Energy Brief

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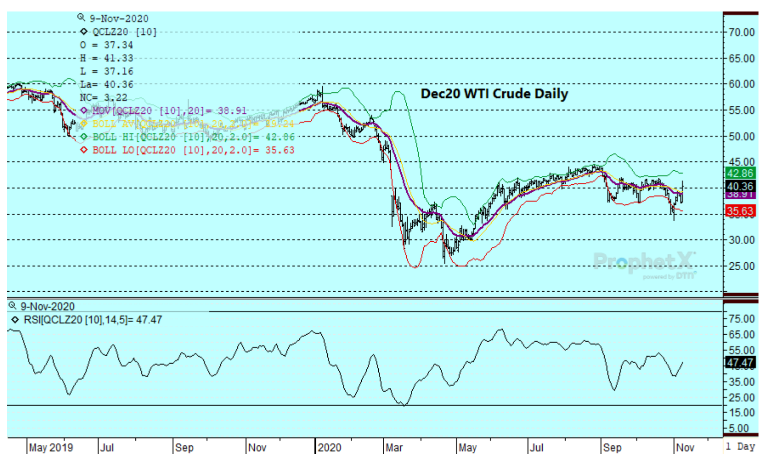
Price Overview

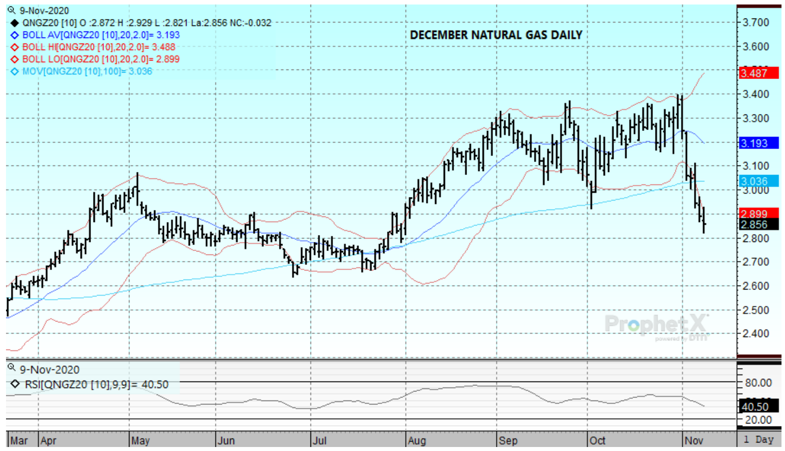


The petroleum complex traded sharply higher following news that Pfizer had developed a COVID-19 vaccine that was 90 percent effective. The announcement helped override concerns of a pickup in infections in the US and Europe on hope that a vaccine will help return demand back to pre-pandemic levels. Nevertheless uncertainties remain including when the vaccine will be authorized and how long it will provide protection. In addition, how broadly it will be distributed remains a key variable. Despite the uncertainty equity values surged to new highs driven by stocks that had been adversely impacted by the virus.

The market still faces challenges that are linked not only to the demand side but also the supply side. The increase in production levels from Libya will necessitate bigger output curbs by OPEC than had been planned. Whether they are comfortable with maintaining production at levels currently in force remains to be seen. On the other hand, the weakness to the dollar is helping to support some economies despite the possibility that demand will be curbed over the next few months as infections rates surge. The hope that some normalcy might return in the 2nd half of 2021 continues to dominate sentiment. The market is also watching the Biden presidency and decisions to re-impose vehicle emission standards along with the possibility that drilling on federal lands might be halted, leading to a steady erosion in US production and higher prices due to the higher costs.

A key focus remains the OPEC meeting at the end of the month. The Saudi Energy minister indicated the output deal might be tweaked given the likelihood of further lockdowns and the increasing production from Libya. We continue to see the market confined to a range of 37.50 to 41.00 basis December WTI.

Natural Gas



Moderate weather conditions continue to pressure natural gas values. Prices dipped to a test of the 2.80 area this morning and ended 3 cents lower on the day at 2.859. The string of downward revisions in HDD expectations continued today, with a return to more normal conditions not expected until the end of the week. Production dipped to near 87.5 bcf/d over the weekend due to the poor demand, and coupled with strong LNG flows has mustered some underlying support to the marked. With the end of the current warm pattern expected to bring only a normalization to temperatures, time is running out for the December contract to rally significantly. Look for 2.80 to hold up to any additional selling pressure this week, with a bounce to the 3.00 level likely when demand returns, with the 3.10 area possible for the December contract if weather trends can reverse course near term.