

# Petroleum Week

## Week #38: 19-23 September 2011

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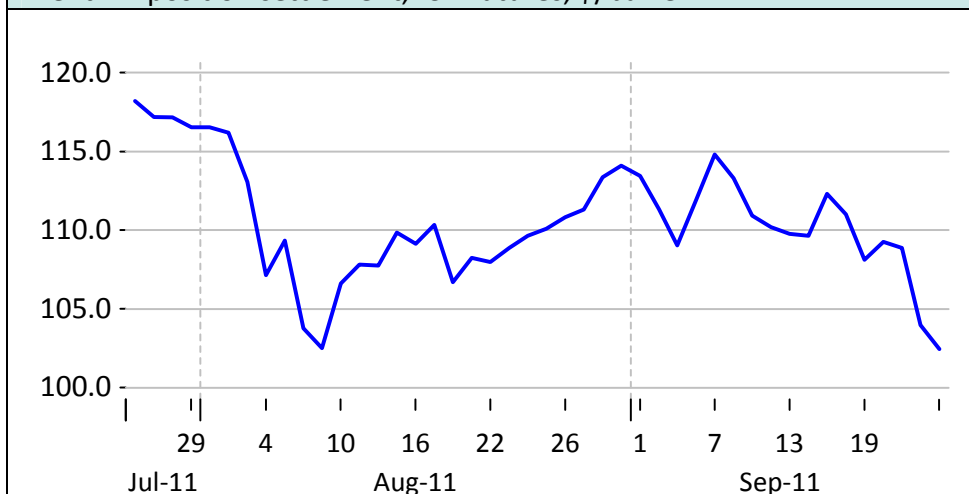
### Short-term review

#### Brent falls by \$8.50/barrel

Short-term forecast for Brent (second-position): \$105-\$110/barrel

European petroleum markets plunged in the week ending Friday 23 September, as fears that the eurozone crisis may escalate beyond government control triggered a stock market and commodity sector selloff. The benchmark ICE Brent second position (December, expiring 15 November) closed on Friday at \$102.46/barrel, at which level it averaged \$106.53/barrel across the five sessions, compared with \$110.58/barrel for the previous week. The Friday-to-Friday fall amounted to \$8.56/barrel, equivalent to a 7.7% drop. The scale and pace of the market retreat was so intense that our forecast last week for a rise in oil prices was swept aside by Wednesday, when the US Federal Reserve announced plans for a \$400bn Treasury note sale that many interpreted as a sign of an impending double-dip recession. The selloff gathered momentum when words of comfort from the G20 leading economies were deemed too anaemic to restore confidence in rebuilding global economic activity. Our stance is more sanguine. We feel that last week's selloff smacked of bear market hysteria that is unsupported by the facts. Consequently, we foresee a rebound in all key markets next week. Oil priced at \$102/barrel is cheap and there will be no shortage of buyers at this level. We forecast a strong upturn in oil prices that will take Brent back towards \$110/barrel.

Brent 2<sup>nd</sup> position settlement, ICE Futures, \$/barrel



Source: VM Group

# The week in detail

## Gasoil

The European gasoil market almost ground to a halt last week as refineries cut production runs and gasoil barge premiums evaporated. An escalating backwardation for October/November, rising from \$3.75/tonne on Monday to \$5.25/tonne on Friday, soured sentiment as few buyers came forward. Although the freefall in Brent knocked about 7.7% off crude oil prices, the retreat in gasoil futures was a more bearable 5.4% on a Friday-to-Friday basis. Nevertheless, the October ICE gasoil contract closed on Friday at \$899.00/tonne, posting an average closing value for the week of \$923.70/tonne compared with \$937.80/tonne for the previous week. As usual, the retreat in oil product prices has been overdone, and bargain hunters can be expected to appear from Monday.

