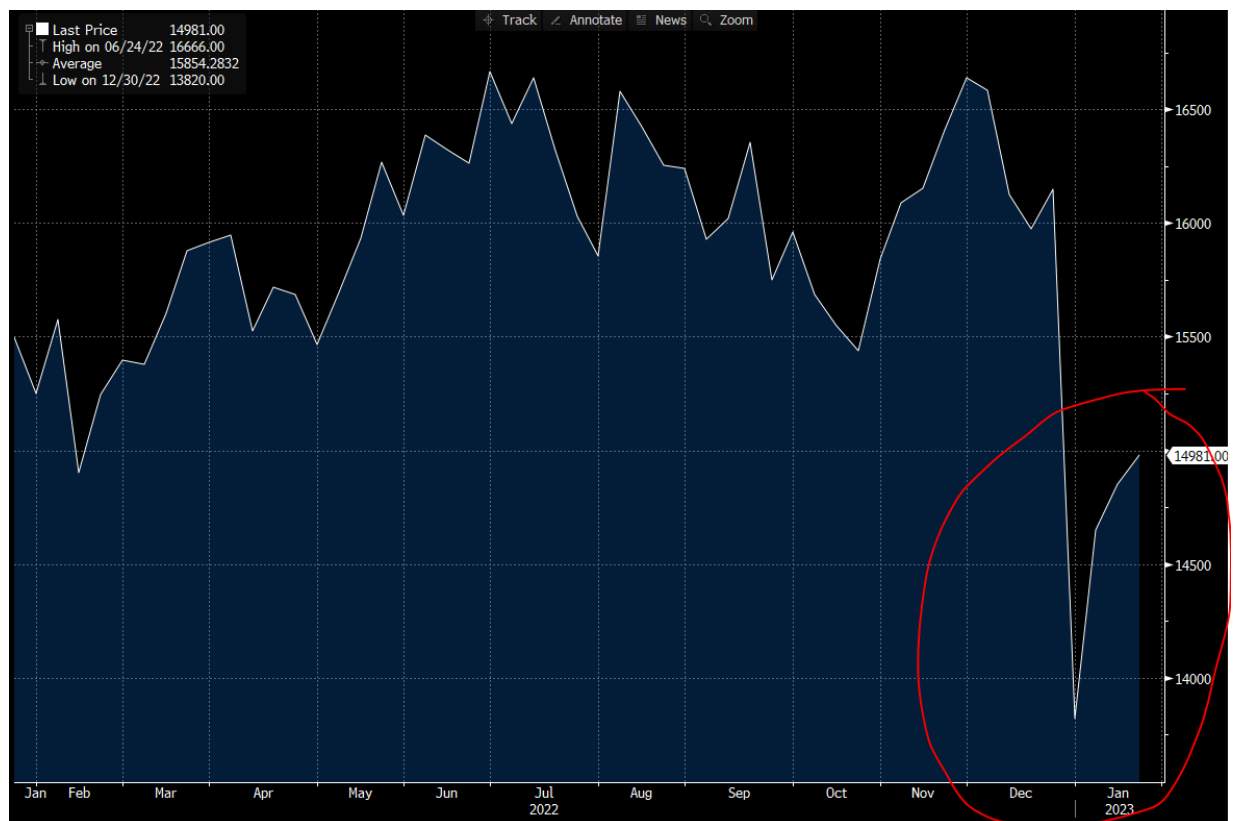


## US crude oil inventories & what's ahead

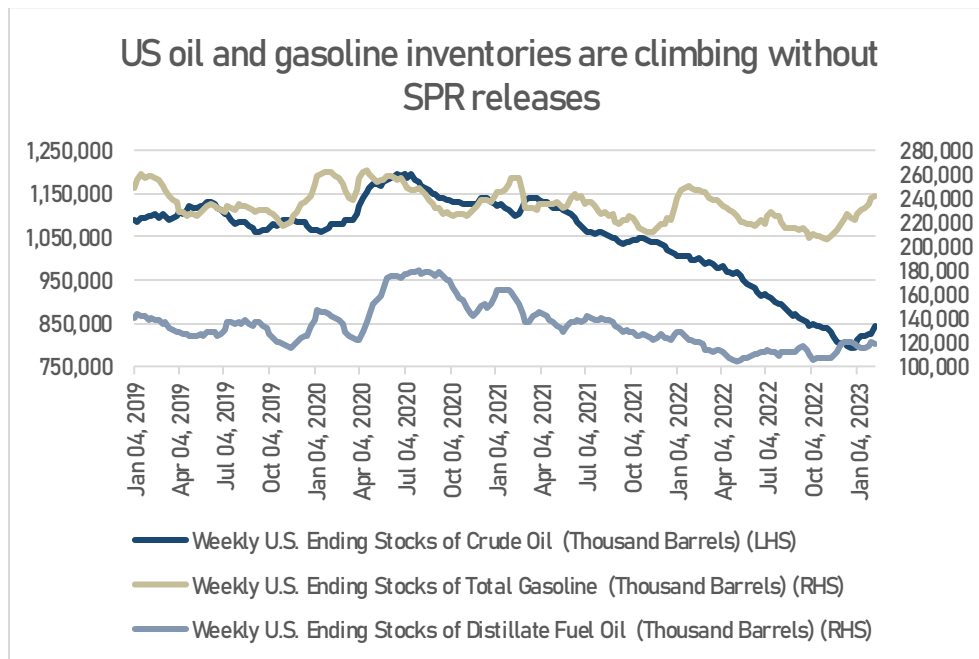
### Large January crude oil inventory builds...

At the beginning of January the US crude oil inventories jumped by 26mio barrels in just two weeks. The main reason for this inventory build was a cold snap that took refineries down in the last week of December. While you would expect a build in crude oil inventories due to refineries being shut in, you would also expect products such as gasoline and distillates having inventory drawdowns in return. This, however, only happened in the last two weeks of December. Generally, products inventories are building in January, February before beginning to draw in spring/summer.

