ADM
Archer Financial Services, Inc.

Energy Brief

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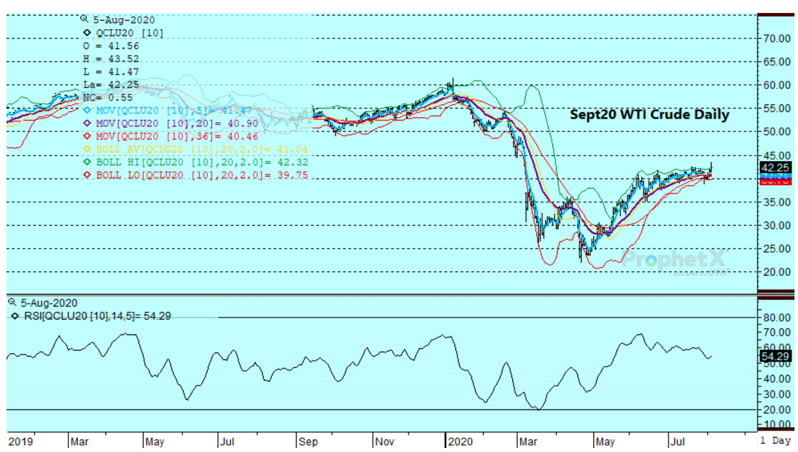
Price Overview



The petroleum complex traded under pressure as uncertainty over the course of the COVID-19 virus persisted and raised questions regarding demand as we move through the second half of 2020. A better than expected US unemployment report failed to dispel the fears of the virus impact on underlying demand trends. Instead uncertainty over how encompassing the return to work and school will be in the US remains in the background as an uncertain force to reckon with in the months ahead. The unsettled outlook hinges not only on the US, where new cases appear to have plateaued on stricter lockdown and mask mandates, but also in response to trends overseas where record high cases in India have raised demand concerns, as well as increases in other global markets. Some support was attracted by reports that Iraq would be cutting production by another 400 tb/d during August and September to compensate for overproduction in prior months. This would put their total output cut at over 1.2 mb/d.

While many expect the unwinding of pent up demand to underpin values, it appears that the large stock overhang, particularly of products in Asia, could work against the market. The weak margins will likely keep refinery rates low. Chinese record import levels in July appear to be both a reflection of low prices that had prevailed and an attempt to placate the US under the trade deal and push off any further sanctions or tariffs until after the elections. How quickly demand recovers will likely be a key determinant. The OPEC and IEA monthly reports to be released next week on Wednesday and Thursday will shed considerable light on the progress being made toward reducing petroleum inventories and on demand prospects.

Natural Gas

Monday's rally has held up impressively well in spite of a mixed bag of fundamentals. Yesterday's storage report indicated a 33 bcf build, which was slightly above estimates and equal to the 5 year average. Prices retrenched in the wake of the release as trade had seemingly been hoping for another low end number. Storage levels now stand 15% above the 5 year average with most estimates still pointing to 4.0 tcf in storage at the end of injection season. Weather remains supportive overall with above normal CDD expectations for much of August, but recent daily revisions have been a mixed bag with some downward changes. Production has also remained stubborn, holding above 88 bcf over the last 8 days. Much of the upside impetus seems to be directed at the imporving LNG export situation, as August has held near 4 bcf/d of inputs compared to last months rate near 3.3. Backing up the optimism has been a jump in European and Asian LNG prices that has actually outpaced the US move, further raising hope of improved demand for US cargos. Despite fundamentals being basically the same as before the rally, the move seems to have momentum behind it. Expect solid support at the 200 day moving average near 2.12 on any pullbacks, with 2.30 the next upside target.