Energy Brief

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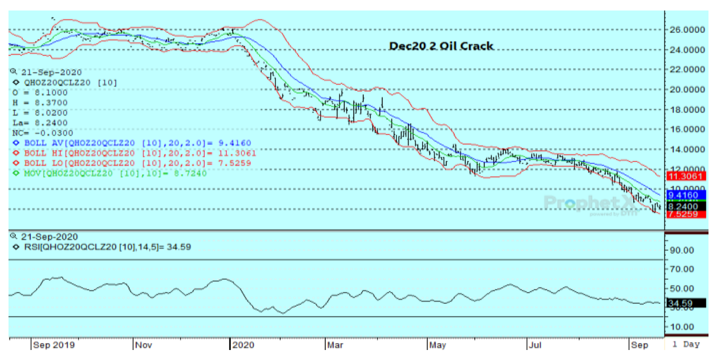
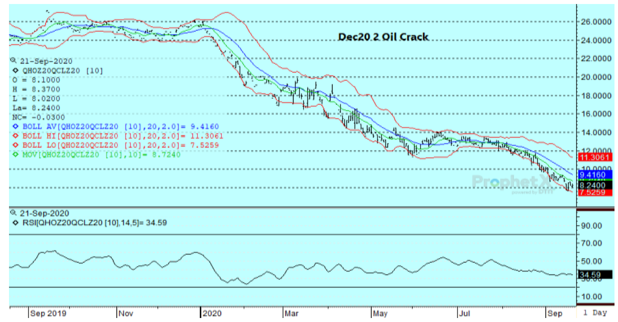
Price Overview



The support apparent late last week in the petroleum complex failed to follow through as concerns over demand dominated sentiment. Rising coronavirus cases rekindled worries about a second wave and put significant pressure on equities and industrial commodities such as copper. In the background dollar strength also encouraged bearish sentiment. Reports also suggested that Chinese imports, which could rise to record levels in September, will be tempered by the increase in prices seen since the large scale purchases of US crude made by the Chinese when prices were much lower. Signs that speculative interest on the long side had flagged in the most recent Commitment of Traders report also weighed on sentiment. Portfolio managers appear to be growing more skeptical about market rebalancing as OPEC+ shows some weariness over the level of production cuts amid considerable uncertainty over petroleum demand trends. Subsequently fund short positions have risen to the highest level in more than two years and the ratio of long to short positions has fallen to multi-year lows. Comments by the Saudi Oil Minister threatening short sellers to "make his day" last week was unusual and might be showing more of a reliance on rhetoric than sound fundamentals.

Looking ahead to the remainder of this week the market will likely be attentive to how quickly Libyan production recovers. As an exempt member of OPEC, any increase in their output will only add to the actions OPEC will need to undertake to balance the market. COVID cases in Europe will also be gauged given that they have been ahead of the US in terms of the pandemic's progression. Inventory levels in the US will also be considered given the expectations for a further decline in crude due to storm shut-ins.

The ULSD crack reached a low of 8.02 today basis December. With October typically marking a seasonal low as demand for heating oil picks up, we continue to look for support to emerge as refinery utilization remains weak due to the low margins and high inventory levels of distillate. We favor buying the December ULSD crack at 8.25 risk 7.40 with an objective of 10.50.



Natural Gas

The destruction of the October contract continued today as it traded down to 1.795 and within 10 cents of the contract lows. The deferred months fared better, with the November gaining over 7 cents on the day. The current issue plaguing the October is Tropical Storm Beta, which is crawling toward the Texas and Louisiana coast as that area continues to recover from Hurricane Laura. LNG terminals at Sabine and Freeport saw drops in volume in advance of the storm, with total feedgas indicated lower by 2.6 bcf/d this morning compared to Friday. In addition Cameron remains idle with few reliable indications of when it will resume operations. Henry Hub prices continue to suffer the brunt of these issues while still reacting to the demand destruction from Hurricane Sally. Despite the sharp drop in October futures, Hub prices remain at a discount, indicated at 1.56 today as concerns grow that storage could near maximum capacity levels if the current situation does not improve. As mentioned before, the Cameron restart would offer significant psychological support to the market, and the longer it remains shuttered the more risk there is to the November contract, which after today's action has reached nearly a 90 cent premium over October. Testing initial resistance in the 2.70 area today, November appears overdone for the time being considering the current fundamental set up from multiple storm events and lackluster demand. Look for near term retrenchment that could test support in the 2.50-2.53 area.