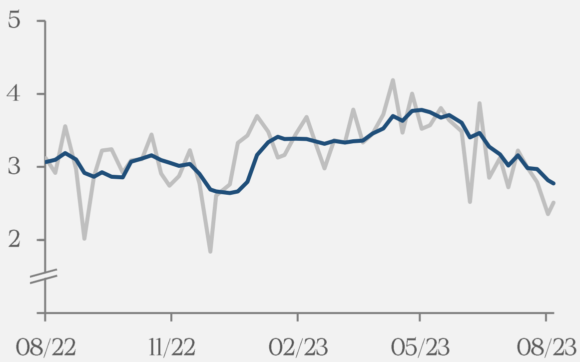
Daily Thought

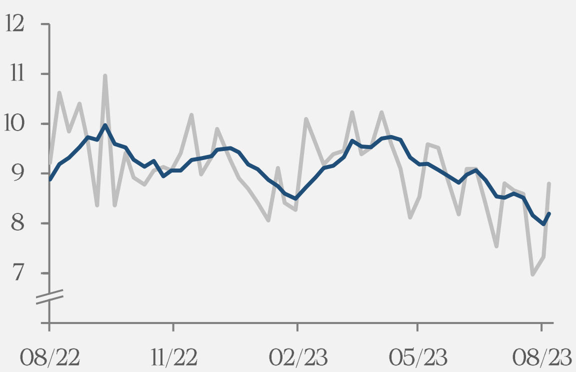
Massive Draws, They Say – August 23rd, 2023

"8 million barrels a day in draws" the bulls screamed – yes, it's true that Kpler, a commodities market data platform reported an uncanny draw in high frequency inventory data. While it's nice to have high frequency inventory readings, and services like Kpler, Vortexa, and others – that not only track shipping fixtures, export volumes, crude loadings, but focus on satellite coverage of crude storage tanks and terminals – we are at the end of the day, relying on data that doesn't come from an official government, or any inner industry organization, and data that is prone to error. So, when Kpler, a highly trusted intelligence provider showed an 8mb/d weekly stock draw, we would suggest it's apt to take an immediate pause. Did Saudi Arabia shut down, or China double overnight? While high frequency data can be a useful tool to see where markets are moving before official data is released, at times, the data breaks down. Now, it's important to remember, that high frequency data, because it's not reported by the operator, is just really a bunch of visual data collection, or in some cases, radar or thermal imaging – but you're not actually in the arena, you are collecting several data points and fitting it back to a model. It's harder to track inventory levels, than it is to track, say seaborne exports, mainly because it's easier to track maritime vessels, via transponder, or, for the vessels that choose to liaison with sanctioned countries, via satellites. So, our live crude export data is more reliable, and see above – Russian seaborne crude exports (shown in fig. 1) have fallen to ~2.4mb/d (from ~3.3mb/d in the first three months of the year, and 4.2mb/d at peak), and Saudi Arabian crude exports touched 7mb/d for a week, before rebounding higher recently – with planned loadings increasing higher over the next few weeks. Really, tracking the tankers, it feels like crude exports from OPEC have been bottoming slowly. Going from 9.5mb/d consistently, to 8mb/d is above Saudi pledged cuts, and again, we reiterate the view that as local Saudi demand cools into

(Fig. 1) Russian Crude Exports (mb/d)



(Fig. 2) Saudi Crude Exports (mb/d)



Source: Kpler, HTM Analysis

Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | **$104.86** (+0.3%)
Bonny Light | **$118.39** (-0.7%)
Synthetic | **$112.09** (-1.0%)
WCS | **$82.88** (-5.5%)

USD Priced Liquids

LLS | **$82.85** (-1.2%)
MEH | **$81.80** (-1.1%)
NYMEX | **$80.35** (-0.8%)
WTI FOB | **$80.71** (-0.4%)

CAD Priced Gas

AECO | **$2.72** (-6.3%)
Alliance | **$2.61** (+1.5%)
Empress | **$2.71** (-5.8%)
Station 2 | **$2.65** (+42.6%)

