Archer Financial Services, Inc.

Energy Brief

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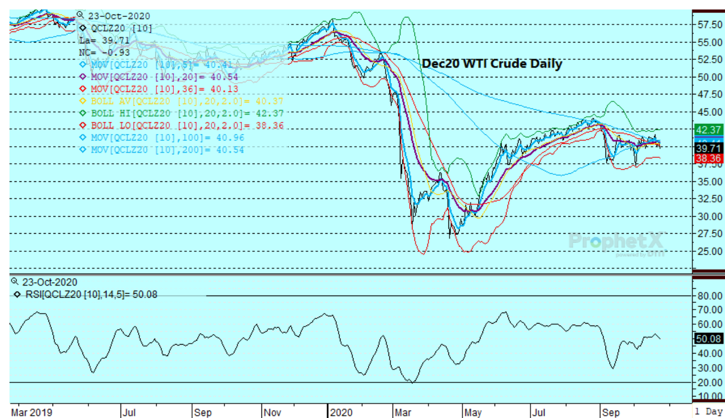
Price Overview



The petroleum complex traded under pressure as participants assessed a weakening supply/demand situation for 2021 and whether the OPEC agreement, which calls for an increase of output in January, needs to be adjusted. Reports of a cease fire in Libya and calls by the UN for all foreign militias to be withdrawn also raised concern that their production levels will recover quicker than envisioned a week ago. The deteriorating outlook also appears to be linked to ideas that increases in COVID infections in Europe and the US will slow recovery expectations, burdening a market that has been characterized by inventories that are well above the 5 year averages. It appears that balancing the market will entail putting off the production increase until at least April when demand should show more definitive signs of a recovery. Russia continues to modify their stance regarding a production increase with comments by Putin suggesting yesterday that for now he saw no need to change the existing deal but would not rule out extending current cuts for longer if market conditions warrant. This sets up the meeting by OPEC+ in late November as a key marker as they assess demand, which has been marked by a deteriorating outlook in the US and Europe but a decent recovery in economic activity by China. The conflicting trends have led to a rather choppy trading pattern for crude.

Recognition that a weak demand environment is likely into the middle of next year puts the onus on OPEC to maintain balance and make a more concerted 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 moving to 2 mb as currently planned. For some members 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. The recovery in Libyan production levels has been rapid, and might displace other producers as this oil enters the world market. US drilling activity will also come into play. Baker Hughes reported the oil rig count increased for the 6th week in a row, up by 6 and putting total rigs at 211 against 696 last year. 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 WTI crude oil continues to find resistance against the 100 and 200 day moving average at 40.97 and 40.54 respectively basis December. We still see the market subject to additional losses which could lead to a test of the 37.00-38.00 area.

Natural Gas

After failing to follow through on Wednesday's strength, the market retrenched as the December settled lower by over 7 cents today at 3.195 after losing nearly 8 cents yesterday. Warming temperatures expected into early November took the blame for the weakness, along with a downtick in LNG flows and technical selling below the 3.30 level that pushed prices to their intraday lows. Near term cold that will likely boost power burns over the weekend offered underlying support and helped the market recover off the lows. Despite the setback we continue to look for higher prices as we move into withdrawl season. Yesterday's storage report showed a 49 bcf build, below estimates at 52 as it looks like we may end the injection season below the expected 4 tcf level. With Asian and European LNG prices continuing to firm, prospects remain positive for US exports once processing capacity gets back to full strength. With the large storage surplus to overcome, weather demand will need to be watched closely as current long term forecasts point to above average temperatures this winter. This will need to trend colder to assist improving LNG flows at working through the storage overhang. Any further weakness likely finds support in the 3.14 area, which marks a 50% retracement of the rally from of early October lows. The 3.37 level remains strong resistance after the market made two attempts at it this week.

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