Energy Brief

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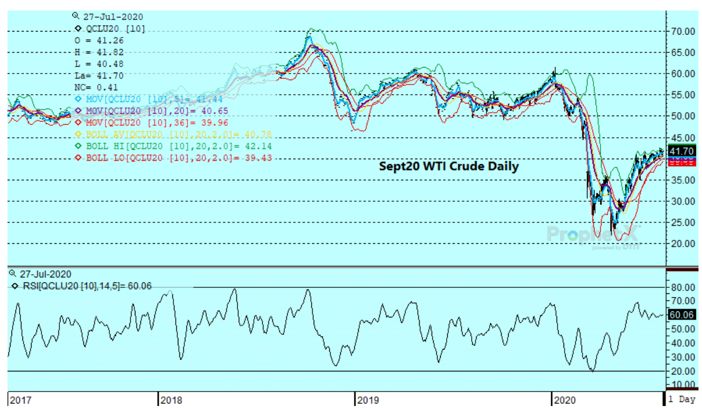
Price Overview



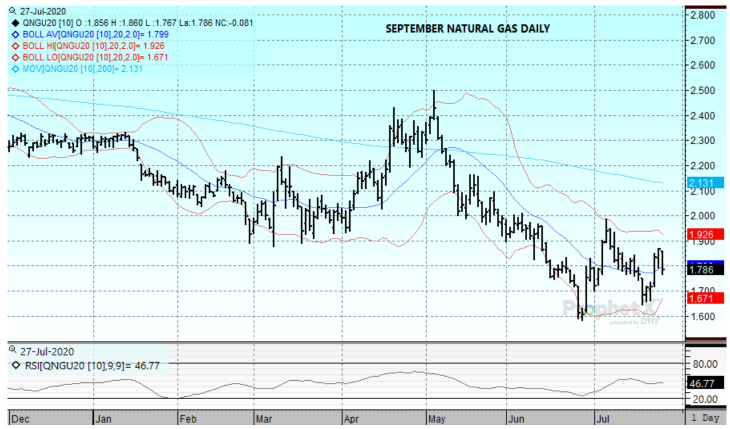
The petroleum complex traded on both sides of unchanged as the market continued to consider the demand repercussions from Chinese -US tension and the increases in COVID-19 cases in the US. Underlying support continues to be evident as weakness to the dollar along with the strength to hard assets helped limit selling interest. The strength to US durable goods orders also provided background support. Uncertainty over economic direction remains a concerns that renewed lockdowns into the fall could constrict economic activity despite the potential for additional stimulus measures.

Supply issues remain in the background 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 OPEC quotas in August leads to a higher level of compliance or not. They are hoping that producers such as Iraq, who had overproduced in the past few months, will compensate with lower production levels from July onward. 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 price strength can be sustained. Any signs that it might be falling short will likely lead to downward pressure on values.

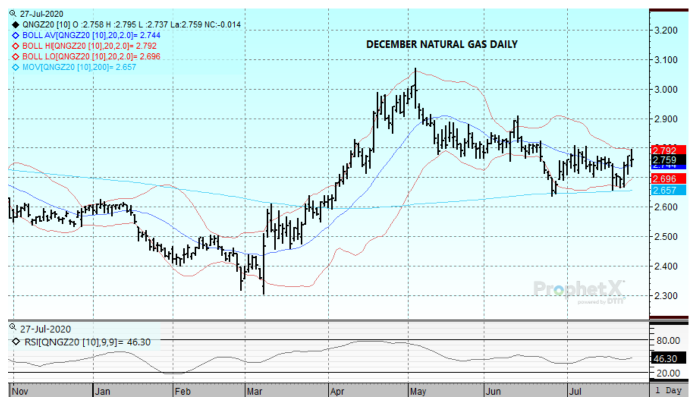
The DOE report on Wednesday is expected to show no change on crude inventories and a draw in gasoline inventories of 1 mb while distillate stocks are is expected off .3 mb. Refinery utilization is expected +.5.

The market's still looks vulnerable to downside price pressures if the recent high of 42.50 basis September is not violated. The appearance that US production has stabilized and the recovery in global production might be temporary could lead to fresh pressure on values. A penetration of the 40.35 level basis September might be the first sign of a more significant breakdown to values back to at least the 38.50 level and possibly 35.00.

Natural Gas



The market tried to follow through to the upside early in the session, but a failure at the 1.86 area lead to a sharp selloff that saw prices pull back by nearly 10 cents before settling at 1.786 basis September. Steadily increasing output and decreasing CDD expectations undercut the market. Lower 48 production has upticked for 5 straight days to reach nearly 89.5 bcf/d on Sunday, while temperature expectations remain above normal but have been steadily revised downward in recent forecasts as it appears that the extremes of the season have passed. Support that had been garnered from storm threats in the Gulf have also quickly run their course as the market is left with current negative fundamentals in the face of growing concerns about the spread of COVID-19. With the summer months laden with baggage from the virus fallout any major moves look unlikely. Looking out to the winter contracts, we are recommending a buy of the December on a pullback at 2.73, risking to 2.66 with an objective of 3.00 on expectations for production to eventually faulter into peak withdrawl season.



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