Energy Brief

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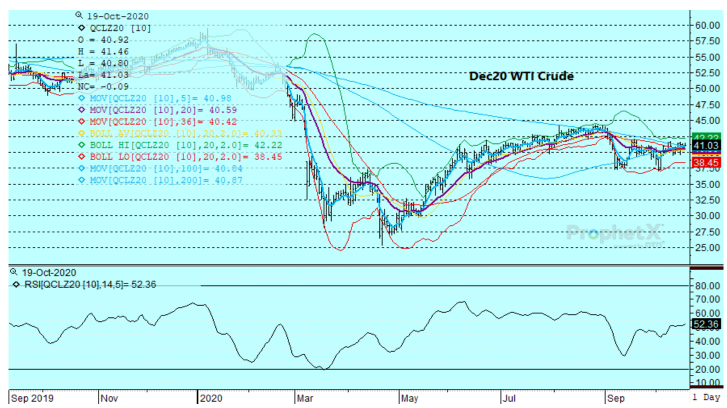
Price Overview

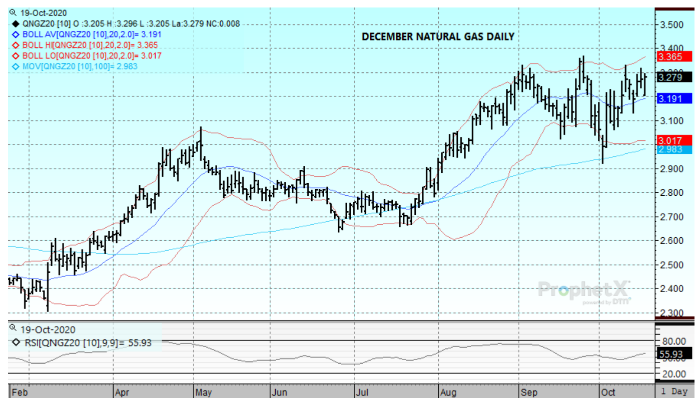


The petroleum complex traded mixed with crude and gasoline showing small losses while ULSD was the weakest within the complex. Discussions between Russia and Saudi Arabia were reported ahead of the meeting by the OPEC Joint Market Monitoring Committee today. The meeting opened discussions on the potential for demand as COVID-19 infections rise in Europe and governments tighten lock downs in many areas. Economic news from China was supportive with third quarter growth indicated at 4.9 percent year over year. Although it fell short of the forecast at 5.2, continued growth in retail sales of 3.3 percent year over year along with an increase in industrial production from last year of 6.9 percent helped uncover modest buying interest. Ideas that large stimulus actions will remains one of the few bright spots for global growth. Despite the impressive economic statistics for China, some retrenchment in crude imports from near record levels registered in July and August is expected as higher prices, high stock levels of products and poor margins limit crude throughput.

Recognition that a weak demand environment is likely into the middle of next year puts the onus on OPEC to maintain balance and make an effort to draw down excess inventories. While some progress has been made more needs to be done. OPEC will at least need to carry over into 2021 the current level of production cuts totaling 7.7 mb/d rather than restoring cuts of 2 mb as currently planned. For some members the compliance levels will be a key consideration. Iraq and Nigeria will be watched closely to confirm that they are upholding their end of the agreement and have also made up for their overproduction during the summer as promised. The recovery in Libyan production levels has been rapid, and being exempt from any quota might displace other producers as this oil enters the world market. In addition US drilling activity will come into play. The oil and gas rig count rose for the fifth week in a row, up 13 to 282 in the week ended Oct 16th.

For now the market is holding above the 100 and 200 day moving average at 40.64 and 40.87 respectively with resistance up toward the 42.00 area basis December. Overall we see upside potential limited, and expect the demand side to be weaker than currently forecast, with OPEC ultimately coming up short on reducing inventories which should lead to prices gradually drifting down toward the lower end of the range seen since early September near the 37.00 area.

Natural Gas



Prices ended the session near unchanged levels after trading sharply lower overnight. The weakness stemmed from news late in the day on Friday suggesting that the clearing of the Calcasieu shipping channel, which is the access point for vessels into Cameron LNG facilities, could take 3-4 weeks. The news heightened concerns about topped off storage levels as November traded over 10 cents lower and the December lost 3-4 cents after official settlements had been posted. The weakness followed through overnight as production remained firm this weekend above 88 bcf/d and recent forecast flip-flopping continued with a decrease in HDD expectations. The market managed to recover the losses as the day progressed, as LNG flows upticked to 7.5 bcf/d from 7.3 over the weekend and Cameron increased intake despite the shipping issues. With no tropical disturbances in view, the market may have drafted some underlying support from ideas that we may finally be done with the hurricane season and processing facilities can get back on track as we head into the winter demand period. We continue to look for prices to work higher, but current LNG issues could portend some near term weakness. Weather demand will need to be watched closely as any significant rally will likely need the assistance of normal to above normal HDD demand to be realized. Support in December at 3.20 held up today and could be tested again near term, with initial resistance in the 3.30-3.31 area.