**Energy Brief**

December 14, 2020

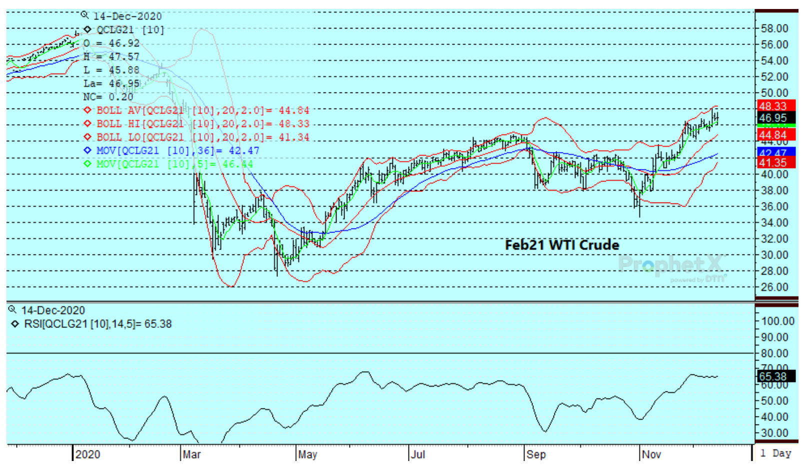
Prepared by Steve Platt and Mike McElroy

877-377-7931

[Stephen.Platt@archerfinancials.com](mailto:Stephen.Platt@archerfinancials.com)
[Mike.McElroy@archerfinancials.com](mailto:Mike.McElroy@archerfinancials.com)

**Price Overview**

The petroleum complex traded on both sides of unchanged today. Early strength was linked to a weak dollar, gains in equities on the rollout of a COVID vaccine in the US, and on reports of a terrorist attack on a tanker while offloading in Jeddah. The macro news was offset by the OPEC Monthly Report released today that showed a modest downward revision in global oil demand for 2021.




For 2020 OPEC indicated global oil demand would total 89.99 mb/d, a decline of 9.77 mb/d. For 2021 it is expected to total 95.9 mb/d, a downward revision from last month of .35. Uncertainty surrounding the impact of COVID-19 on transportation fuels in OECD economies and milder weather forecasts for the Northern Hemisphere winter was the basis for the downward adjustment. The forecast is also reliant on demand remaining robust in key consumers China and India over the coming year.

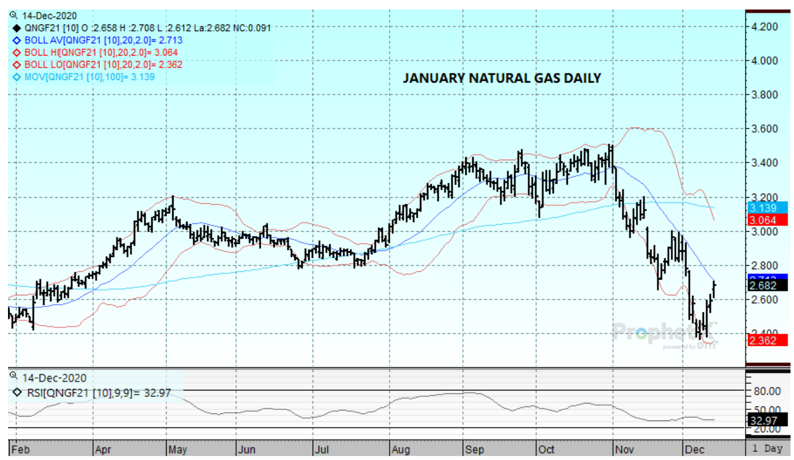
On the supply side, non-OPEC liquids production in 2020 was revised moderately lower, and is expected to contract by 2.5 mb/d traced to downward revisions in the US, Brazil, UK and Norway on lower than expected production in the 4$^{th}$ quarter. Offsetting the declines in these areas were upward revisions in the production of Russia, Canada and Mexico. For 2021, non-liquids supply is expected to increase to 63.52 mb/d from 62.67 this year. The supply-demand balance suggests that demand for OPEC crude in 2021 will reach 27.2 mb/d which is 5 mb/d higher than in 2020 and compares to 25.1 mb/d of production by OPEC in November.

Preliminary October data saw total OECD commercial stocks down by 46.3 mb from the prior month. Nevertheless they stand at 3,145 mb, and are 252.5 mb above a year ago and 200.3 above the latest five year average. In terms of forward cover, OECD inventories stand at 72.2 days, which is 10.1 days above the five year average.

Given the possibility that at current prices demand could be revised downward and supplies potentially revised upward, the 48.00 area basis February looks poised to be an intermediate top of significance. Concerns over loss of market share if prices remain high, along with the possibility of demand continuing to be scaled back on COVID concerns in 2021 will likely be strong headwinds for the market, and could provide the potential for values to decline back toward the 44.00 area basis February. Additional clues on supply-demand trends will be gleaned from the IEA report tomorrow along with the Joint Monitoring Committee meeting taking place on Wednesday.

## Natural Gas

The market continued to show strength as the week got under way, with the January contract settling 9 cents higher at 2.682 after probing up to an intraday peak at 2.708 early in the session. Weather revisions that upped expected HDD's in the short term as well as 2 week forecasts continued to be the price driver. There is still no sign of extreme cold, but the normalization of temperatures has brought back some long interest, with the next few days actually expected cooler than average for this time of year. LNG flows remain impressive above 11 bcf/d and have attracted steady attention since facilities began recovering after the rough summer hurricane season. The issue that goes somewhat unmentioned is that with total capacity estimated near 11.3 bcf/d, the terminals are at their peak right now. With no capacity increases in the pipeline this winter, exports cannot improve but merely maintain these levels. Therefore, as already mentioned, weather will be the price driver for the next few months. The market will have difficulty forging much more upside without the emergence of a cooler temperature trend in conjunction with exports holding these levels and production being held in check. The 2.70 level was reached today and with the firm close likely gets tested again near term. Any significant downward HDD revisions could lead to a quick retrenchment to the 2.50 area.




***Futures and options trading involve significant risk of loss and may not be suitable for everyone. Therefore, carefully consider whether such trading is suitable for you in light of your financial condition. The views and opinions expressed in this letter are those of the authors and do not reflect the views of ADM Investor Services, Inc. or its staff. The information provided is designed to assist in your analysis and evaluation of the futures and options markets. However, any decisions you may make to buy, sell or hold a futures or options ADMIS position on such research are entirely your own and not in any way deemed to be endorsed by or attributed to. The authors of this piece do currently maintain positions in the commodities mentioned within this report. Charts Courtesy of DTN Prophet X, EIA, Reuters.***