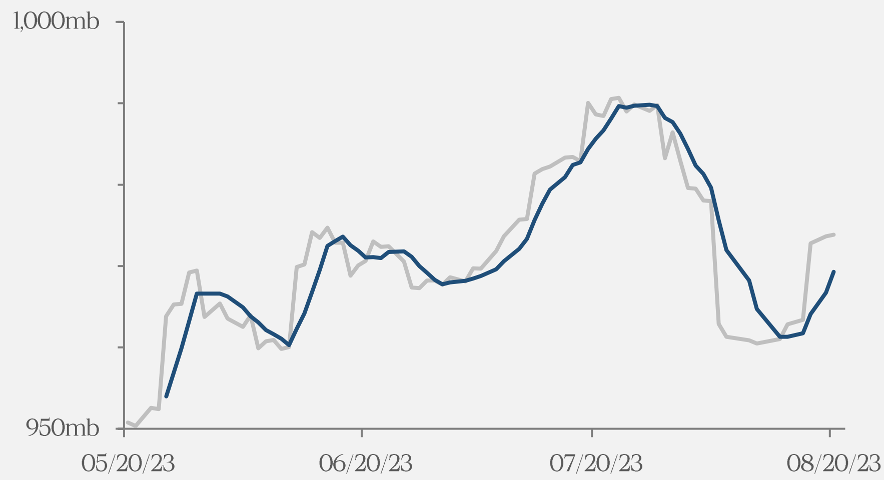
USD Priced Gas

Dawn | **$2.32** (-4.9%)
Houston | **$2.45** (-2.4%)
Malin | **$2.93** (-36.6%)
PG&E | **$4.96** (-21.0%)
SoCal | **$3.76** (-53.3%)
Waha | **$2.03** (-15.6%)

HTM
Energy Research

the end of the year (recall, Saudi Arabia's electricity is largely generated by burning oil, and naturally demand for electricity is higher during the summer) the 7mb/d weeks we've recently seen shouldn't be relied upon. Really, across all of OPEC we see ample spare capacity – and with Kurdish exports soon to ride again, think that there is enough immediate spare capacity to more than offset any inventory draws – the question is how low the Gulf countries want inventories first (putting them in the drivers seat again). The chart to the right shows high-frequency Chinese inventories, and, it shows the weekly data bust that motivated Goldman Sachs to abstain from publishing a global inventories outlook), and after cresting to near 1bn barrels, they have shown a slight draw. Satellite high frequency inventories are tracked though shadows on the tanks. Crude storage tanks (for the most part) have floating tops, when the tops sink (as shown in fig. 4), the shadow on the inside of the tank matches the shadow the tank itself is casting. When the shadow on the inside of the tank is barely visible, then the floating top is high in the tank, implying it's full (as shown in fig. 5). Improved/more frequent satellite coverage means that the firm model (in this case Kpler's) has to process new data (you can't measure everything, so it's a very good guess, but again, not exact) and generate an inventory read. So, while inventories did draw, according to Kpler, they have recovered as of the last read, and are ~5mb lower than 2 weeks ago. We really don't believe that a high oil price is sustainable for China's economy – at least not when your government is actively discussing stimulus, and Saudi Arabia knows this. Either China, or Saudi Arabia needs to introduce enough supply into the market to keep prices in check in the near term, through inventory, or through easing of production cuts, so again, we don't think you can pay forward. Fundamentals are bullish, positioning is also bullish, but with a very simple view, we're tempted to say "why pay more than $80/bbl when China doesn't want to be paying more than $80/bbl", especially with product cracks that would make a grown man cry. What's the takeaway – we still think it's a quiet week, correlations will correlate, but the general theme hasn't changed – oil can't go much higher without inducing supply (organic or otherwise), and we're hyper cognizant of that reality.

(Fig. 3) China Daily Crude Inventory



Source: Kpler, HTM Analysis

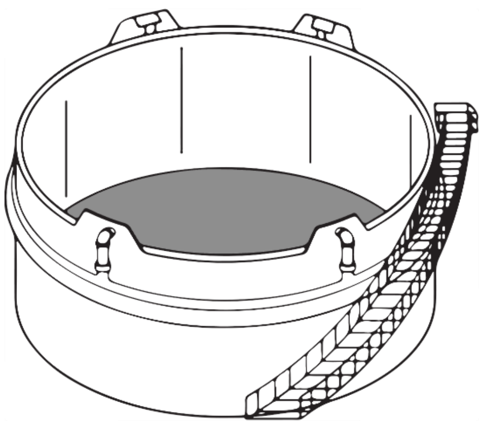


Fig. 4: a mostly empty crude tank
Source: HTM Analysis

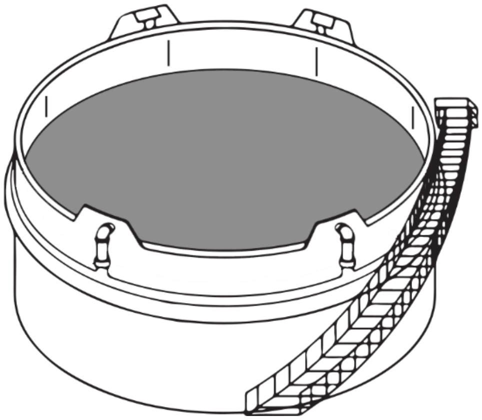


Fig. 5: a mostly full crude tank
Source: HTM Analysis