Energy Brief

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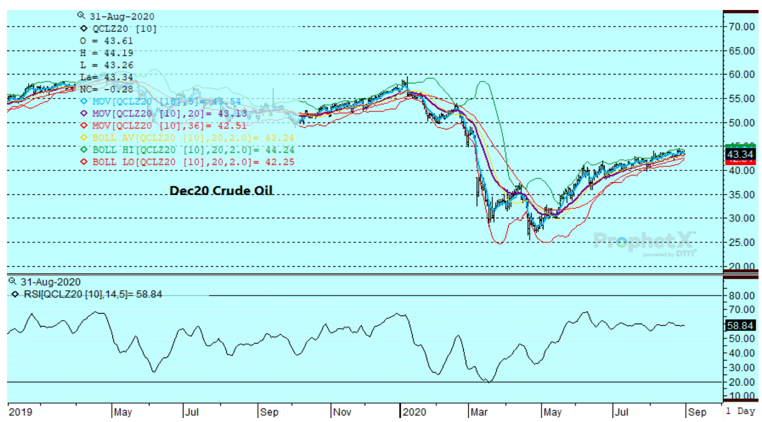
Price Overview

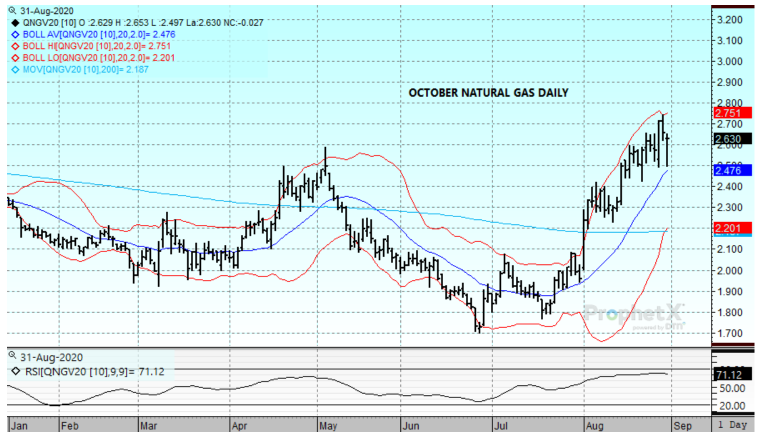


Crude prices traded on both sides of unchanged before settling with slight losses while heating oil and gasoline attracted more active selling interest. Demand uncertainty remains in the background as oil consumption in China continues to reach near pre-pandemic levels but other areas in Asia, Europe and the US continue to see a lackluster recovery as lockdowns continue and restricted transportation activity, particularly in aviation and commuting, continues. US demand remains off by as much as 12.5 percent so far this year. Although uncertainty was heightened on the supply side due to closures linked to Hurricane Laura, the limited damage and return to operating status by many refineries and platforms in the Gulf has tended to pose resistance to values and encouraged selling in the crack spreads for both gasoline and distillate.

For now participants are looking at how quickly the market will absorb the excess inventories overhanging the market. The pace of re-openings along with any setbacks will be viewed closely for signs of how quickly excess inventories are drawn down. Reports that Chinese import levels of crude will be falling for the first time in five months due to the record volumes stored in China and large product inventories outside China could limit any further recovery until demand recovers and these excesses are worked off. Offsetting the more negative view is the strength to equity values along with dollar weakness and the infusion of liquidity in the monetary system. The prospect that inflationary pressures might rebound given the Fed's policy to allow inflation to increase above target to offset periods of weakness also has provided underlying support.

The market will likely be looking ahead to the DOE report this week and its indications regarding the level of disruption from Hurricanes Laura and Marcos and their impact on crude production and product stocks. With the hurricane season still having at least a month to run its course, the market will be watching for any further threats that could disrupt crude oil production and US refining facilities. Overall we see upside risk extremely limited, with vulnerability to the downside if weakness to other assets such as equities becomes apparent, and if mobility begins to contract into the fall.

Natural Gas



Prices pulled back early in the session with the 2.50 support level basis October tested. The market managed to claw back nearly all of those losses as the day progressed to settle lower by 2.7 cents at 2.63. Production recovered to near 87 bcf/d over the weekend and there were signs of Gulf output coming back online, while at the same time LNG flows were indicated at 2.7 bcf/d this morning, only .1 higher than Friday. Sentiment was negative in the early going on these indicators. Prices began to recover at mid-morning after Cheniere stated that their Sabine Pass facilities had received minimal damage, raising confidence that LNG flows would recover quickly. The weather was neutral to positive as CDD were revised slightly higher, with some hotspots remaining while other areas will see significant cooling in the 2 week forecast. The market continues to maintian solid underlying support as trade looks ahead to a winter setup that could bring steadily decreasing production into an expected recovery of LNG flows and solid Mexican exports. With the bounceback today look for another round of spec fund buying to try to run prices through the 2.75 resistance. The 2.50 level remains solid support on any failure to follow through.