Energy Brief

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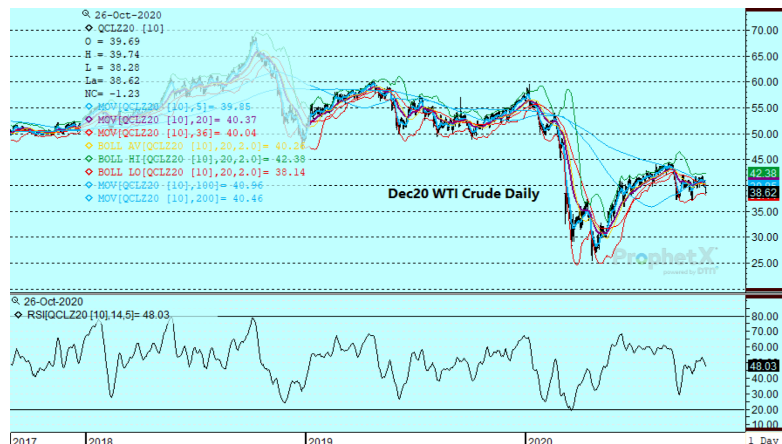
Price Overview



The petroleum complex remained on the defensive as weakness to equity markets in response to the rise in COVID infections and a recovery in Libyan production weighed on values. These concerns kept pressure on OPEC to adjust their production agreement and maintain cuts currently totaling 7.7 mb rather than reducing them as planned in January to 5.7 mb/d. A deteriorating demand outlook also continues to weigh on values, as increasing virus spread in Europe and the US is burdening a market that has been characterized by excess inventories that are well above the 5 year averages.

Uncertainty over OPEC's next move regarding production cuts continues to undermine sentiment. While Russia appears to be taking action with Putin’s support to rollover the current agreement, a key question remains whether other producers who had exceeded their quotas will honor the agreement and their promises to compensate for overproduction. This sets up the meeting by OPEC+ in late November as a key point for the market. Although rising infections are problematic, the strength to the Chinese economy and its viability might begin to be questioned and has potential to weaken values further than currently envisioned.

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. They will at least need to carry over the current level of production cuts totaling 7.7 mb/d into 2021. We see the market subject to additional losses which could lead to a test of the 37.00-38.00 range basis December, but if optimism with respect to China begins to dim, the potential exists for values to decline to the 35.00 area.

Natural Gas

With the weekend producing LNG flows that surpassed 9 bcf/d, the market opened firm overnight and traded nearly 10 cents higher before ending the session with a gain of 5.8 cents at 3.253 basis December. The emergence of Tropical Storm Zeta in the GOM added risk premium to the market as it looks likely to become a hurricane in the next 24 hours and is currently projected to make landfall on the already battered Louisiana coast by mid-week. Revisions to the storms track today that pushed if further to the West ignited some overhead selling as concerns regarding onshore LNG facilities resurfaced. Early estimates for this weeks storage are near a 40 bcf injection, which compares to the 5 year average at 67, with some analysts suggesting that ensuing weeks could potentially show withdrawls. With Asian and European LNG prices continuing to firm, prospects remain positive for US exports this winter. We continue to look for prices to trend higher, but 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. Look for increased volatility as the storm runs its course this week, with support likely in the 3.14 area, which marks a 50% retracement of the rally from of early October lows. The 3.30 level capped today's strength and becomes the first area of resistance, and after that the September top near 3.37 would become a target.

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