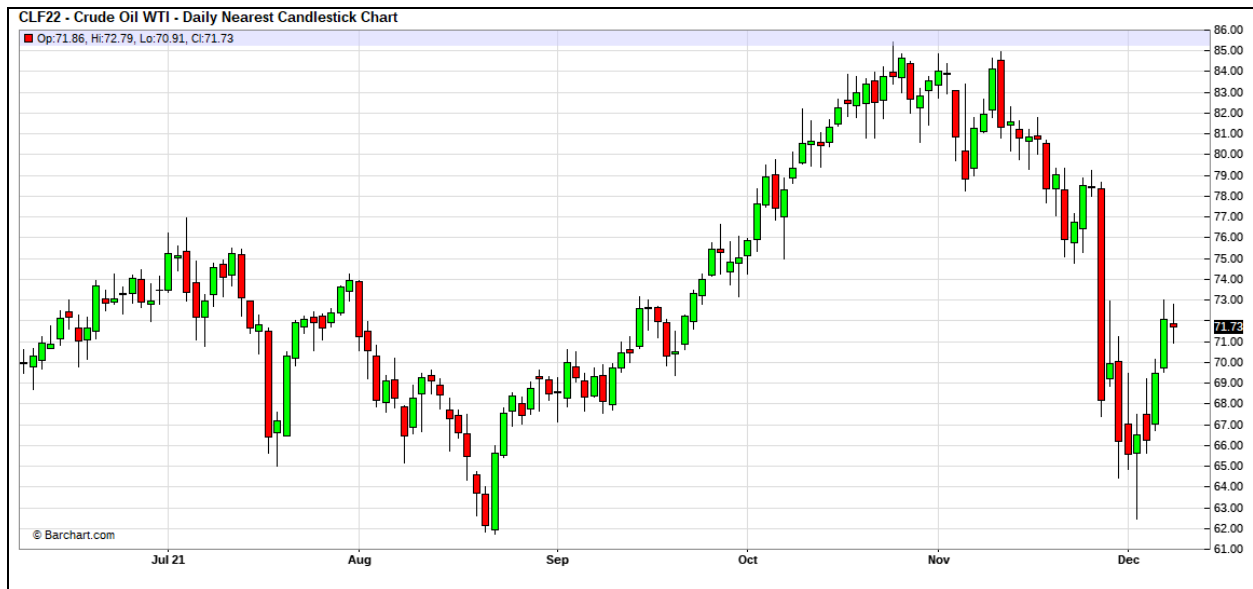


In this report, we recap the Department of Energy's weekly report on oil inventories and related factors. We include our euro and inventory oil model as well. Although the inventory data will be the primary focus of the recap, we will add other data when required.

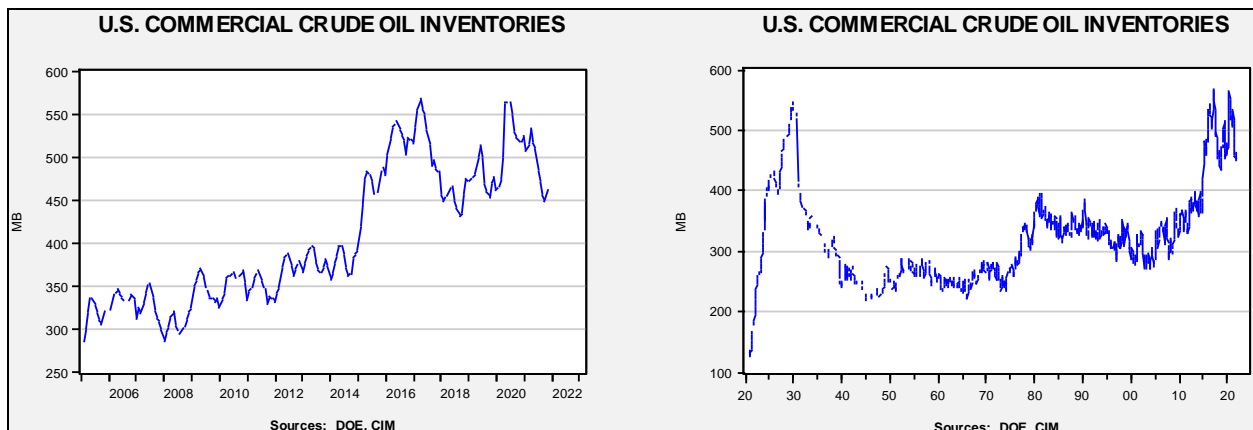
December 9, 2021

Oil prices have recovered from the recent selling on easing concerns over the micron variant.

