Energy Brief

November 25, 2020

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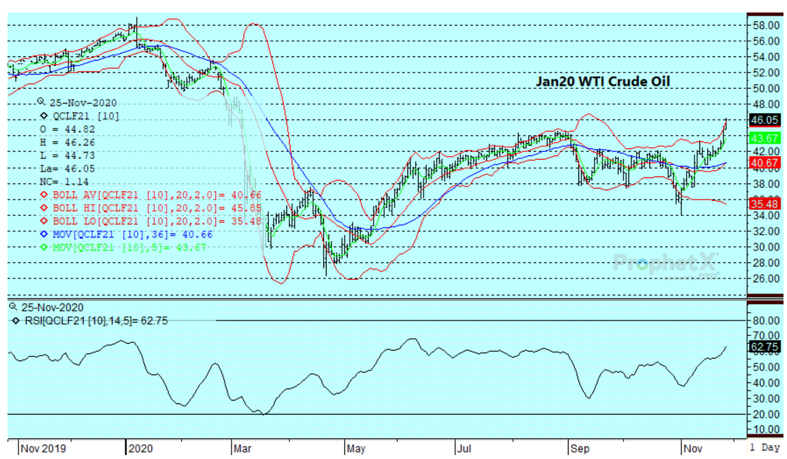
Have a safe and Happy Thanksgiving.
The Energy Brief will not be published on Friday, November 27, 2020

Price Overview



Caution in advance of the full OPEC+ ministerial meeting that begins on November 30th continues to be apparent with an upside bias. Ideas that they will roll over the current cutbacks of 7.7 mb/d in order to keep the market in balance remains evident. In addition, availability of vaccines as we enter 2021 has helped spur optimism that a global economic recovery might be ahead following this week's surge in equity values.

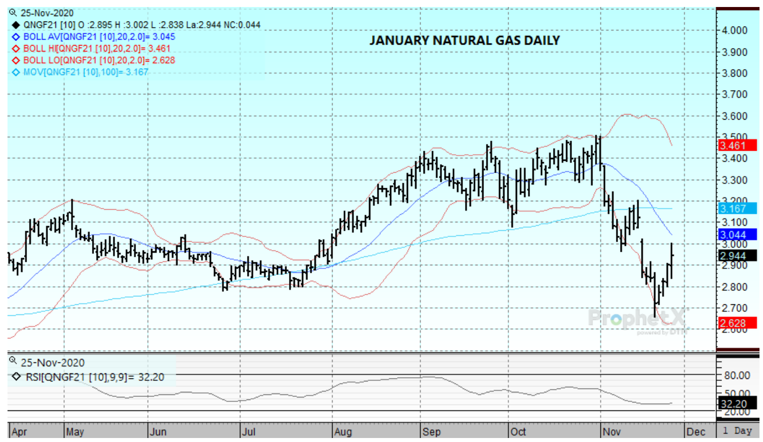
We continue to be surprised by the market strength. Challenges over both the demand and supply side remain. Slow movement in the US concerning additional stimulus measures continues to cause concern, as well as budget re-authorization in the US that needs to be considered by December 10th. Although attention might be focused on the OPEC deliberations early next week, current price levels pose a disincentive to cartel producers abiding by the dictated curbs along with the compensatory curbs that had been agreed to.

The DOE report did little to dispel the notion that we have indeed turned the corner with respect to demand. Crude inventories showed a modest decline of .8 mb. Although refinery utilization increased to 78.7 percent, crude throughput was 14.3 mb compared to 16.3 last year, a 12.7 percent decline. Total stocks including crude were off 1.1 mb, but still 7.1 percent above year ago levels. Distillate stocks showed a more modest decline than in recent weeks falling 1.4 mb while gasoline stocks rose by 2.2. Product supplied totaled 19.2 mb compared to 21.1, with distillate supplied at 4.2 mb compared to 4.4 last year. Gasoline product supplied reached 8.1 mb compared to 9.2 mb last year. Overall domestic disappearance for the year remains off by 12.4 percent for all petroleum products.

We would not be surprised if the market encounters better resistance once the OPEC+ plans are announced as doubts arise as to how effective the agreement might be given the output levels of Libya and other producers such as Russia. In addition, the possibility that the Biden administration will quickly address a new nuclear agreement with Iran, quelling the civil war and foreign intervention in Yemen, and supporting renewable legislation could provide questions over future demand trends along with potentially lowering the risk premium for geopolitical tension in the Middle East.

Natural Gas

The day started off looking like typical pre-holiday trade until mid-session, when prices tested above yesterday's highs near 2.91 basis January and seemed to trip some short covering as the market spiked, ultimately testing the 3.00 area before settling higher by 6 cents at 2.961. Support emanated from LNG flows, which were indicated to have rebounded by nearly 1 bcf today to 10.4 bcf. Production also appeared to slow, with early nominations indicating ouput at 91.3 bcf, down 1 bcf before late revisions. Canadian imports were lower while exports to Mexico jumped, all coming together to offset negative revisions to the weather forecasts. The expiration of the December contract likely added to the markets volatility. The weekly storage report was released today due to the Thanksgiving holiday. It indicated a 18 bcf draw which was in line with estimates. We continue to expect the rally to continue and ultimately fill the gap on the charts from last week, likely testing the 3.10 area in the January contract. Our buy recommendation in the February contract is retracted as prices did not retrench to our buy level.



There will be no brief this Friday, November 27th. due to the holiday.