Energy Brief

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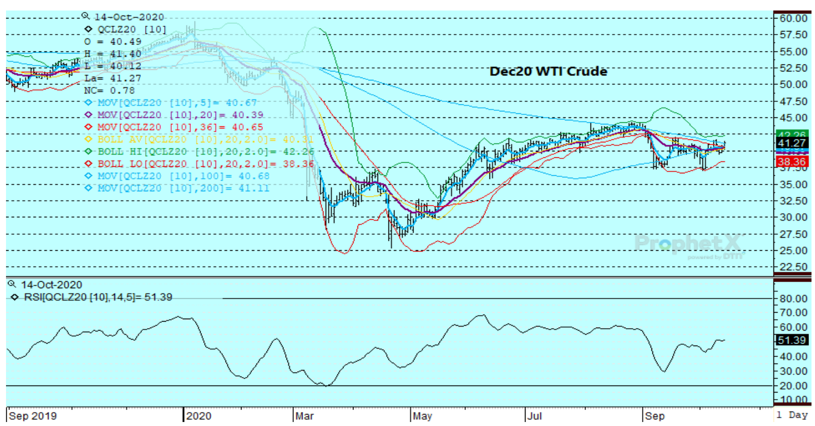
Prepared by Steve Platt and Mike McElroy

877-377-7931

Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

Price Overview

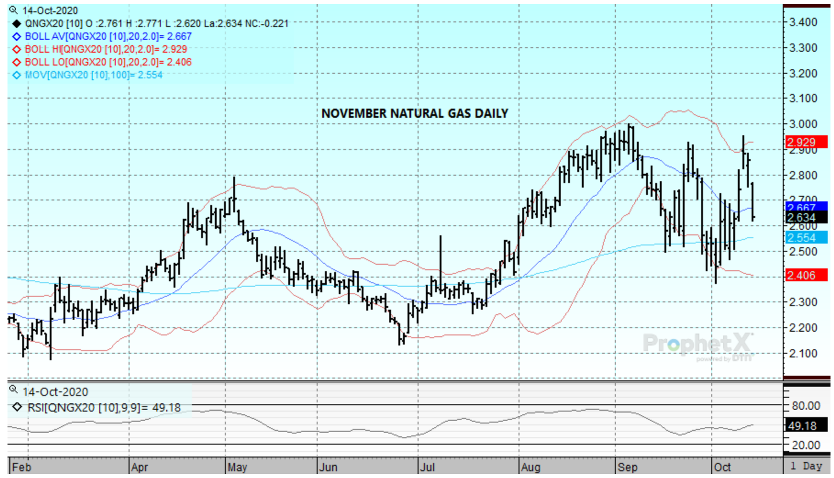


The petroleum complex strengthened following the IEA report, which suggested a significant global stock draw of 4 mb/d during the 4th quarter. The potential draw was also indicated in advance of the delayed DOE report scheduled for tomorrow, with forecasts suggesting a drop in US crude inventories of 3.4 mb along with distillate falling by an estimated 2 mb and gasoline inventories declining by 1.4. In the background remains the potential for a further decline in inventories in next week's report as operations in the GOM recover following the landfall of Hurricane Delta.

Despite today's recovery, which has taken values above the 100 and 200 day moving averages at 40.67 and 41.11 basis December respectively, we still look for the market to be constrained on the upside. Challenges remain with respect to a second wave of COVID-19 cases, as new movement restrictions would slow demand growth. Currently the IEA puts global demand at 91.7 mb, off 8.4 mb/d from 2019. The forecast for 2021 is for demand recovering to 97.2 mb/d. With Libya showing steadily increasing export levels and OPEC committed to reducing output cuts in January, the market will be hard pressed to rally in the absence of stronger demand growth.

Given the election ahead and doubts that a compromise will be reached on a new stimulus package, the market will be attentive to underlying forces that could restrain economic growth and likewise demand. Fear of bankruptcies and defaults along with longer term structural changes to work habits and commuting all have the potential to be disruptive forces. The impact of these variables on demand trends will be a key factor in determining how quickly stocks will be drawn down in the months ahead.

Natural Gas



The market gave back all of the gains from Hurricane Delta as the November contract ended the session down 22 cents at 2.636 and near the lows of the day. The weakness was again linked to the status of LNG terminals, as the post storm recovery in flows is not progressing as quickly as trade would like. Rumors that Cameron may have issues with their shipping channel that could slow a return to full strenght quickly reignited concerns about the ample EOS storage situation. Adding to the pressure was a jump in production, as yesterday's early nominations were revised sharply higher, from 84.0 to 85.8 bcf/d, with today's output likely surpassing 86 bcf and near pre-storm levels. Piling on to the negative tone was a decrease in HDD expectations that reversed expectations from early in the week that had supported prices. The setback has retraced 50% of the rally staged since early October, and has taken November close to key support in the 2.60 area. With upside potential waning as we creep closer to expiration, expect that level to be tested near term, with rapid improvement in LNG flows necessary to keep the November from failing into month end.