Energy Brief

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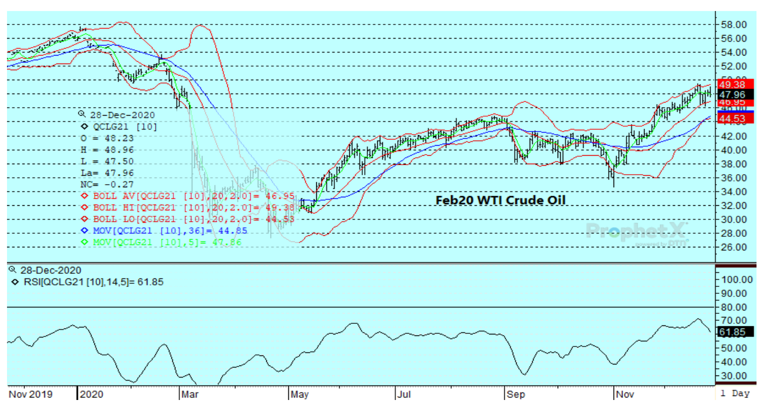
Price Overview



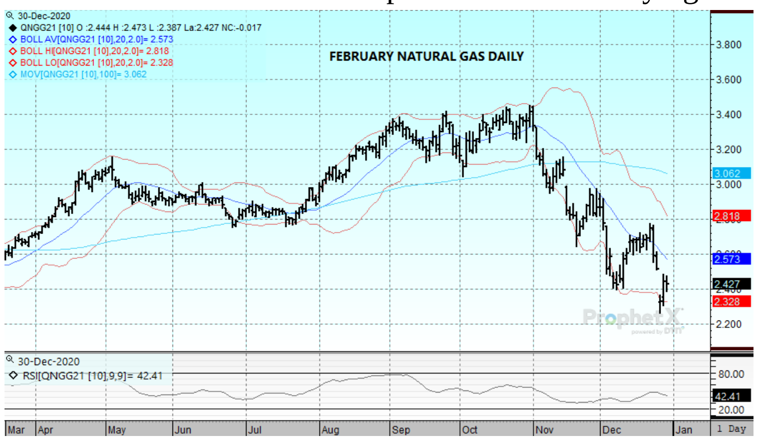
The petroleum complex continued to trade in a mixed fashion with optimism over demand potential remaining in the background despite high infection rates continuing to restrict movement. Early support was traced to attempts to pass an additional stimulus package, which remains uncertain given that Senate approval might be lacking. In addition some caution in advance of the OPEC meeting scheduled for January 4th was apparent given uncertainty over whether additional production increases will be approved in light of recent price strength and hopes for demand improvement.

The DOE report also injected support as crude inventories fell by 6.1 mb compared to expectations for a 2.6 mb decline. Total petroleum stocks showed a drop of 14.9 mb with propane and other oils accounting for 10.2 of the decline in addition to the crude draw. Gasoline stocks fell by 1.2 mb while distillates rose by 3.1 compared to expectations for an increase of 1.7 in gasoline and .5 in distillate. Refinery utilization rose by 1.4 percent to 79.4 as margins continue to show improvement. Product supplied of gasoline was 8.1 mb compared to 9.2 last year, and for the entire year was 12.8 percent below 2019. In distillate product supplied was 3.6 mb compared to 3.8 mb last year and for the year was 8.1 percent below year ago levels. Total product supplied was 19.3 mb compared to 20.0 mb last year. Exports remain a bright spot for both crude and products which totaled 1.9 mb compared to 1.7 mb last year.

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 the cartel will hold out until February before adjusting their quotas remains to be seen, but with Brent values now above 50.00, expanded output by non-OPEC producers could become a consideration. November compliance was reported at 101 percent, with OPEC showing a compliance level of 104 percent while non OPEC fell short at 95 percent. A key question remains whether Russia will push for an increase of 500 tb/d for February. The potential adjustment has raised some concern as being premature given the latest surge in COVID infections. We still see the potential for a scaling back in demand expectations at a time when OPEC+ might attempt to expand output as a potential bearish influence for values.

Natural Gas

The market managed to fill much of Monday's gap during yesterday's session despite continued negative forecast revisions, as the oversold condition of the market spurred technical buying. Today's action was more subdued as we were unable to surpass yesterday's highs,ending the session 2 cents lower with an inside day on the charts. Tomorrow's storage report is estimated to show a 125 bcf withdrawl from storage compared to the 5 year average draw of 102. Based on last weeks reaction following the release and possible thin volume ahead of the new year, we could see some volatility tomorrow. A higher than expected draw could fill the gap up to the 2.51 area, and a miss on the downside would likely rekindle the throw-in-the-towel attitude seen early this week. The 2.25 area should offer solid support with plenty of risk left this winter.



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