Energy Brief

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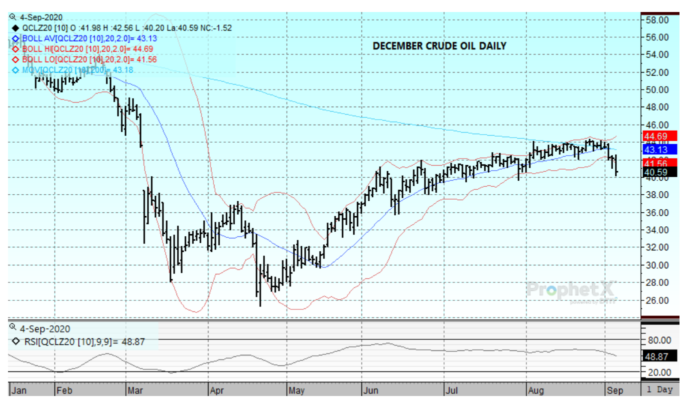
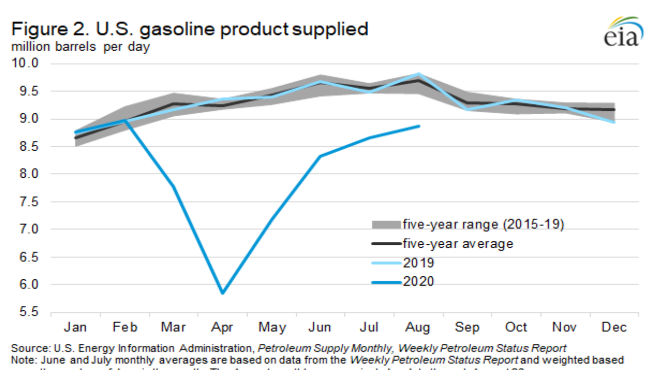
Price Overview

The petroleum complex continued its retrenchment today as the December crude lost 1.50 to settle at 40.59. Products were also lower with gasoline losing over 3 cents and heating oil lower by close to 2 cents. The selloff gained steam on spillover from equity weakness as the market broke sharply despite unemployment reported at 8.4%, well below estimates at 9.8. Firm early trade in the dollar added to the downside momentum.



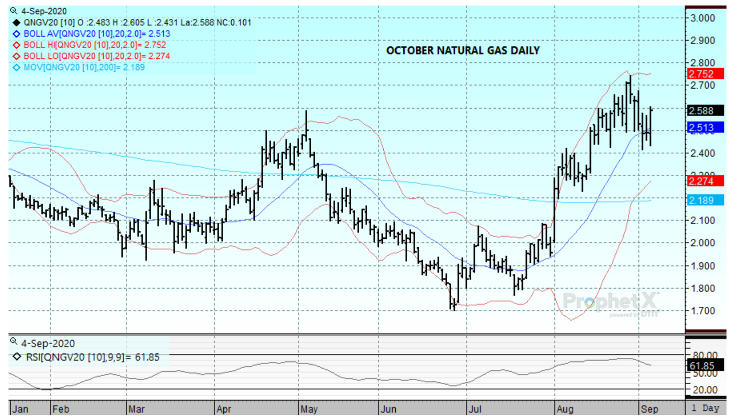
The market continues to assess demand prospects and the appearance that global consumption rates have stalled. The less optimistic outlook suggesting that demand might remain weak into the first half of 2021 has come at a time when OPEC has softened their commitment to cutting production.

The direction of transportation demand remains a key component of the outlook as we move toward the 4th quarter and into 2021. Although demand for gasoline has rebounded since April, when we reached the lowest levels since 1974, we remain nearly 10 percent below last year. Distillate demand has held up better but the sharp drop in usage for jet kero has lead to supplies being shifted to distillate production, which has created a sharp growth in inventories.



Another failure to respond to positive news today suggest that a near term top has been established with the 43.50 area as solid resistance. Continued signs of slowing Chinese demand have added caution to the market as key support at 40.00 basis December was tested today. If that level is violated the 39.50 area offers the next support as it marks the low over the last 2 months. A failure there likely leads to a test of the 38.50 level.

Natural Gas



The market saw erratic trade today with early losses giving way to a sharp afternoon recovery that pushed the October to a 10 cent gain to settle at 2.588. The early weakness was attributed to the continued slow recovery in LNG flows, as the Cameron and Sabine Pass facilities remain shuttered due to power issues. Corpus Christi has taken up some of the slack as feedgas flows have recovered to the 3.5 bcf/d area over the past two sessions, but the choked off demand heightened concerns that storage builds could increase into end of season expectations that are already at record levels in the 4 tcf range. Yesterday's storage report indicated a 35 bcf stock build, which was in line with expectations and brought the surplus to the 5 year down to 12%. Early estimates are suggesting a 68 bcf build next week, which would match the average for this time of year. Rumors that Sabine Pass may have taken in some gas today likely kick started the mid day price recovery, but the overzealousness of the bounce likely indicates a return of spec fund interest and the election of some stop orders above 2.50 ahead of the long holiday weekend. The settlement just above the 9 day moving average makes follow through strength likely early next week, with a test of the highs a possibility if positive signs can develop regarding the return of LNG flows.