Energy Brief

December 28, 2020

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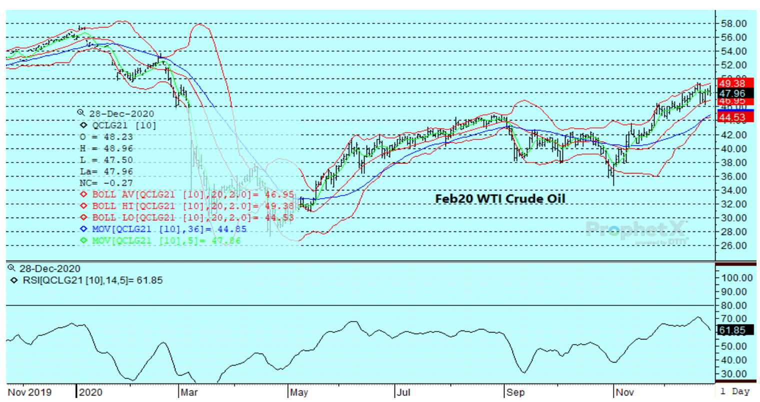
Price Overview



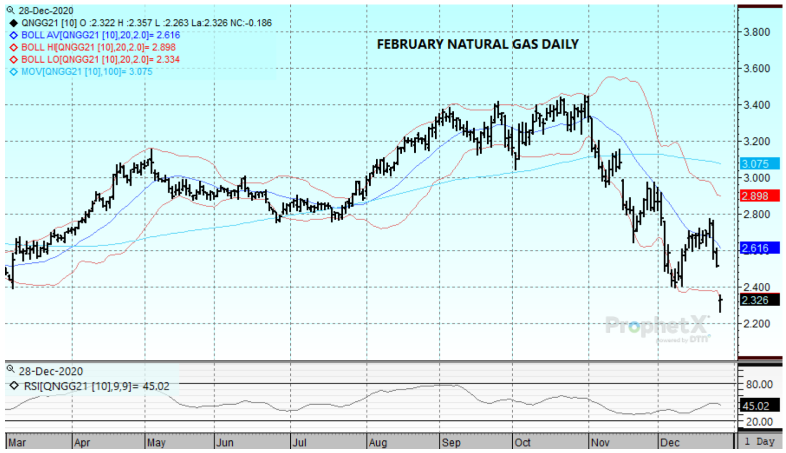
The petroleum complex traded on both sides of unchanged before settling modestly lower. Early support was linked to President Trump unexpectedly signing the US stimulus bill and on the strength to equities and industrial commodities such as copper. The outside markets continued to benefit from optimism that the global economy might quickly recover as vaccinations are rolled out and become more available in the coming months. Demand concerns weighed on recovery attempts as it appears that a new viral strain variant might complicate efforts and force additional lock-downs in many areas of Europe and the US.

For now the petroleum complex might be content to hold recent ranges as we close out the year and attention is focused toward OPEC's meeting on January 4th. Whether OPEC+ will hold out until February before adjusting their quotas remains to be seen, but with Brent values now above 50.00 the concern that the more favorable price might encourage expanded output by non-OPEC producers could become a consideration.

We still see the potential for a scaling back in demand expectations at a time when OPEC+ might attempt to expand output. Reports of tighter restrictions in the UK and new mobility restrictions across Europe should dash bullish sentiment. Despite the vaccine roll-outs, questions over how quickly it will be available globally should continue to be a source of concern. Overall stocks remain high, particularly in crude, which should ultimately limit upside potential to 49.00 basis

February. The DOE report is expected to show crude stocks down 2.1 mb, distillates up 1.1 and gasoline up 1.8. We still see intermediate term vulnerability to the 44.50 area basis February and potentially 42.00 if OPEC opts to raise production and on challenges to the global economic recovery.

Natural Gas



Prices plunged today following the long holiday weekend, with a gap lower on the open of 15 cents. The February contract pushed all the way down to 2.263 before ending the session off nearly 19 cents at 2.326. Weather forecast revisions were the downside driver as the European model dropped 33 HDD's from the two week outlook, putting expectations nearly 15% below normal. The negative adjustments seemed to spook trade, as they extrapolated the poor kickoff to January as indicative of the remainder of the season. Production eased over the weekend, but bounced back today as late revisions likely push it above 92 bcf, which also weighed on values. LNG flows remain the bright spot, surpassing 11 bcf today, but as mentioned previously there is a limited amount of potential upside before current capacity is reached, with no increases on the near term slate. With prices taking out all obvious support on the gap lower, it is difficult to discern a potential bottom. The extent of the selloff over the last three sessions appears overdone and with the late recovery, today's low could be solid support. Weather will remain the key variable, with any sign of a cooling trend likely leading to a move back above 2.50 to fill today's gap. Further warming would lead to a quick retest of the 2.25 area.