Energy Brief

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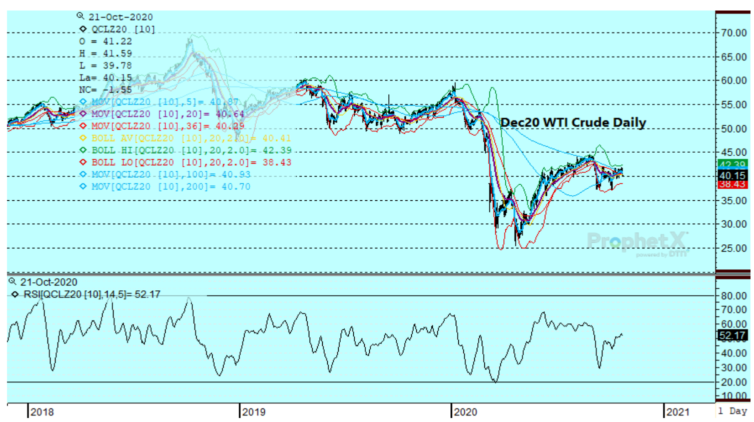
Price Overview



The petroleum complex traded on the defensive as the market failed to follow through to the upside as it reacted to a build in crude inventory levels reported by the API yesterday. Additional selling was attracted by the recent rise in COVID infections which could impede the global economic recovery, along with the quick rebound in Libyan production, which appears to have increased to 500 tb/d with some expecting it to reach as high as 1 mb/d by year end. The increase by an exempt member of OPEC is forcing Russia to reconsider whether a plan to ramp up production by 2 mb/d in January can proceed. Instead the Russian oil minister suggested yesterday it was too early to talk about the future of the OPEC+ deal beyond December and that members need to understand how the situation develops in the coming month before making any decisions. Fear that a second wave of COVID infections might dull demand as we move into the first quarter appears to be providing the basis for pessimism regarding 2021 demand forecasts.

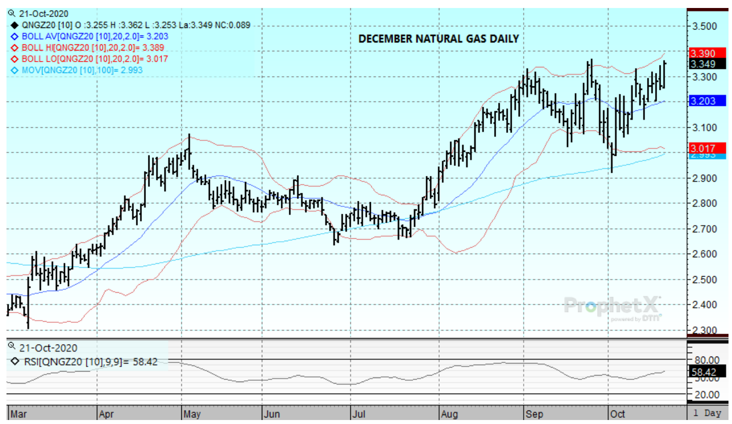
The DOE report did little to support the market despite the decline in crude inventories of 1 mb/d being in line with forecasts. Disruptions from Hurricane Delta last week continued to be apparent with refinery utilization falling to 72.9 percent compared to 75.1 the prior week, while domestic off shore crude oil production also fell. Gasoline inventories grew by 1.9 mb, which was in line with expectations, while distillate inventories fell by 3.8 mb, more than double the forecasted decline. Total product supplied was disappointing at 18.1 mb/d compared to 19.5 in the prior week and 21.2 mb last year. Distillate showed a decline of .6 mb while gasoline fell .3 mb. The exception was an increase in propane disappearance of .3 mb.

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 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 October 16th.

The inability to hold above the 100 and 200 day should put the market back on the defensive for now with the potential to test the 37.00-38.00 area. The recent decline in the 2 oil crack could uncover support as demand for heating oil picks up as colder temperatures emerge in the Northeast. 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.

Natural Gas

The market seems to be putting its faith in LNG exports as its savior as we move into the winter demand season. Prices tested last months' highs today as the December contract settled up 8.8 cents at 3.348. LNG flows are improving, creeping up to 8.2 bcf today, .2 above yesterday. Expectations are for exports to surpass 10 bcf/d now that we are exiting the hurricane season and processing facilities can get back on track. The price strength was aided by another switch in HDD expectations, as the models moved into agreement on a fairly substantial jump in demand for the two week forecasts. Despite the upward bias, the market still has a large storage surplus to eat through this winter. Weather demand will need to be watched closely, as an extra boost from power burns will likely be needed to assist LNG as it tries to dig the market out from under the storage overhang. With the strong close, the 3.37 high from September will likely be tested near term, with previous resistance at 3.30 now becoming support on any pullback.



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