Energy Brief

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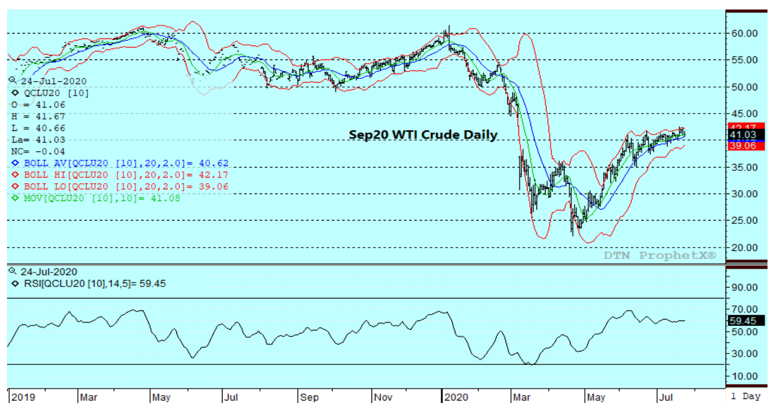
Price Overview



The petroleum complex traded near unchanged levels as the market continued to consider a variety of influences on the underlying supply and demand for crude and products. Weakness to the dollar, ongoing monetary stimulus programs in Europe and the US, the pandemic, and the ability to pursue appropriate fiscal policies to stave off the grave economic dislocations of the virus remain key considerations on the demand side.

Supply issues are also in focus as prospects for future production expansion and capital investment are assessed in light of OPEC+ production restraint and the waning profitability of US shale oil producers. A big question is whether a relaxation of quotas in August by OPEC producers leads to a higher level of compliance or not. OPEC is hoping that producers and especially Iraq, who had overproduced in the past few months, will compensate with lower production levels from July onward. The ability to absorb excess inventories that had built up as demand fell still need to be absorbed. The speed at which these stocks are drawn down will be a key determinant as to whether recent price strength can be sustained. Any signs that it might be falling short will likely lead to renewed pressure on values.

The market's surge this week to a high of 42.50 basis September might represent an intermediate top as concern develops over rising infection rates in the US and possible shutdowns within the domestic economy. In addition the rising tension between China and the US could disrupt the trade agreement and Chinese commitments to import US crude and products in 2020. How the recovery progresses in areas outside the US given the additional stimulus being provided, particularly in Europe, will be a key consideration. Important to the US outlook will be the level of fiscal stimulus that Congress approves and its distribution as the US government addresses the potential for large scale insolvency. The developing focus on renewable energy sources also will lead to additional consideration on demand prospects longer term particularly in light of the likely change in work habits and commuting patterns. Near term support in September crude exists near 40.35 and again near 38.50. A break below 38.50 would suggest a larger scale decline.

Natural Gas

After the surprising move that saw values up by over 10 cents yesterday, activity was two sided today until prices found late strength to push to new highs for the week. The move was a little difficult to understand as the main fundamental drivers were not indicating strength. The weekly storage report showed a 37 bcf build, which was not out of line, while weather continues to throttle back CDD counts, although maintaining the overall above normal expectations into early August. Production remains in the 89 bcf/d range while LNG exports continue to flounder. Some support could be traced to storm activity in the Gulf, with Tropical storms Hanna and Gonzalo bringing in risk premium and raising concern over a possible active hurricane season. Also of note was a contra-seasonal uptick in nuclear outages which pushed gas substitution above 1 bcf/d over the past week, which is nearly twice as much as normal for this time of year. Coupled with the record power burns that we have seen recently, some support was inevitable. A loss of 2 more gas rigs reported by Baker Hughes at mid day added late session support, with the winter months also showing signs of life. The December settled through trendline resistance off the May/June highs, and we would look to buy on a pullback at 2.73, risking to 2.66 with an objective of 3.00.

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