Energy Brief

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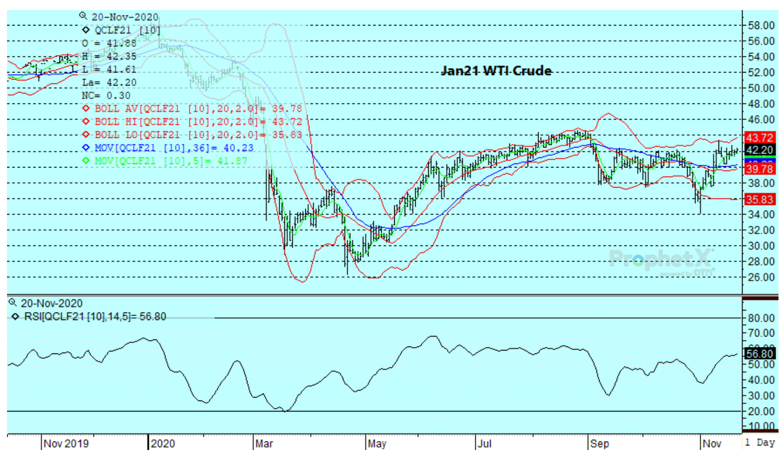
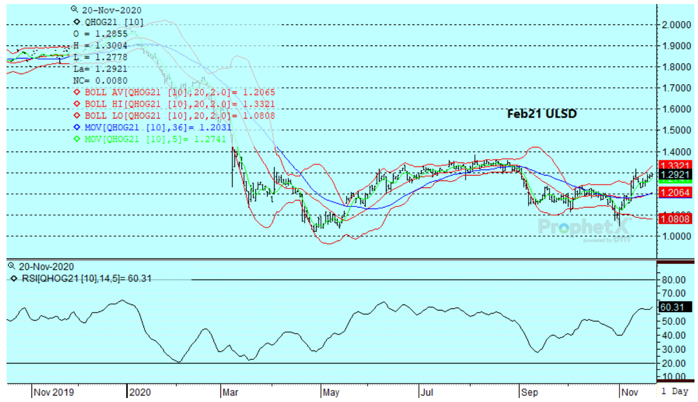
Price Overview



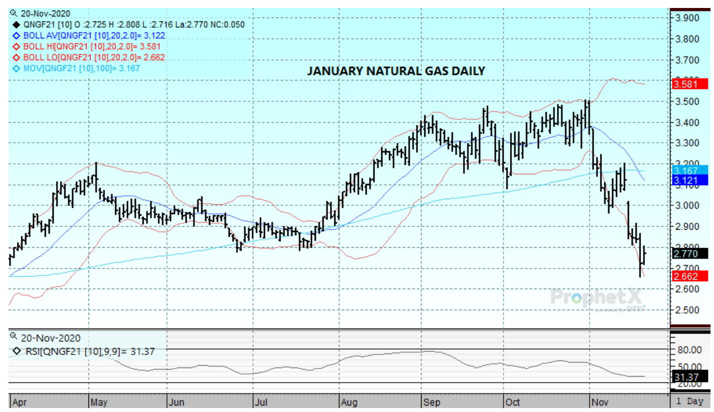
The petroleum complex rose modestly on ideas OPEC+ will extend current output cuts through the first quarter of 2021 at their meeting on November 30th. Remaining in the background are fears that demand will fall short in the first quarter due to COVID-19 and that increases in output from outside OPEC will lead to a stalling out of progress toward reducing inventories. With the rolling over of current cuts likely priced in near current levels of 42.00, the market will be looking at demand trends and output levels outside OPEC more closely. The increase in Libyan production, which are exempt from the current output cuts, along with Iranian exports seeping into the world market despite sanctions are key considerations. Even Russia has come under scrutiny regarding compliance with the current agreement.

At this point the potential for demand to fall short of forecasts due to reduced mobility caused by the rising level of infections in Europe and the US makes a possible expansion in production problematic for the market, and a limiting influence to upside potential of crude values. A key support to underlying demand has been the recovery in Indian demand and ongoing strength to the Chinese economy. At this point it remains questionable whether these trends can continue as major holidays in India and the approach of the Lunar New Year in China in February pose risks from an infection standpoint.

The ULSD has strengthened even more than crude. The decline in inventory levels has been a strong source of support since their rapid rise into the summer when jet kero supplemented supply. Any sign the economy is slowing again as federal stimulus efforts stall could undercut values. In addition, imports of distillate to the US have shown an increase into the East Coast Padd 1. A favorable arbitrage to European values for diesel and gasoil along with moderate weather forecasts should help slow inventory declines as we move into winter. The situation could be exacerbated if weakness in the US economy undercuts demand more than expected. Overall the market should encounter good resistance in the February ULSD near the 1.31-1.33 area with declines in crude potentially initiating a more dramatic pullback toward 1.20-1.22.



Natural Gas



Weakness returned to the market yesterday as a reversal of expected cooling temperatures in the two week forecasts pressured prices. HDD expectations that had been revised upward on Wednesday were adjusted lower yesterday and put the market back on its heels. The storage report, which came in at 31 bcf increase against expectations of 15 and the 5 year average draw of 24, extended the weakness as the January contract traded through the June and July lows to bottom out at 2.656. Prices have worked higher since then with increased demand expectations over the weekend leading to some short covering. Total HDD have been running nearly 20% below normal recently, with no significant signs of improvement into the first part of December. The persistently poor demand trend has created a forward curve that appears as though trade has given up on the 20-21 winter. We believe the oversold condition of the market along with the upside risk of any change in weather pattern has created a buying opportunity. In consideration of the gap lower price action seen at the start of this week, we would recommend buying the February contract during the day session on Monday if prices have not shown similar deterioration on the re-open. Look to get long on a dip under the 2.70 level, risk 2.55 with an objective of 3.05 which would fill the gap left on the charts Monday and also marks a 50% retracement of the November slide. You could also consider the e-mini natural gas (QG), which is 1/4 the size of the regular contract with a current initial margin requirement of $729.00.