In the European physical market, BP sold six gasoil barges to Total last Friday without any discount to the October ICE gasoil contract, compared with discounts of \$3/tonne fob ARA on Tuesday when Shell sold five barges to Mercuria, Vitol and Morgan Stanley.

## Gasoline

Gasoline traders were busy outside of the Platts pricing window and prices fell steadily across the five sessions. About 100,000 tonnes of benchmark Eurobob changed hands, with Monday the busiest day of the week when 13 barges were sold in a weakening market that took prices down from \$1,023/tonne fob ARA to \$998/tonne. Bargain hunters on Friday were able to pick up winter spec Eurobob barges at just \$930/tonne, while the last of the summer spec Eurobob barges were offloaded at \$983/tonne. In the premium unleaded gasoline sector, Mabanaft grabbed most of the attention with steady sales in each session as barge prices dropped towards \$977/tonne by Thursday.

Gasoline inventories, one of the few useful yardsticks of consumer demand in Europe, edged higher by 30,000 tonnes to 544,000 as the MiRo cracker in Karlsruhe returned to service. Imports, according to the regular Thursday audit by PJK International, arrived from the UK, France and Scandinavia while exports were chalked up for the US, Mexico, Brazil and Nigeria. The US market continues to siphon off some spare European production, as the US Energy Information Administration revealed on Wednesday that US gasoline inventories surged by 3.3m barrels to 214.1m barrel. The jump outpaced a misjudged forecast by analysts of a rise of just 1.2m barrels.

In the naphtha sector, the highlight of the week was a cargo sale by Vitol to Sabic on Thursday at \$900/tonne cif NWE, a level that looks sustainable in the week ahead.

## Jet fuel

Barge trade in the jet fuel sector was patchy although cargo deals were done virtually every day. Morgan Stanley was a persistent seller, finding customers in BP and Vitol on Tuesday at premiums of \$68-\$70/tonne cif NWE. Morgan sold to both parties again on Wednesday although BP whittled the premium down to \$66.50/tonne, and trimmed it further again on Thursday with another Morgan cargo at \$66/tonne. Despite the collapse in crude oil prices late in the week, the jet fuel premium rose to \$70/tonne on Friday with a final Morgan cargo sale to BP. At these prices, premiums remain unsustainably high. The final cargo sale of the week included a premium of 7.7% of the ICE October gasoil contract price, compared with just 4.8% of the gasoil price this time last year. These are good times for jet fuel traders.

## Diesel

In the diesel sector, premiums were catapulted higher as the week progressed. One barge traded on Monday at a \$21.50/tonne fob ARA premium when Litasco sold to BP. By Thursday, when seven barges changed hands, premiums were pushed higher to \$26-\$27/tonne as BP bought everything on offer. A final three barges were sold on Friday to BP and Vitol and premiums were pitched at a heady \$32/tonne as gasoil prices collapsed in the wake of the Brent retreat.

Elsewhere in the fuel oil market, barges of low sulphur fuel oil peaked on Tuesday at \$654/tonne fob ARA and dropped back to \$626/tonne by Friday. A similar broad retreat affected high sulphur grades, which finished the week at \$606/tonne.

