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WEEKEND EDITION

OIL REPORT

Crude briefly below $100 in volatile week

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Volatility returned to commodity markets in a July Fourth-shortened week, sending crude prices below $100 a barrel for the first time in about two months.

West Texas Intermediate on the New York Mercantile Exchange started the trading week with a $8.93 plunge, sending prices to $99.50 a barrel. That was accompanied by an additional 97-cent loss Wednesday before traders regained some confidence and sent prices back above $100 a barrel. Prices rose $4.20 a barrel on Thursday and added another $2.06 Friday to end the week at $104.79. That's below Friday's close of $108.43, a decline of 3.4 percent for the week. The posted price closed at $101.27, according to Plains All American.

Natural gas prices on the NYMEX echoed crude oil's volatility, falling three of four trading days. Prices started the trading week with a 21-cent drop before rebounding Thursday with a 78.7-cent jump back above $6 per Mcf. Prices then fell 26.3 cents to close at $6.034 per Mcf.

"A true recession and major slowdown seem to be what the oil market is pricing in at the moment," observed Garrett Golding, a business economist at the Federal Reserve Bank of Dallas, during a recent Oilfield Strong webinar presented by OTA Environmental Solutions. "It's difficult to see the price action of the last few days as justified (by) the data at the moment. If demand levels aren't strong, they're not collapsing either. This is also still looking like a tight supply and demand balance for the rest of the year."

Golding added that economists see in the price curve price premiums for the first few months of contracts, which means "the physical market is screaming for barrels now, which doesn't happen when demand folds."

There is still a mismatch between where demand is headed and supplies, he continued, not withstanding an economic slowdown. The International Energy Agency is forecasting global demand will surpass pre-COVID levels by next year, which could mean continued high prices absent new supplies, he said. "We need more capacity from somewhere and we need it soon."

High prices being felt at the gasoline pump are beginning to result in a slowdown in demand, he noted. Rather than driving to the office three or four days a week, he said drivers are now going to the office just one day a week. He also cited reports from AAA that people are cancelling driving vacation plans due to high fuel prices.

Pointing out that gasoline prices have fallen from record highs in recent days, "the world is different now than just two weeks ago, so we'll see if that changes going forward."

Edward Moya, senior market analyst, The Americas at Oanda, wrote in his daily newsletter than Friday's labor market report showed the economy remains strong.

"Economic growth fears may have been overdone as the oil market looks poised to remain tight for the foreseeable future," Moya wrote. "After testing the mid-90s, the selling pressure for WTI has been completely exhausted. Oil prices will likely comfortably trade above the $100 a barrel level as the risk of interruptions to supplies remains elevated."

Crude's volatile trading means that it's well down from last month's high, but still up more than 35% this year following Russia's invasion of Ukraine, Bloomberg reported. The news service reported the complex market outlook has spurred banks to offer starkly different scenarios for prices, with Goldman Sachs remaining broadly bullish while Citigroup Inc. has said the commodity is at risk of a significant tumble.

Bloomberg also reported the Permian Basin's hub in Midland showed inventories are about 600,000 barrels lower than last year, according to Geoffrey Craig, global energy analyst at Ursa Space.