Daily Energy Markets BULLETIN

SUNDAY /// FEB 13th

Consultancy Intelligence Publishing

OPEC+ SPARE CAPACITY DECLINING TO ALARMING LEVELS

Mike Muller, Head, Vitol Asia

Spare capacity in OPEC+ is down to two or three members, and month after month, the 400,000 barrels a day that's being put on the market is in effect, a much smaller number. That leads us to a point in time where we can debate whether the second half of this year or sometime next year, OPEC spare capacity reaches levels that are considered alarming. So much so that the debate now is that we might need Iranian supply soon or even need to release more Strategic Petroleum Reserve to alleviate the situation. Fundamentals are a very resolute positive. We have so much backwardation that the market is saying, don't be short, because we are one disruption, one refinery wobble away from markets getting even stronger. Jet fuel is trading at or above gasoil and there's backwardation in crude and distillates - these are all a manifestation of tightness at the front where there's a perceived scarcity of supply. Refining margins are telling us that they should be running flat out because product cracks are at levels we haven't seen for many months, and that should be pulling very hard on crude markets. Meanwhile, inventories continue to sit at levels that are worrisome. Markets have very high implied volatility at these levels. We've moved from what seemed to be a market in risk off mode at the end of 2021, to now greater interest in the energy complex.

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Daily Energy Markets PODCAST

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Dr. Xavier Chen
CEO, CN Innovation
President, Beijing Energy Club

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Center on Global Energy Policy
Columbia University

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TOP 3

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TAKEAWAYS

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TOP 10 DAILY NEWS DIGEST

1. OIL JUMPS AMID ESCALATING TENSIONS BETWEEN RUSSIA & UKRAINE
2. US RIG COUNT SEE MASSIVE CLIMB ON HIGHER OIL PRICES
3. IRAN OIL EXPORTS JUMP OVER 1MN BPD
4. IEA: CHRONIC OPEC+ UNDERSUPPLY COULD PROPEL OIL PRICES EVEN HIGHER
5. BIG OIL BOOKS BIGGEST CASH FLOW SINCE 2008
6. CHINA COULD BECOME A MAJOR LNG TRADER
7. US JET MARKETS RALLY ON NYMEX DESPITE FUNDAMENTALS
8. EU COMMISSION'S GREEN NOD TO GAS REIGNITES ENERGY TRANSITION DEBATE
9. EU EMISSIONS PRICES BECOME POLITICALLY SENSITIVE
10. US JUDGE STRIKES DOWN BIDEN CLIMATE DAMAGE COST ESTIMATE

RECOMMENDED REPORTS

- NO ENDGAME FOR UKRAINE
- US WARNS AMERICANS TO LEAVE UKRAINE IN 48 HOURS OVER FEARS OF RUSSIAN ATTACK
- CHINA: REDUCE FOOTPRINTS, ENHANCE HANDPRINTS & EXPAND BLUEPRINTS
- REFINERY NEWS ROUNDUP: INCLEMENT WEATHER IN RUSSIA CAUSES DISRUPTION
- CHINA SHAPES UP ITS OWN GREEN TAXONOMY
- EXXON BOOSTS OIL PRODUCTION WITH NEW VESSEL, RAISES GUYANA OUTLOOK

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IRELAND

James McCallum
Executive Chairman of Xergy
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UK

Bora Bariman
Managing Partner
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Daily Energy Markets INDUSTRY SURVEY