## Outlook

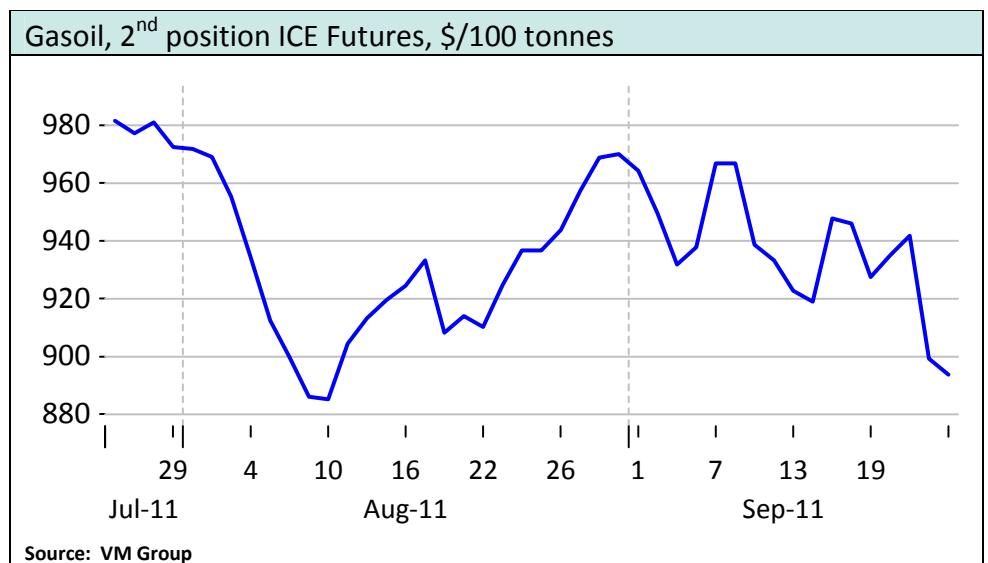
Scaring the German government (and its electorate) into accepting the necessary structural reform in the eurozone may still prove feasible, as the chorus of EU leaders became more high-pitched last week. With equity and commodity markets sagging under the pressure of selling, few can doubt that the day of reckoning for the eurozone's future is far off.

Like anyone in denial, facing up to the reality of an unpleasant situation is the first stage of recovery. Germany has been at the centre of the economic upturn in

Europe over the past two years, and it goes against the grain of any prudent German investor to have to face higher interest rates to bail out once again what they see as the wastrels of southern Europe. But if the euro is to survive, EU economics ministers need to start thinking about eurozone answers to eurozone problems. The most obvious answer that has so far been avoided by Germany is a Eurobond borrowing mechanism that signals to market raiders that, while individual countries might be vulnerable to speculative assault, the 17 members of the eurozone bloc are irretrievably interlinked and that no one has enough speculative cash to bring these down.

As for the broader economic prospects, we remain confident that the most of the groundwork has been done for a solid recovery in 2012. Data released from Eurostat last week showed that construction output in the eurozone was up 1.4% in July, a performance that was slightly tarnished by data indicating a 2.1% drop in industrial new orders between June and July 2011, suggesting some of the rebound in the economy has been dissipated. However, compared with July 2010, industrial new orders are still up 8.4% in the eurozone.

**Now that Q3 draws to a close, our quarterly audit of Brent prices shows that the average price of the benchmark for first nine months of 2011 (up to last Thursday) was \$111.47/barrel. In our forecast made *last December*, we projected oil prices of around \$115/barrel during October 2011 and an average for the year as a whole of \$118/barrel. Notwithstanding the shakeout last week, we remain confident that this forecast will be supported by a strong upturn in the weeks ahead.**

