Daily Energy Markets
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The big debate in oil markets right now is demand in Q4.

There is tightness but it's coming from products – distillates, gasoline, and the refining side due to maintenance outages. We think demand looks quite weak. It's being compensated by seasonal strength and heating oil issues, but the market is balancing itself out. Russian oil is finding its way to the UAE, to India, and is being processed and spit back out. China is not opening up fully; it's looking at pockets of strength and supporting the market, but the bigger picture is that it cannot stimulate its way out. There's also a lot of weakness in developed markets right now - the US and Europe - big export markets for China.

Fed policy direction of travel?

The market has been positioned very long US dollar, very bearish bonds so the glimmer of hope on the soft CPI numbers last week just caused books to massively unwind their positions, mainly a lot of hedge funds who had gone into November on the wrong foot. The Fed may slow the rate of tightening, but they're not easing in any way. Going from 75 to 50 basis points is not a pivot. Until inflation comes down to 3% or 4%, the Fed will not hold off.

Has the USD peaked?

It has just reversed some very overbought conditions down to the 100-day moving average. We feel the dollar will still stay strong against the euro and sterling. The Fed is still tightening a lot more, relatively. The December FOMC will be a very important time for the Fed to reassess and clarify its assumptions. It will not want the market to think that the financial conditions have eased. We are still in the dollar bullish camp.

The negative outlook for the US economy has not materialised?

We have not seen it yet but the data on payrolls will start getting very negative into next year. We think 1H 2023 will be very ugly. It will be a time where the Fed is raising rates, and the economic data is very weak and that's when the Fed, if at all, might pivot. ∎

Paraphrased Comments

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