Energy Brief

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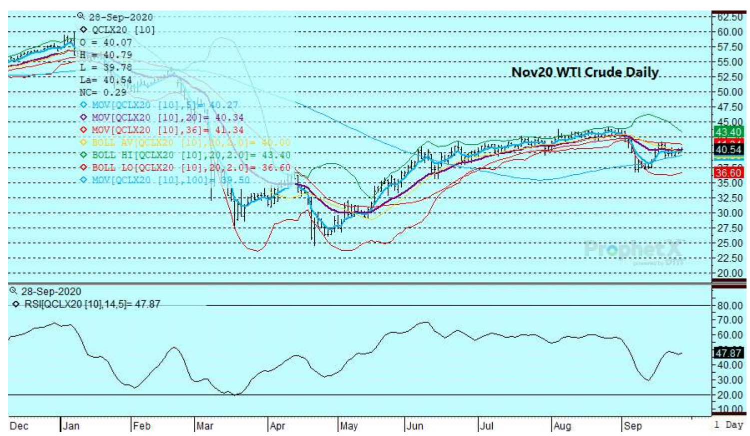
Price Overview



The petroleum complex traded higher with gasoline and diesel showing the strongest gains. The tight stock level in gasoline and shift in refinery throughput to favor the production of gasoline helped underpin product markets. Underlying support to the complex was also provided by the strength to equities along with the weaker dollar. Macro economic news otherwise was generally ignored with concerns over the recent rise in virus cases and potential for a second surge creating some caution over demand prospects. Some support to crude was also apparent on the prospect of a Norwegian Oil workers strike on Sept 30. However, the potential for increasing availability from Libya and also from Iran appeared to dull buying interest amidst concern over demand prospects.

For now the focus appears to be shifting to refinery throughput and margins. The appearance gasoline stocks are getting tighter as refinery throughput remains constrained by historically weak margins has helped limit interest in crude on fears that large middle distillate inventories will restrain refinery activity. In addition, the market did take notice of the decline in DOE inventories of products at a time when crude oil appears to be confined to a trading range. Even India has indicated that refinery runs will continue to be restrained given the high distillate inventories and weak margins despite tightening supplies of gasoline.

We still see the longer term challenges to price stability at these levels as considerable. Ongoing weakness to the Iranian and other oil producing economies including Russia remains intense, and the ability to control production by OPEC will continue to be challenging especially if Libya increases exports of crude in October and reports of increasing Iranian exports to 1.5 mb/d in September is confirmed. Whether OPEC can cut production in line with prevailing demand trends remains a key consideration.

We continue to look for the 2 oil crack or ULSD crack to establish a bottom near current levels as stocks of distillate begin to be worked off as we move into winter. As purchases are made of Heating Oil for winter, some better support should emerge particularly if the shifting of Jet Kero over to the production of Diesel has run its course and the focus of refining activity remains on gasoline. Crude oil at these levels remain problematic and the prospect that demand is overestimated appears a strong possibility which could undercut values in the absence of additional action by OPEC.

The DOE report once again will likely be a key focus and whether product stocks continue to be worked off. Current forecasts look for crude to be up 1.4 mb, distillate off .8 mb and gasoline -1.6 mb. Refinery runs are at 74.4 pct vs 74.8 percent in the prior week.

Natural Gas

The market traded under pressure into the expiration of the October contract. Weakness was traced to forecasts for moderate temperatures into early December and that despite ideas that the supply surplus will be contracting the possibility of a stock level near 4.1 tcf at end November helped limit fresh buying interest as the storm premium is taken out of the market. Forecasts that demand will be limited by the prospect that some switching back to coal will occur following recent strengthening in prices appeared to dull fresh buying interest. Nevertheless, the market was cautious amidst a strong recovery in export levels to Mexico, the return to production of LNG facilities on the Gulf Coast along with recent downward production trends. The ability to recover from today's low near 2.70 and back above support near 2.77 basis Nov might be a sign that a stabler tone might evolve in the near term as the market assesses prospective production trends and LNG export demand as we move toward winter. How the market trades into the EIA report this week, whereby forecasts for a large build of 85 bcf are circulating, might be a key a key indicator of the market's ability to hold and possibly improve on current valuations.