

UNTIL.....

Oil markets felt almost irrelevant this week against a backdrop of a 2 year of war, sadness, death, and destruction.

Not surprisingly, however, oil markets spent the 7 days on high alert hanging on every word of those who wage war and those who try to make peace as a guide to the next price move. All of this is making trading oil a very risky and potentially painful financial exercise. Speculative futures and derivative traders have been whipsawed more times than a spinning top, whilst physical oil traders have been able to take a more measured approach as they quietly place their cargoes into selected regions at significantly high premiums to those in urgent need.

Right time, right place has been key to trading oil against the World's woes. Those who called \$100 crude oil (and those who called \$150 and higher) by the spring, by the summer, or by the autumn are finding themselves in a tight spot heading into winter. Their bet was on Opec+ squeezing the markets in the name of stability, two tragic wars, the threat of world war, Iranian rhetoric calling for action then inaction and the threat of Middle East supply being choked off have all contributed to an oil market high on speculation but in hindsight doesn't know whether it's coming or going.

This weeks markets put on their best swagger on Monday as \$89 a barrel ICE Brent looked like the tip of the iceberg, but by Wednesday confidence was beginning to crumble and by Friday evening there was a sense of "ok, not this week then" as investors saw time slip away and another week of an expected boom in prices fell in pieces by the wayside despite the American Federal Reserve Bank chairman Jerome Powell telling the World that American interest rate rises are done for 2023, a comment that should have buoyed oil prices but the impact of his words were brief and unimpressive.

It seemed oil markets had waited too long for Iran to state their position on the Israel/ Hamas war and instead hung on a Friday video by the secretary general of Hezbollah Hassan Nasrallah who talked aggressively but did not include the words "total war" in his rhetoric and that was enough for the sellers to hit the market and send many long positions packing until another day.

So why is this market failing to rise to the fabled \$100 a barrel?

Some clues lie in American crude oil production which sit at record levels. U.S. field production of crude oil reached 404.6 million barrels during the month of August, new EIA data showed this week, which averages out to 13.05 million barrels per day (Saudi Arabia is currently producing at 9 million). The previous high was just shy of 402 million barrels. Increases in production were seen in PADDs 1, 2, 3, and 4, with the largest percentage increase in production seen in PADD 4, which comprises

Colorado, Idaho, Montana, Utah, and Wyoming. The largest actual increase was seen in PADD 2, which includes North Dakota, Illinois, and Kentucky, among other states. Texas too reached a record 5.7 million barrels a day in August and that's the top oil-producing states. Crude oil production reached a record high of 5.7 million barrels per day (bpd) in August, according to the Texas Oil & Gas Association (TXOGA) Chief Economist Dean Foreman. The Permian fields in Texas and New Mexico have lost 117 rigs so far this year but maintained high levels of production according to statistics from Baker Hughes and Oil Price. This is something of a mystery.



Dear old Opec produced 27.9 million barrels a day in October, 50,000 bpd higher than September as some African countries increased production (Nigeria boosted its production the most, with Angola, Gabon, Equatorial Guinea, and Congo also pumping more in October) and as we mentioned last week Russian crude oil production has crept almost 500,000 barrels a day higher between August and October, and Reuters reported Iranian production at 3.17 million barrels a day last month which seems incredibly high for a country entrapped in sanctions.

Much juggling can be done when it comes to production figures as you can see from the above. In the end it's hard to get away from what seems unstoppable supply and a consumer demand level that's slipping away unable to cope with the high price of oil in its many forms.

We can't help but look at an old product favourite when assessing demand and that is naphtha. Naphtha prices and demand have been in the doldrums for the last 2 years, and given it's a product from which ethylene, plastics, rubber, and resins are made, (many of your office telephones, phone banks, plastic bins, cups, buckets, and lunch boxes we see every day started their lives as naphtha) it's struggled to maintain a high price even amidst wars and uncertainty. The reason for this is the World's chemical industries remain in a struggle to keep going given the lost demand for many consumer goods. For the refiner, every barrel of naphtha processed loses between \$10 and \$15 a barrel and that problem will continue for a long time to come yet. Maybe naphtha and products like it are giving us real clue to how the consumer is managing their dollar, and maybe that is the underlying reason why \$100 a barrel will remain elusiveUNTIL.....