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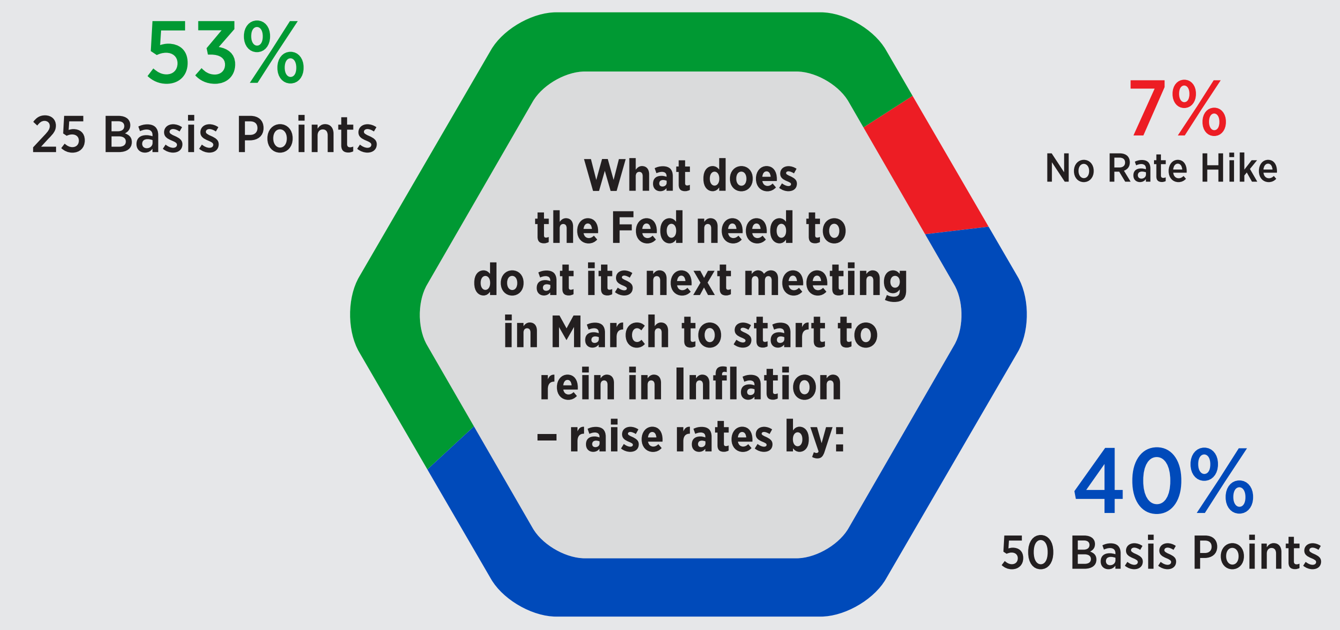

Source: GI Research Feb 2022

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VIEWS YOU CAN USE

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Dr. Carole Nakhle
Chief Executive Officer
Crystol Energy

Expectations for US Fed policy going forward?
I don't think we're going to see a deviation from what they have announced in terms of increasing rates. Finally, we're getting some reaction and a tighter monetary policy to tame inflation. In the end, it's about striking the right balance between that, and not damaging the economy by decelerating growth. There's also the other side of the story beyond what the Fed is going to do, and that's the supply chain bottlenecks that have been driving inflation. If we have a gradual increase in rates starting from a low base and at the same time, the supply chain starts to ease, we might not end up in the drastic scenario that some are fearing. It's better than going down the route of higher inflation rates which might cause the Fed to take more aggressive steps. For now, I remain optimistic.

Is the lack of spare capacity within OPEC+ alarming?
OPEC spare capacity is declining but it is not alarming. It is around 4% of global spare capacity production supply. If it was below 1%, then we would be in a much worse situation. And if you look at the numbers for the rest of the year, we see a build-up and that it's going to stabilize.

Do you expect the market to shift out of its current rangebound standstill?
In the very short term, the market seems to be balancing around $90 a barrel. We are seeing some diffusion of geopolitical tensions in Europe but no final outcome yet. We hear about progress vis-a-vis Iran, but does that mean there will be a deal? And Libyan production is uncertain. So, the geopolitical card is still not clear. On the other hand, we're expecting higher supplies from outside OPEC, such as from the US, but not necessarily in the coming weeks. If geopolitical tensions are resolved completely, we will see downward pressure on prices but if not and supply continues to be constrained, I see us remaining where we are today. ■

**Paraphrased comments*

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Mashreq 60-SECOND SOUNDBITE

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Dr. Xavier Chen
CEO, CN Innovation
President, Beijing Energy Club

"Looking from Asia the crisis in Ukraine is not too distant from us"

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Christof Rühl
Senior Research Scholar
Center on Global Energy Policy
Columbia University

"My Russian Friends Have all Gone Silent!"

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