### US refinery crude intake is down after winter freeze



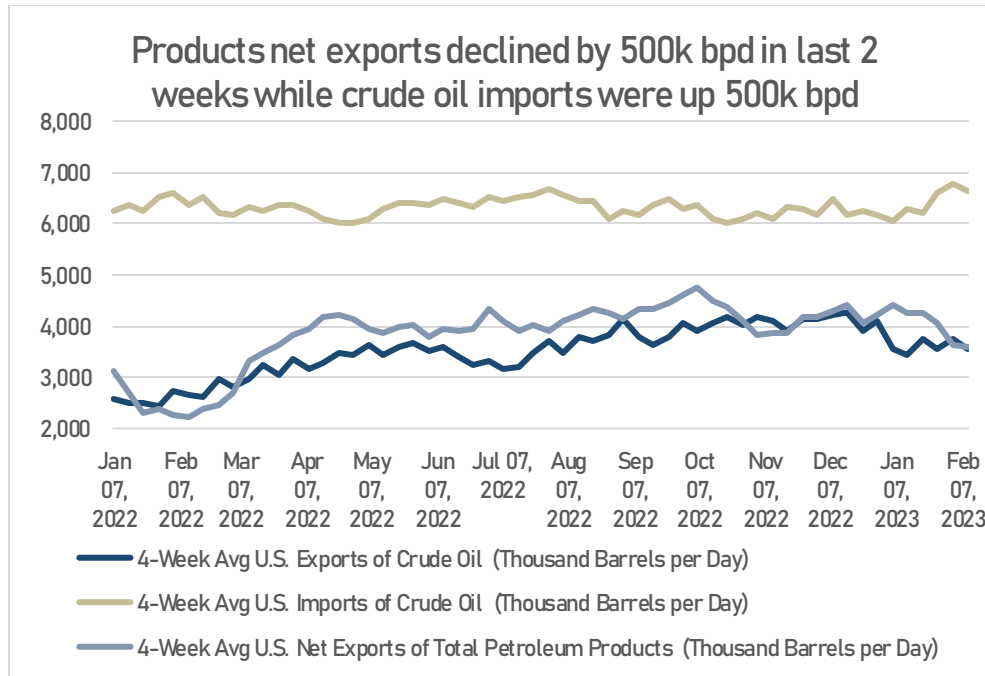
Source: Bloomberg



Source: EIA

### ...Followed by large February crude oil inventory builds

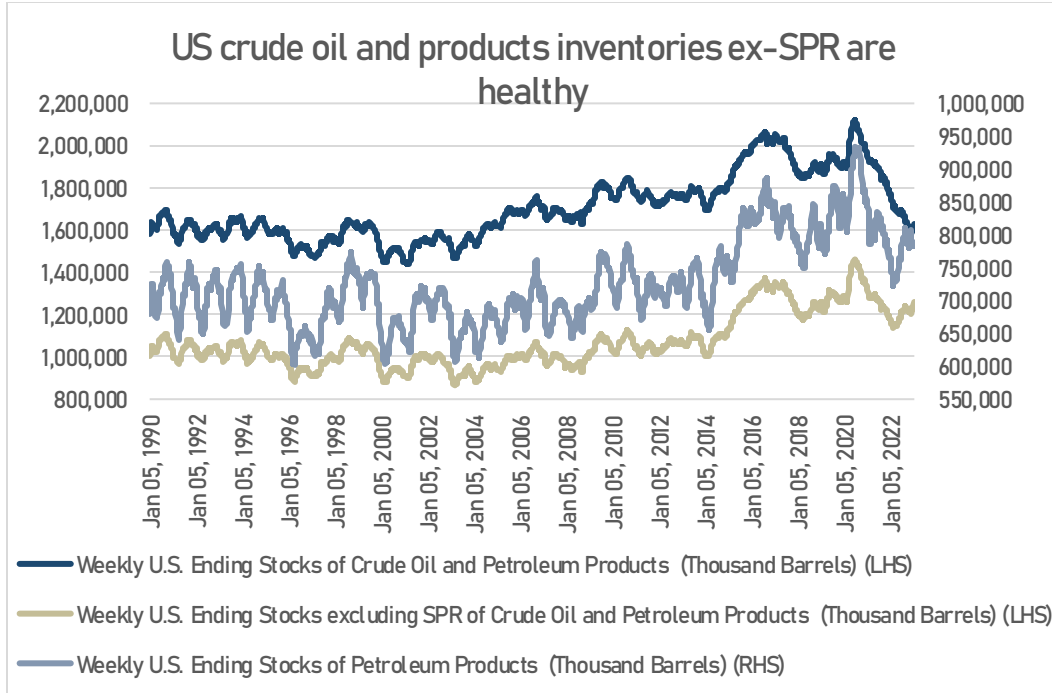
The first two weeks of February then also showed massive crude oil inventory builds of over 18mio barrels, while distillates grew slightly and gasoline inventories grew strongly. With refineries recovering, does this mean these inventory builds indicate a lack of demand? Although demand does not look strong here, the reason for the inventory builds in February is likely an increase in crude oil imports and a decrease in product exports by around 500k bpd, which together show a difference of 1mio bpd over the first two weeks in February, making up around 14mio barrels.



