Energy Brief

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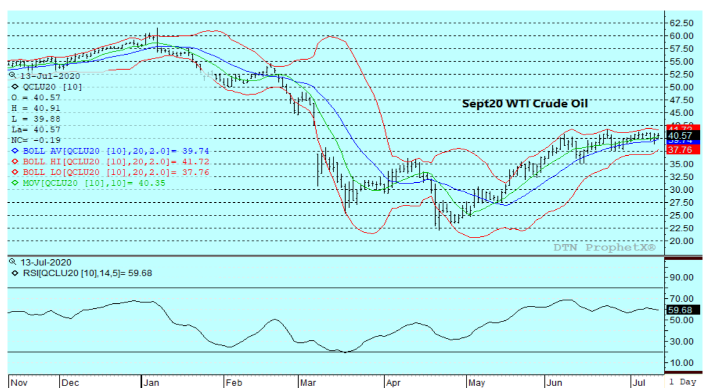
Prepared by Steve Platt and Mike McElroy

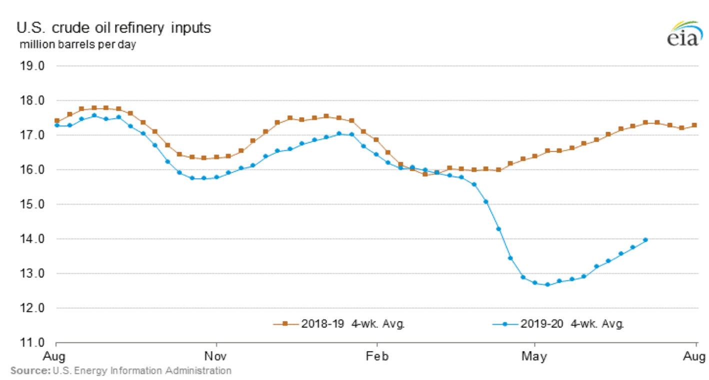
877-377-7931

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

Price Overview



The petroleum complex continued to trade on both sides of unchanged with scattered selling developing early on the appearance that the increase in COVID-19 infections and fears of renewed lock-downs would adversely affect demand. The concerns were offset by news of a drone attack by Yemeni forces on a Saudi oil installation. Reports the attack was repulsed by coalition forces and little information on damage tended to keep the market cautious. Some caution was also apparent ahead of the OPEC Price Monitoring Committee meeting scheduled for July 15th. Ideas that the meeting will pave the way for a scaling back of production quotas to 7.9 mb from 9.9 appeared to encourage selling late in the session. Ideas that inventory levels remain high enough to absorb any damage to Saudi production potential and possible stock declines in the second half of 2020 also limited upside movement.



Although the recovery in many economies from the depression levels of a few months ago has underpinned the energy complex, supply and demand prospects present considerable uncertainty. Low margins continue to present challenges for refiners, which continues to affect throughput and ultimately how quickly stocks are drawn down. Subsequently a further recovery in refining margins might be necessary to accelerate the absorption of both crude and product inventories overhanging the market. Currently the August RBOB crack is trading near the 13.30 level compared to 22 dollars per barrel last year, while in ULSD the margins against August WTI are near 12.20 compared to near 23.00 last year.

For flat prices in crude, ideas that OPEC+ and Russia are content with values near current levels might remain a headwind to rallies. Although it is encouraging that an improvement in global manufacturing activity is occurring, maintaining production restraint and an expanding global economy will be keys to drawing down excess inventories. For now we are unconvinced that the pace of recovery from the pandemic and OPEC's commitment to keeping production low is enough to avoid a further build in stocks, particularly if OPEC production rises after July, which suggests that valuations much above 41.00 to 42.40, the panic gap of March 9, 2020 are likely unsustainable.

Natural Gas

The market saw light volume and price weakness today with the August ending down over 6 cents at 1.739. The selling was initiated by a jump in production over the weekend, with output pushing back over 88 bcf/d. Much of that recovery was attributed to the lifting of the Force Majeure by Columbia gas on Saturday. Weather added to the downside tilt as CDD's decreased in the day ahead as well as the two week forecasts, although expectations are still pointing to near record warmth through the end of the month. With LNG flows the only slightly positive sign at 3.3 bcf/d verses 3.1 on Friday, the market is currently overwhelmed by growing pandemic concerns coupled with the stubborn production levels. The warm temperatures seen thus far this summer have helped underpin the market, but as we near the midpoint of the season concern is growing that it might not be enough to gain on the supply overhang, with most analysts expecting just over 4 tcf as the end of season storage level. Despite the negative start to the week, we continue to look for prices to rebound as the warm temperature pattern continues. With the weak close today, support in the 1.68-1.72 range looks likely to be tested near term. We expect prices to find support with the 2.00 level the next target on the upside which would surpass a 50 percent retracement of the May to June break.