Energy Brief

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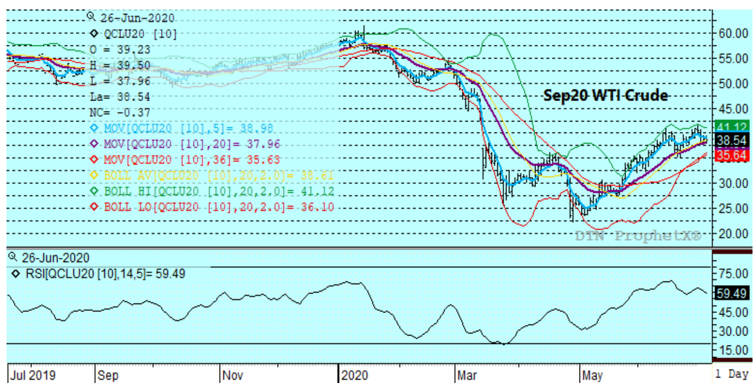
Prepared by Steve Platt and Mike McElroy

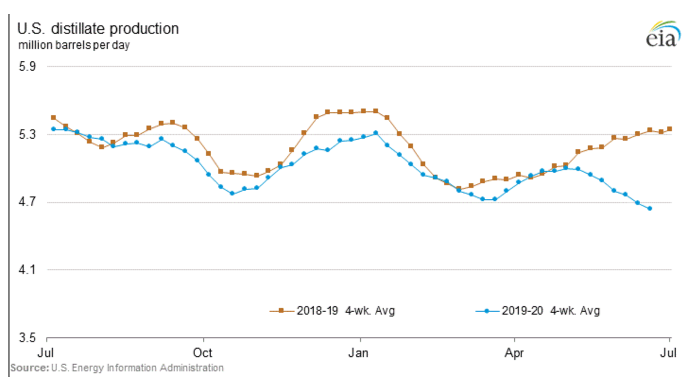
877-377-7931

Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

Price Overview



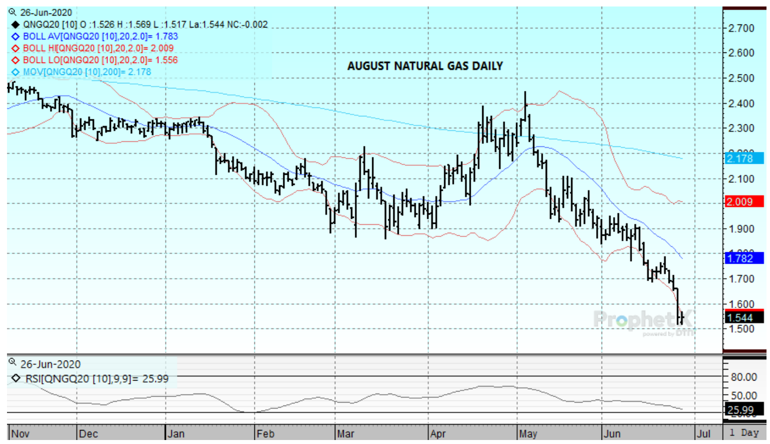
The petroleum complex traded on the defensive as fears grow of a second wave of the coronavirus pandemic. The associated uncertainty over economic prospects, particularly for the US as reflected in recent declines in the equity markets, helped provide a backdrop for selling interest. Although the ability of other major economies such as China and Germany to show improvement has helped provide a glimmer of hope that the world economy is beginning to stabilize, the rise in infection rates in the US has dimmed the optimism that the easing of lockdown restrictions would lead to a steady recovery in petroleum demand.



With the recent weakness continuing to verify our expectation that an intermediate top above 40.00 is in place, it might be appropriate to take a step back and assess the outlook for the 2 oil or ULSD crack. ULSD (heating oil) prices have generally lagged the recovery in crude and gasoline, which gained sharply as optimism that the easing in lockdowns would be favorable to gasoline demand, and that output cuts in crude would underpin prices. Distillate lagged as production levels remained higher than normal into May. Some of the increase was attributed to jet kero being converted into diesel, and disappearance failed to show a marked increase as in gasoline.

This helped weigh on 2 oil margins. At this juncture it appears that due to the weaker margins along with the adjustment in crude oil slates favoring gasoline production, there has been an impact on the production levels of distillate. The decline should help uncover better support to the October 2 oil crack. Stocks, which have steadily built, are beginning to stabilize. The potential decline in stock levels as we move toward fall should underpin the Oct 2 oil crack near current levels at 11.20, leaving open the potential for an improvement toward the 16.00 area as crude responds to large stocks, low refining rates and OPEC+ uncertainty.

Natural Gas



Prices tumbled further as the August traded down to 1.517 yesterday and today on fallout from the EIA report. The 120 bcf build overshot expectations and amplified concerns over storage nearing capacity, not just in the US but around the globe. Estimates are pointing to the potential for a record 4.1 tcf in stocks at the end of injection season. With the upswing in COVID-19 cases and lack of substantial risk of CDD demand near term the market has been overwhelmed with negative sentiment. Despite the price action, some positive signs have started to emerge as production has dropped to near 87 bcf/d over the last week and LNG feedgas demand has shown an upward trend. With the double bottom on the daily chart and close near the lows, it looks likely that the August has yet to put in a bottom. The 1.50 level likely offers psychological support, and with the July expiring today after putting in a new low at 1.432, that likely becomes the next target level unless hotter weather and production decreases quickly develop.