Energy Brief

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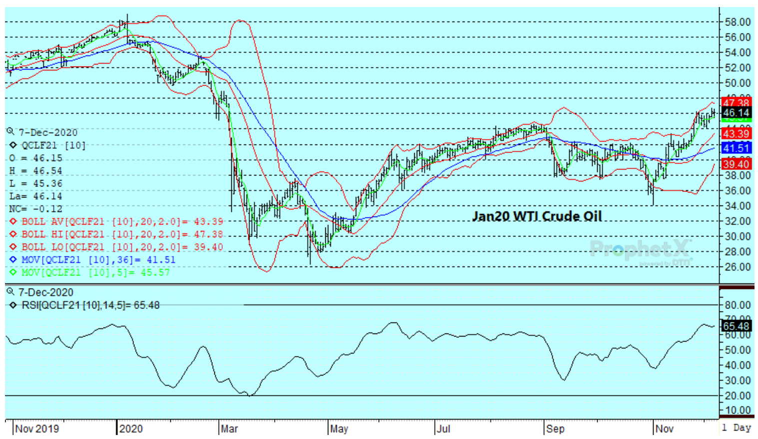
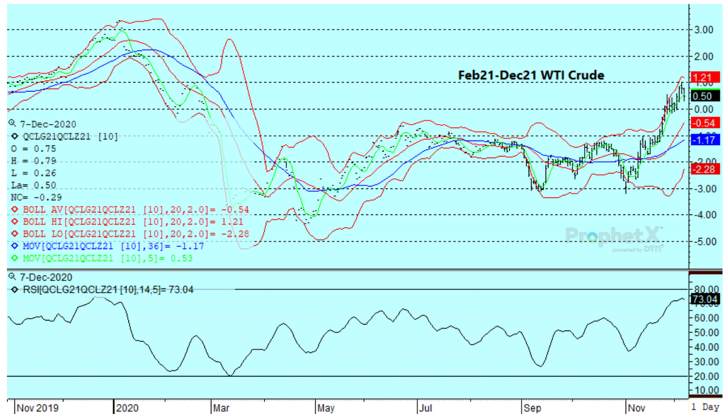
Price Overview



Prices traded in a choppy fashion with early weakness reflecting some concern over a heating up of political tension between the US and China following moves by China against opposition political figures in Hong Kong, along with ongoing concern over demand prospects given the increase in infection rates in the US. Nevertheless the market continues to attract underlying support on expectations that a quick roll-out of a COVID vaccine will help return transportation to more normal levels, particularly in the aviation industry. The OPEC agreement announced last week was generally taken in stride, with the next meeting to discuss output levels set for January 4th following a meeting of the Price Monitoring Committee on December 17th. For now the market looks poised to take a breather as the lack of a decisive result from the meeting raises concerns over longer term supply. India and China, with the highest growth rates in oil demand, will be watched closely in 2021. The availability of vaccine is expected to underpin a strong recovery in demand but how mobility trends change will be a key focus. In addition, the magnitude of stimulus packages, particularly in the US, will be watched closely. Subsequently the report by OPEC scheduled for release on December 14th, followed by the IEA Monthly Report on the 15th should provide some guidance as to how strong the demand recovery might be. The control of the US Senate will also be looked at given the potential impact it might have on domestic policies toward the US oil industry and whether expected expansion in US oil output occurs in 2021. Environmental issues have already had an impact on values for biomass based credits with the failure of EPA to approve retroactive waivers for some refiners leading to active buying of credits in the RIN market, with biomass based credits up by 150 percent since the start of the year, and renewable fuel D-6 credits rising eight fold.

In the background remains a flattening of the forward curve from a 3.00 discount on the Feb 21-Dec 21 crude spread in early November to a 1.00 premium on Friday. The retracement today to a premium of .48 might be a sign that the backwardation has run its course and is bringing out additional supplies. It is hard to surmise that in a period of high stocks there is supply tightness, instead longer term trends in demand are likely being considered in the back months. These include possible shifts from carbon based to renewable energy sources and the implications for OPEC of a potential increase in Iranian exports. These appear to be undercutting longer term expectations and might bring additional supplies forward given the surge in prices since early November.



Natural Gas

Weakness continued in the natural gas market as the January traded down to a contract low at 2.381 before settling 17 cents lower at 2.406. Mild weather remains the issue, as weekend forecasts extracted more HDD's from the two week outlook. The warming revisions have been the trend since early last week when hope for normalization had prices testing the 3.00 area. The drop has shaved over 15% from those levels in less than a week despite other fundamental positives, the most prevalent of which remains LNG exports. Friday saw flows reach a record exceeding 11 bcf/d, which was maintained over the weekend. Production has continued to creep lower as well, with early nominations at 90.4 bcf today after weekend rates near 90.8. At the moment these positives are outweighed by the lackluster weather demand, as December is shaping up to be one of the warmest on record. With no weather risk currently in sight prices could continue to probe lower, with the 2.30 level possible as longs continue to flee. Look for that area to offer longer term support as coal to gas switching supports spot prices. Despite the current trend being decidedly down, any change toward a colder weather pattern likely ignites an outsized rebound in prices.