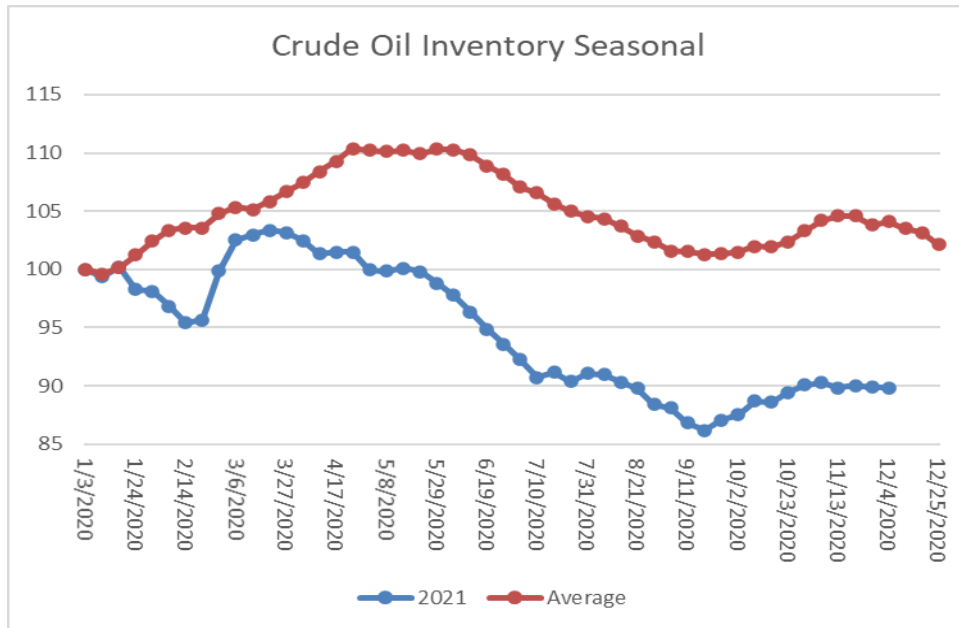


(Source: Barchart.com)

Crude oil inventories fell 0.2 mb compared to a 1.8 mb draw forecast. The SPR declined 1.7 mb, meaning the net draw was 1.9 mb.