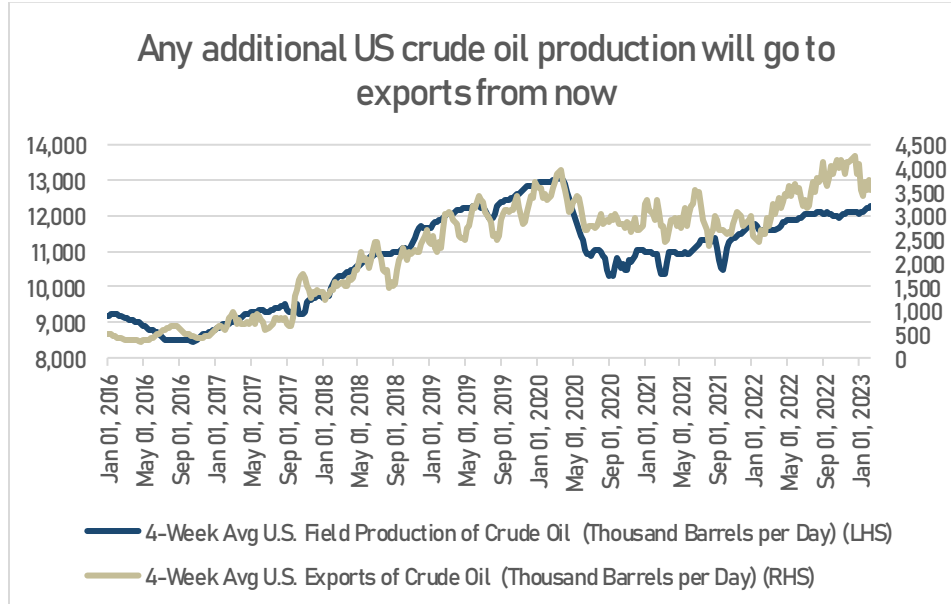
Source: EIA

### Bottom line for US oil inventories

In summary, US crude oil and products inventories ex-SPR are overall at a healthy level. Despite distillates inventories still below normal levels, distillates inventories are still at comfortable levels overall. Oil inventories really only look unhealthy when taking the SPR into account. Adding US exports of crude oil into the game (chart above and below), the 1mio bpd being released over the last year from the SPR were pretty much all exported, which were only above 3mio bpd in mid-2019 when the US produced 500k-1mio bpd more than today.