This week's closing guide prices

Ice Brent

\$84.89 (-4.23)

WTI

\$80.51 (-3.45)

Ice Gas Oil

\$886.50 (+12.50)

Euro Mogas swaps

\$774.00 (-37.00)

Naphtha swaps

\$626.00 (-15.50)

Nymex Gasoline

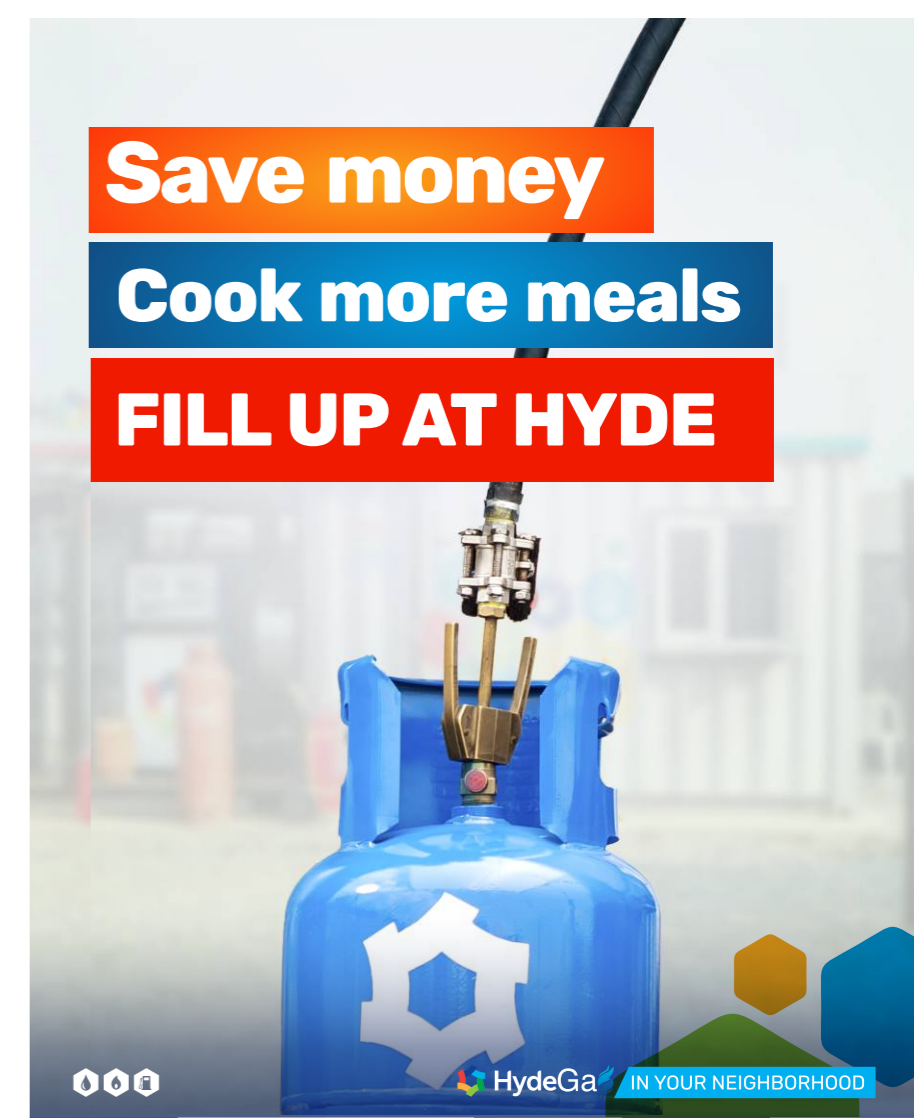
\$2.2010 (-9.85 cents per gall)

LPG swaps

\$489.00 (-80.00)

Opec Basket

\$89.04



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