Energy Brief

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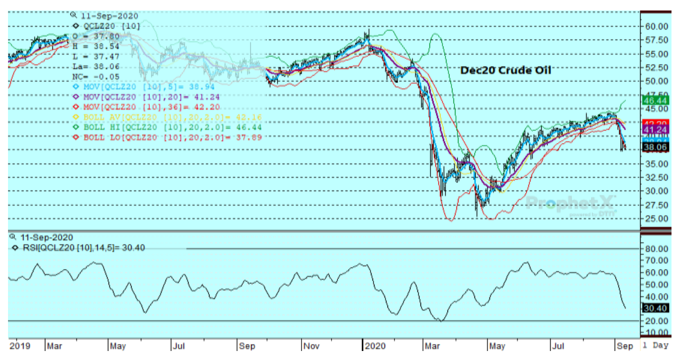
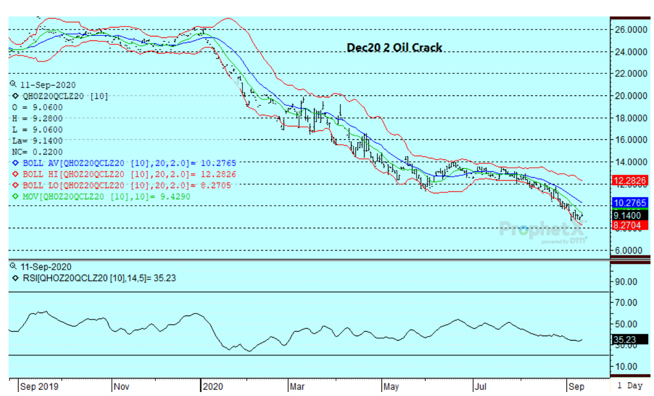
Price Overview



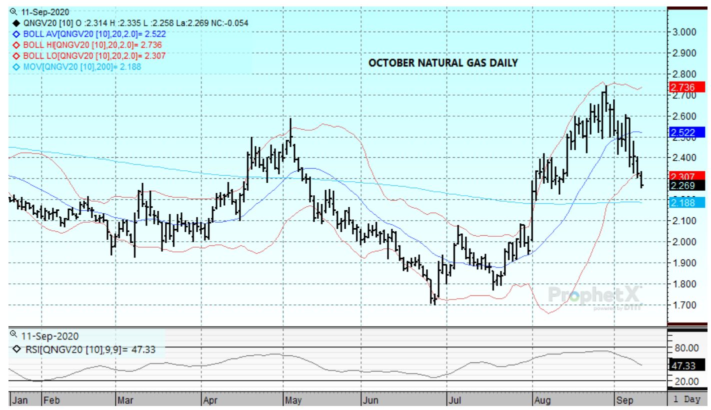
The petroleum complex traded in a mixed fashion as it dealt with conflicting trends from both a micro and macroeconomic perspective. Early losses appeared to reflect carryover selling from what was considered a surprising build in crude oil inventories in yesterday's DOE report, as refinery runs remain depressed in the aftermath of the storms and weak consumption prospects for jet kero and gasoline. Fears that the onset of colder weather will lead to less mobility from the general population of the US has helped foster a more cautious tone amid demand uncertainty. On the other hand, strength in some markets such as copper suggests that there might be underlying trends in construction and infrastructure that could help limit further weakness on the demand side. The strength to the Chinese economy on the heels of fiscal and monetary stimulus has also helped bolster ideas that global oil demand is beginning to stabilize, which given current production restraint, might be starting to balance the market. Nevertheless concern appears to be growing over the level of commitment to the OPEC pact. Despite assurances that Iraq would limit output to compensate for their overproduction during the summer, budget considerations and the mounting deficits are beginning to force them to reconsider, as they are requesting, due to their circumstances , that they be exempt from further production cuts in 2021. This follows reports that Russia is looking to gain market share in 2021 suggesting that the unified front of OPEC+ might be weakening as budget



considerations begin to weigh on individual countries.

The DOE report yesterday did little to dispel the uncertainty. Crude inventories rose by 2 mb while gasoline stocks fell 3 and distillate stocks were off 1.7. Total stocks of crude and petroleum products fell by 3.4 mb. Disappearance overall is running at 16 percent below year ago levels for the most recent 4 week average, with jet kero off 45.1 percent while distillate disappearance is only down 5.7 percent. With refinery rates remaining low and demand for distillate picking up for heating and from the construction industry, better support to the 2 Oil crack is likely as high distillate stocks begin to be drawn down.

Natural Gas



Weakness continued over the past two sessions as October traded down to support in the 2.25 area, which marks a 50% retracement of the July-August rally. The market remains concerned with the burdensome storage situation that has been amplified by a quick bounceback in output after Hurricane Laura that has actually seen production above pre-storm levels. That return of supply outpaced the recovery of LNG terminals, and coupled with dismal weather demand bringing down power burns, the already ample end of season storage estimates look to be undershooting. Despite the negative stretch the market looks to have overadjusted at this point. With LNG flows jumping out to 6.5 bcf/d this week while Cameron LNG remains down due to power issues, it would appear that the expected improvement in exports is beginning to surface after months of cancelled cargos. Any signs of Cameron coming back online should underpin the market, but a substantial recovery likely needs to see signs of slowing production to gain momentum. The 200 day moving average comes in just under 2.20 and would offer support on any further retrenchment, with a bounce likely finding initial resistance near 2.40.