Energy Brief

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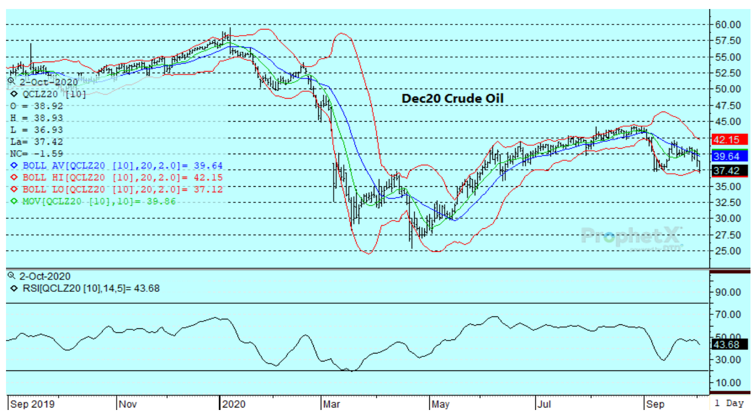
Price Overview

The petroleum complex traded on the defensive as President Trump announced he had tested positive for COVID-19. The news was taken in a negative fashion as uncertainty grew over the course of the virus and the impact any possible policy changes might have on mobility and likewise the US economy. The weakness took values down to lows reached in early September near 37.00 basis the December contract.

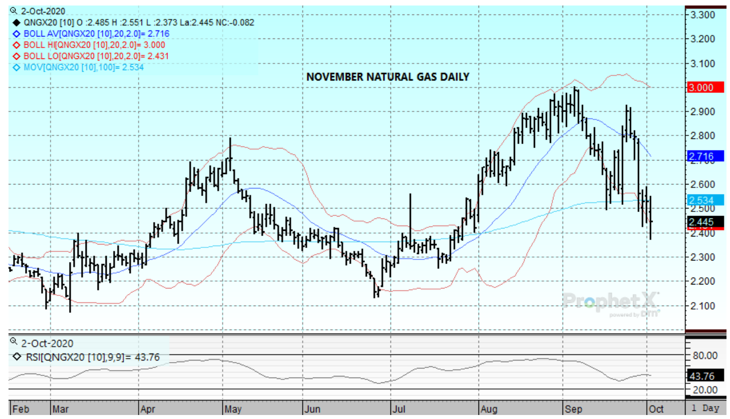


US policy developments will now come into focus. The stimulus plan will likely be pushed to the front burner as the Senate seeks new talking points other than Trump's health and handling of the pandemic ahead of the election. The lackluster employment report showing payrolls increased by 669,000 last month compared to the increase of 1.49 million in August did little to instill confidence that the US economy was recovering, and instead supported the need for additional measures.

Concerns are building over excess supplies. The potential that Iranian sanctions will be lifted if Biden gets elected along with reports that Libyan production has increased to 270 tb/d puts the focus on OPEC and their willingness to throttle back production amid consumption declines. With refinery throughput reduced by weak margins, the crude market continues to face strong headwinds in its effort to re-balance inventories.

Near term support from the Norwegian oil workers strike could be seen if it continues into next week and possibly expands, but the potential for a settlement becomes higher as the economic costs increase. Its resolution would likely force an assessment of the broader influences on supply and demand fundamentals, which remain generally negative and will likely need to be readdressed by OPEC. A stimulus package could also attract buying, but will likely be limited by a recognition that the economy remains weak and the pandemic continues to be an underlying risk.

Natural Gas



The market made a spike low early this morning, bottoming out at 2.373 in the November contract as commodities sold off across the board on news that President Trump had contracted the coronavirus. Prices managed to regain some of the losses at mid day, but still ended lower by nearly 9 cents at 2.438. Lackluster weather demand remains a short term drag on the market as high storage levels continue to cause congestion issues and pressure the cash market. Yesterday's EIA report showed a 76 bcf injection, which was slightly below estimates and gave bulls some hope that expected tightness is gradually beginning to materialize. LNG flows improved today, and Cameron saw small feedgas flows that may indicate a restart in the near future. The market likely flounders until they are back online and maintenance at other LNG facilities is complete. Whether that is soon enough to save the November contract remains to be seen. The settlement just below the 200 day moving average at 2.45 makes further follow through likely, especially with cash remaining under pressure and near an 80 cent discount to the futures. Support likely surfaces near 2.40, with initial resistance in the 2.60 area on any improvement in demand.