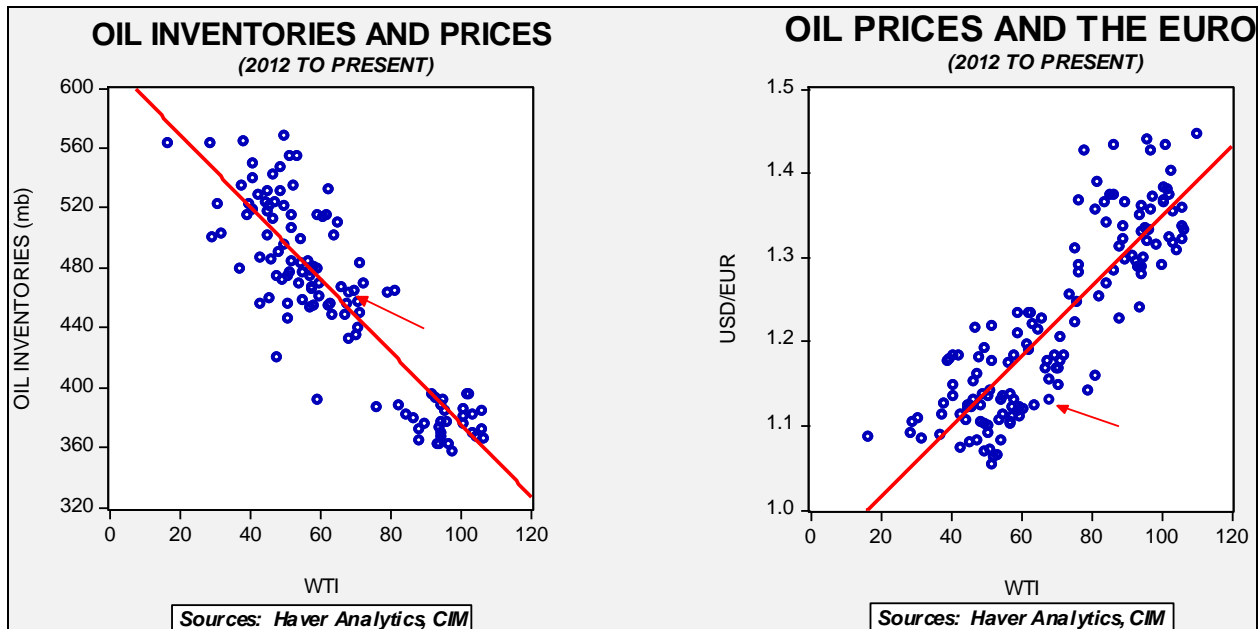


In the details, U.S. crude oil production rose 0.1 mbpd to 11.6 mbpd. Exports and imports both rose 0.1 mbpd. Refining activity rose 0.2%. The build season usually ends in mid-November.



(Sources: DOE, CIM)

This chart shows the seasonal pattern for crude oil inventories. As we head into December, inventories usually decline. Note that stocks are significantly below the usual seasonal trough but usually decline this time of year. So, steady stocks are somewhat bearish. Our seasonal deficit is 73.7 mb.



Based on our oil inventory/price model, fair value is \$63.85; using the euro/price model, fair value is \$52.45. The combined model, a broader analysis of the oil price, generates a fair value of \$57.63. The recent decline in oil prices has brought the market closer to fair value. Dollar strength remains a bearish factor, and the SPR release has eased the bullish pressure from falling stockpiles. Fears of future supply tightness remain a bullish factor.

Natural gas prices have fallen sharply in the past few days.



(Source: Barchart)

Although the U.S. inventory situation has become less tight, the real culprit behind the decline is the weather. The [forecast for the next couple of weeks](#) is projecting very mild weather, and the longer temperatures are moderate, the greater the likelihood that prices will decline further. Generally speaking, colder weather in late January often has a limited impact on prices because utilities will tend to burn down inventory, as winter only has a few weeks to go. Thus, barring a serious cold snap soon, we may have seen the highs for this winter.

Market news:

- High [gasoline prices are hurting the gig worker](#) industries.

Geopolitical news:

- Nuclear talks with Iran appear [to be in deep trouble](#). Essentially, [Iran is demanding](#) that the U.S. immediately lift sanctions and guarantee future administrations won't withdrawal from the agreement. There is no political will to lift sanctions, and the Biden administration doesn't have the votes to make a treaty with Iran that would provide such a guarantee. If talks stall, [the U.S.](#) and regional powers have to decide how to address Iran's nuclear progress. Israel will be tempted to use covert and overt actions to roll back Iran's nuclear development, and it is possible that Arab states will support their efforts. A failure of talks would increase geopolitical risk in the region.

- [Venezuela's opposition is fragmenting](#), which will solidify Maduro's hold on power.

Alternative energy/policy news:

- High fossil fuel energy prices [typically support efforts to expand alternative energy sources](#).
 - [Additional investment is going into nuclear fusion](#), which is something of a “holy grail” for nuclear energy development. Fusion, which generates energy in a fashion similar to the sun, would be very cheap and nearly self-sustaining. Obstacles are daunting, but the potential payoff is enormous.
 - [Canada is experimenting with modular nuclear reactors](#).
- The transition to alternative energy and away from fossil fuels will be disruptive. European automakers warn EVs [could eliminate up to 500,000 positions](#). Although jobs will be created by alternative energy, there will also be job losses from reducing fossil fuel production, and [the gains and losses may not overlap geographically](#), leading to areas of expansion and contraction. It should be noted that [the need for oil, gas, and coal will continue for some time](#), and it will become difficult to attract workers and investment into a sunset industry. The [Saudis warn that the disruption](#) could trigger unrest in various oil-producing nations.
- Although the Biden administration is trying to use tax credits to make union-produced EVs more attractive to car buyers, [foreign automakers tend to build EV facilities in the non-union states](#). This expansion is creating opposition to administration plans.
- China is looking to [build a network of ultrahigh voltage power lines](#) to carry electricity from alternative energy sites, which are usually far from urban areas.

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