Energy Brief

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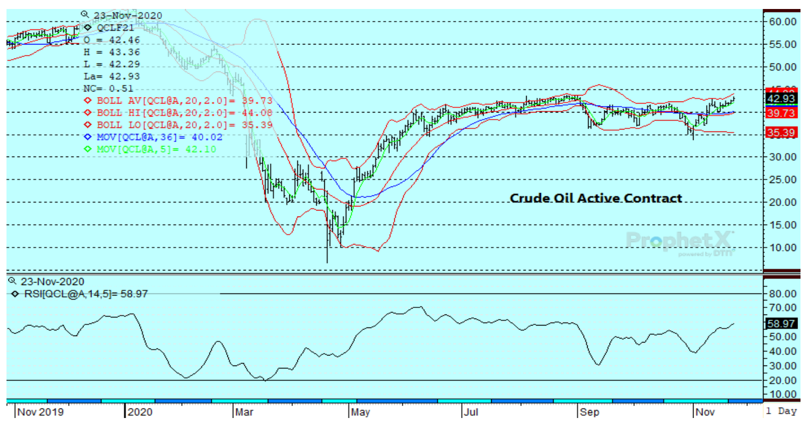
Price Overview



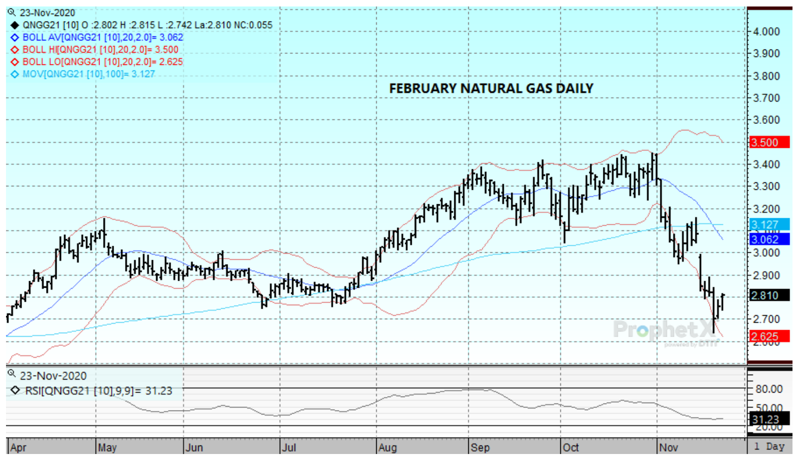
The petroleum complex continued to attract modest buying interest on ideas that OPEC+ will extend current output cuts through the first quarter of 2021 at their meeting on November 30th, and on hopes the vaccines awaiting emergency approval will reverse declines in global oil demand caused by COVID-19. The optimism associated with the vaccines and their potential availability during the first quarter has had a greater impact on the upside than we anticipated. The strength to values has taken crude prices toward levels that have not been seen since August. We remain skeptical that recent upside movement can be sustained. 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, the market will be looking at demand trends and output levels outside OPEC more closely. The increase in Libyan production, which is 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 with small producers suggesting that they are likely to expand output levels from startup fields next year.

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. 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 Indian infection rates reportedly spike following the major holiday of Diwali. The availability of vaccines in some areas is creating a basis for optimism toward demand trends that we believe will fall short of current expectations, leading to a pullback in values.

Natural Gas

The market has reacted sensibly to increased HDD expectations in the two week outlook, with much of the upward changes in the back end of the forecast which is more susceptible to revisions. Ranges were tight with light volume as the January contract ended the session higher by just over 5 cents at 2.823. Steady to higher production in the 92 bcf/d area over the weekend kept the market from getting ahead of itself with caution added due to the recent pullback in LNG loadings due to power issues and maintenance. European and Asian LNG prices have recently strengthened on cooler temperatures, making a quick return to maximum flows likely. With the market currently pricing in a continued mild winter, the upside risk of any change in weather pattern has created a buying opportunity. Look to purchase the February natural gas on dip under the 2.70 level, risk 2.55 with an objective of 3.05 which would fill the gap left on the charts last week 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.



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