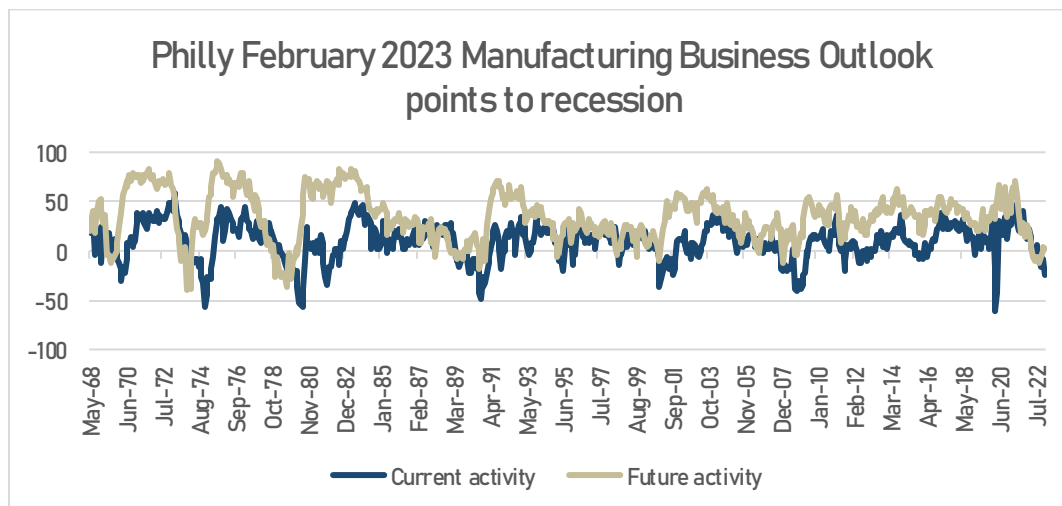
Source: EIA



Source: EIA

## Bottom line for oil prices

With Russia cutting oil production by 500k bpd and US releasing 290k bpd from the SPR in Q2, the remainder will likely be made up through increased US production bringing the market back to equilibrium. I have initially thought that Russia might reduce oil supply to squeeze prices higher – just as they did with gas. However, given that their main customers are now “friendly nations” India and China and make up over 90% of their oil sales<sup>1</sup>, it is probably unlikely that Russia cuts production to increase prices. They did, nonetheless, introduce their own cap of \$20 discount to benchmark that they sell their oil at<sup>2</sup>. This puts enlarged emphasis on demand, i.e. are we entering a recession or not. The latest Federal Reserve Bank of Philadelphia points towards the worst manufacturing activity since March 2020 and January 2009. The reading of -24.3 is similar to that of February 2008 (-20.2), which followed a reading of -14.9 (March 2008) and -21.3 (April 2008). Other similar readings include October 2001 (-23.6) and before that similar readings only occurred once every 5-10 years. You may always say “this time is different”, especially, as the business cycle got changed amidst the Covid lockdowns, but this should still be considered a warning. Next week, the RMT will update on new strike action in the UK<sup>3</sup> and Russia is set to have an extraordinary meeting ahead of the 1 year anniversary of the Ukraine invasion<sup>4</sup>.