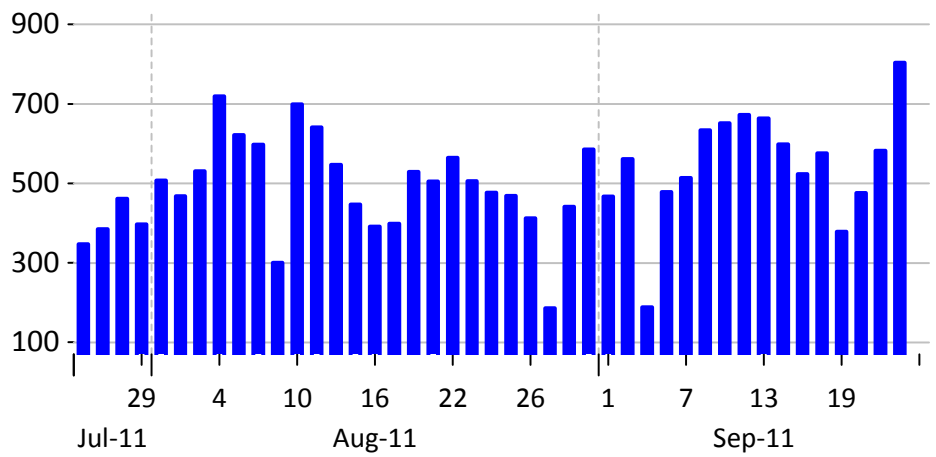


Brent refinery cracking margin, Rotterdam, \$/barrel



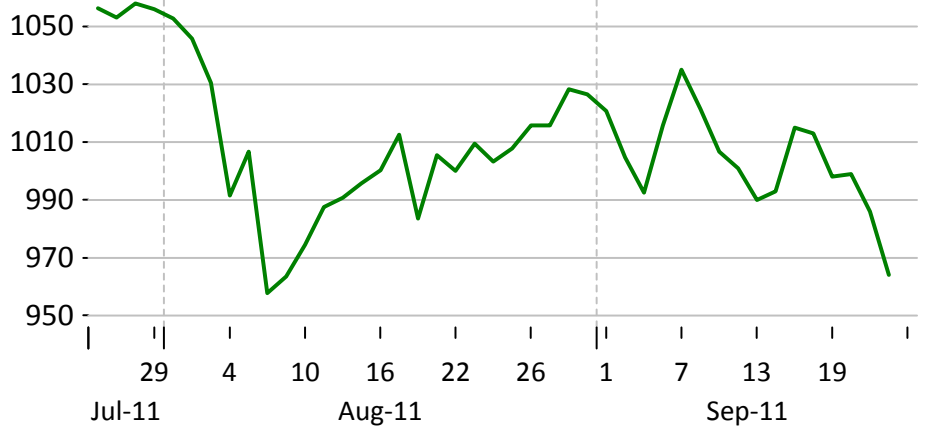
Source: VM Group

Brent ICE Futures, volume, 000 lots/day



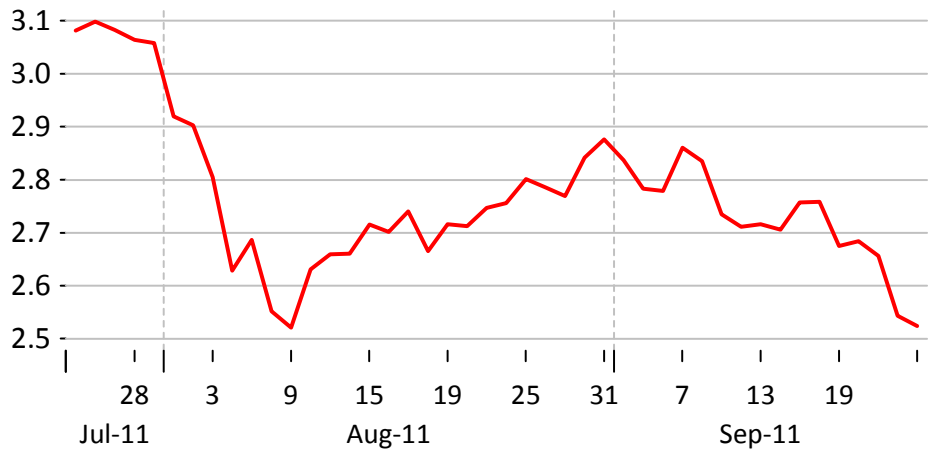
Source: VM Group

Amsterdam-Rotterdam-Antwerp kerosene-type Jet Fuel spot price, \$/tonne



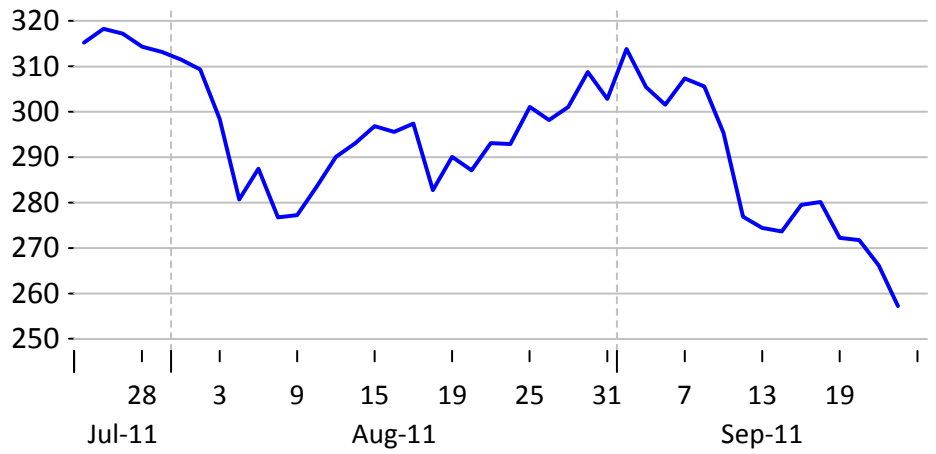
Source: VM Group

RBOB gasoline, 2<sup>nd</sup> position, \$/gallon



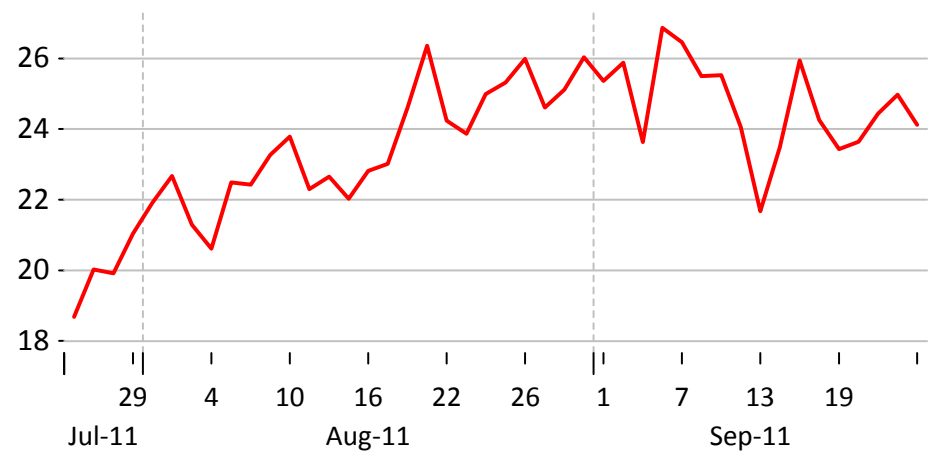
Source: VM Group

RBOB gasoline, FOB New York, c/gallon



Source: VM Group

Brent crude premium over WTI futures, 1st position, \$



Source: VM Group

BRENT TECHNICAL ANALYSIS

Close of Business: 23-Sep-11

**BASIS : Nov 2011** Failure in the face of the broader channel ceiling compounded this week as the 109's/108's collapsed to install a new nearby head and shoulders pattern. This reinforces the impression of another interim swell dissolving and opens the door for the next downswing within the channel. That could prove particularly interesting since the floor of the channel is now into the 95's and poised to converge with the oncoming long term

weekly uptrend, their combination along with the overall base platform at 90 making for potentially much more reliable underpinning. The situation looks frail in the meantime though and so a delve into double digits would be feared unless the market could rustle up a surprisingly potent jolt back over 110.

