



## This week's Petroleum News

February 14, 2012

### **Market Outlook**

**Monday (2/6/12)** WTI crude oil has for now lost relevance when it comes to pricing heating oil and RBOB. Refineries in the major refining centers of the U.S. Gulf Coast and Northeast can't access low priced WTI, Canadian or North Dakota crude barrels. Efficient infrastructure is not in place and lower priced crude barrels are expected to remain 'landlocked' in Cushing Oklahoma at least until spring. Gulf and Northeast refineries have to rely on Brent and West African crude varieties with a higher price tag. Those refineries have been struggling, and many have shut down due to low refining margins. This has allowed for a squeeze on products. Heating oil in particular has rallied 11 cents in the last two days. Bitter cold in Europe has given demand a boost amid tight supplies, pressuring heating oil further.

### **Tuesday(2/7/12)**

WTI crude swung from an earlier low of \$95.84 and closed just under the 40-day moving average at \$98.41 as a weaker U.S. dollar drove investment toward the embattled American crude benchmark. The Brent/WTI spread reached a three month high of \$19.20 yesterday but narrowed to \$17.44 today. It seemed like it was a game of investment flows from WTI, Brent and the U.S. dollar throughout the day. Although choppy, refined products heating oil and RBOB were largely higher throughout the day.

As a counter-tactic to ever stricter sanctions on oil shipments, Iranian lawmakers are attempting to stop crude oil shipments to Europe before the EU's Iranian embargo takes full effect this summer. The continued Iranian threat has kept a floor under prices.

Positive economic news out of the U.S. drove prices higher. The government said the number of available jobs rose to a three month high in December. The Federal Reserve said borrowing in the U.S. rose by \$19.3 billion in December after a \$20.4 billion gain in November, a sign that demand could pick up. Still, gas demand remains in the doldrums according to MasterCard's Spending Pulse report. Gas demand to Feb. 3 was down 5% compared to this time last year after counting the receipts.

**Wednesday (2/8/12)** Iran continues to bang the battle ax. In Moscow, an Iranian foreign minister said they could attack U.S. interests all over the world. Largely the market is shrugging off these types of threats as mindless rhetoric as most of the risk premium is built into the market without any actual military engagements. Still, U.S. led banking and oil sanctions are creating a tighter noose around the Iranian authority and the situation remains extremely volatile, keeping oil sellers at bay. Iranian elections are set for next month. The risk of a civilian uprising in Iran as happened pre-election 2009 is a real concern because costs for basic goods are skyrocketing. The fear in the oil market is that Iran could try to deflect focus by military means.

To recap today's inventory report, crude stockpiles rose 300,000 barrels, gasoline stocks rose 1.6 million barrels and distillate stocks rose 1.2 million barrels. Refinery runs were up 1% to 82.8% capacity. Crude Inventories in Cushing, Oklahoma, the delivery point for WTI crude, rose 400,000 barrels to 30.5 million barrels. The gain in Cushing brought the spread players back today, and the Brent/WTI spread gained to \$18.66.

**Thursday(2/9/12)** Energy market participants were relieved to hear Greek Prime Minister Lucas Papademos announce a deal with the EU and IMF. The country's main political parties must cut more than 3 billion euros in government spending, and cut the minimum wage and pension benefits. European Central Bank President Mario Draghi confirmed the deal and said the ECB would keep interest rates unchanged on signs of eurozone stability. Positive jobs momentum in the U.S. aided gains. Claims for unemployment insurance fell last week by 15,000 to 358,000. Tensions in the Middle East remain high. At the UN today in New York, Israeli foreign minister said that if sanctions taken against Iran don't stop its nuclear development, Israel "is keeping all options on the table." Momentum remains with the bulls.

**Friday(2/10/12)** The euro dropped and the U.S. dollar gained over continued concern about Greece, pressuring energy and equities lower. Apparently the 'deal' struck yesterday is not supported by all political parties within Greece, bringing fear that austerity measures won't be enacted. Rioters were back in the streets of Athens today throwing rocks and petrol bombs.

Following OPEC's 120,000 b/d downgrade of expected crude demand early in the week, the International Energy Agency cut its estimates today, aiding in today's lower move. The IEA expects oil demand growth in 2012 to climb to 89.9 million b/d, a gain of 800,000 b/d. This was down 300,000 b/d for 2012 from its forecast last month.

It was a weak day today, but selling was not overly aggressive. Underlying geopolitical concern may limit a significant drop, while economic concern may limit substantial gains. Next week we'll keep an eye on the Iranian saga and a heavy week of economic reports.

## Market Fundamentals

**Jobless Claims:** Jobless claims fell to 358,000 claims from 373,000 last week. Estimates were for 370,000 claims. **OPEC:** The oil cartel has reportedly reached its highest monthly production rate in more than three years. A market survey indicates the twelve member nations produced 30.95 million bpd, an increase from the December rate of 30.74 million bpd. The production would be somewhere around a million barrels per day above the official quota.

**Trader Sentiment:** According to a Bloomberg News survey 19 of 36 analysts predict prices climbing through February 17<sup>th</sup>. Eight predict futures will decline while nine predicted that there would be little change.

**EIA:** The EIA announced that they are reducing their 2012 global oil demand forecasts by 250,000 bpd, estimating a growth of less than 1%.

**U.S. Trade Balance:** The U.S. trade balance showed a deficit of \$48.8 billion against estimates for \$48.5 billion.

**Consumer Sentiment:** Consumer sentiment for February will be released today at 8:55 and is expected to read 74.8 versus 75.0 for January