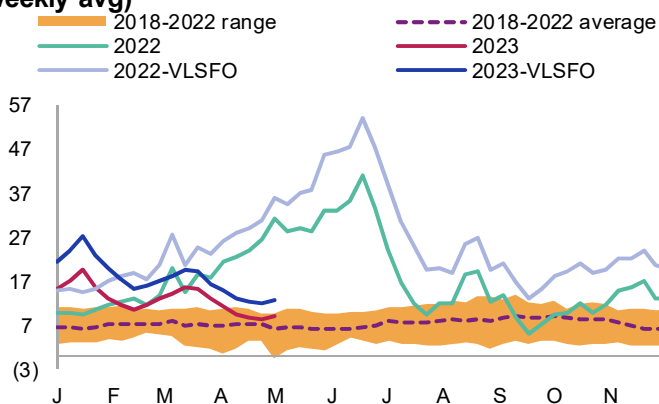
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ARA 3-2-1 crack spread to Brent (US\$/bbl, weekly avg)



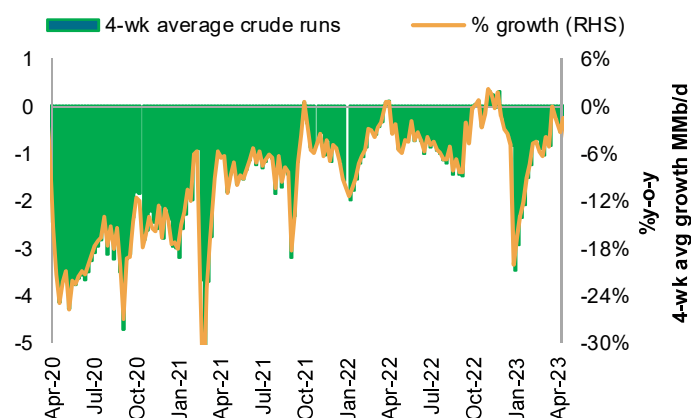
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Singapore 6-3-2-1 crack spread to Dubai (US\$/bbl, weekly avg)



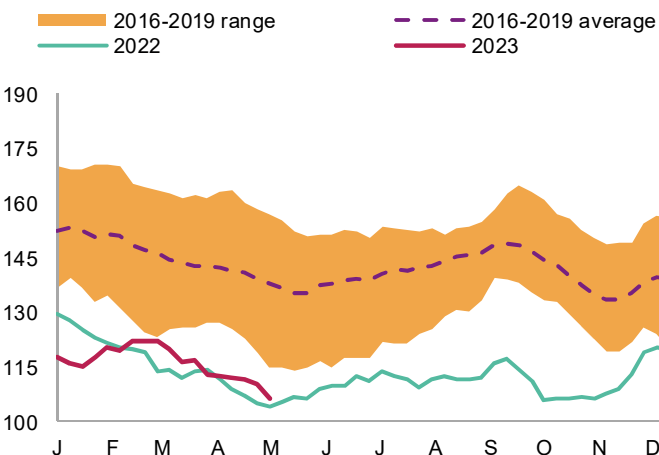
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US crude runs growth vs. 2019



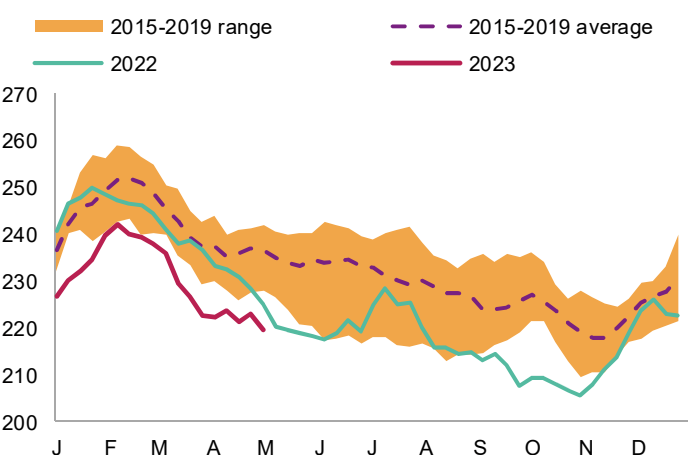
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US gasoil inventories (MMbbl)



Source: S&P Global Commodity Insights, EIA.
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US gasoline inventories (MMbbl)



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