DAILY TECHNICAL INDICATORS

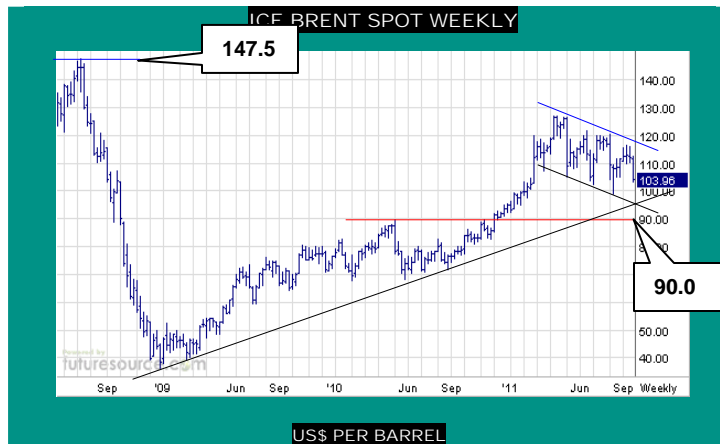
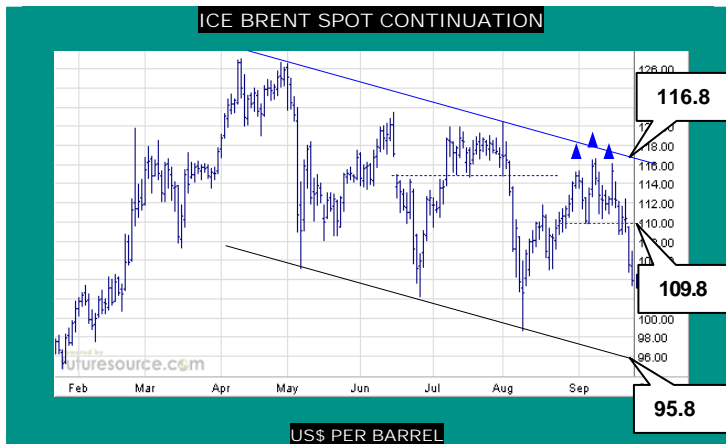
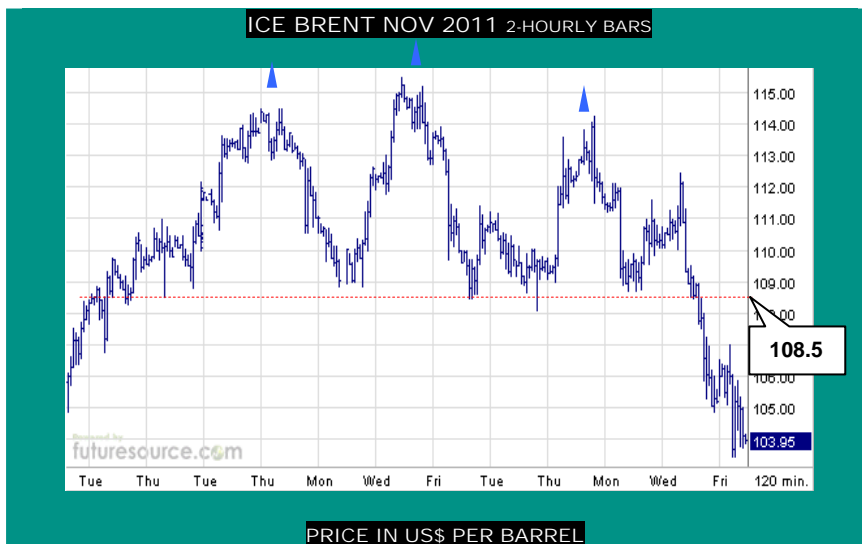
SUPPORT = 100/99, **95.8 (CHAN)**, 95 (UPTR), **90**.  
RESISTANCE = 109/110, 112.5, 115.5, **116.8 (CHAN)**.

BOLLINGER BANDS  
UPPER = 116.09  
MID 20 DAY AV = **110.86**  
LOWER = **105.63**

14 DAY RSI = 36                      14 DAY ADX = 14

14 DAY STOCHASTICS  
%K = 14  
%D = 21

OPEN INTEREST = 874,719



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