Source: Federal Reserve Bank of Philadelphia

<sup>1</sup> <https://www.bloomberg.com/news/articles/2023-02-13/russia-s-crude-oil-shipments-slump-ahead-of-march-output-cut>

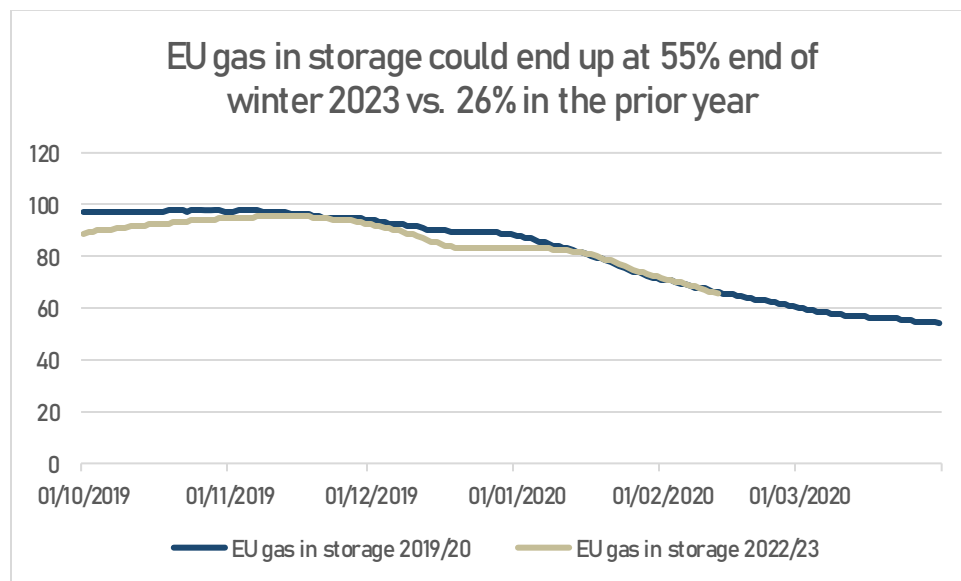
<sup>2</sup> <https://www.reuters.com/business/energy/russia-introduce-fixed-oil-differentials-taxation-boost-state-coffers-sources-2023-02-10/>

<sup>3</sup> <https://www.rmt.org.uk/news/members-updates/rates-of-pay-and-conditions-of-service-2022-tfl150223/>

<sup>4</sup> <https://english.alarabiya.net/News/world/2023/02/15/Russian-parliament-to-hold-extraordinary-meetings-on-Feb-22-RIA->

## EU gas price outlook

A brief note on EU gas price outlook for 2023/24. EU gas in storage is now at similar levels as the prior highs in 2019/20. With the US Freeport export facility slowly coming back online, the EU should be well supplied for the next winter as long as US natural gas prices stay depressed. Their storage tanks will likely end the winter at a quarter higher than last year – although last year there was still decent gas supply from Russia coming. The key is whether the EU will scrap the mandatory 15% gas consumption reduction rule. If scrapped this could lead to some more unexpected volatility in gas prices for Europe.



Source: AGSI



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