Energy Brief

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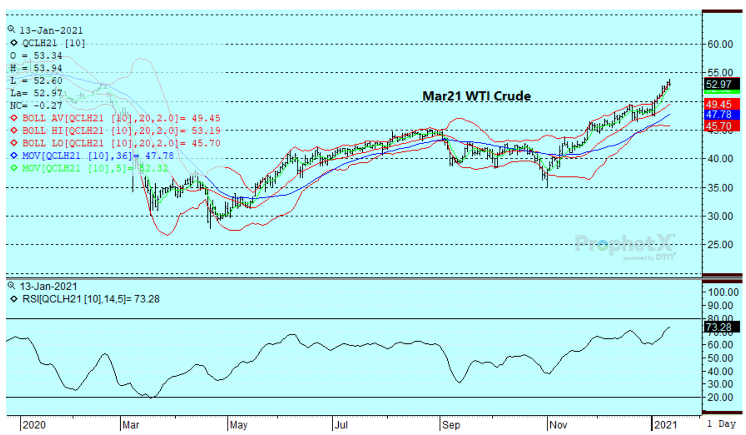
Price Overview

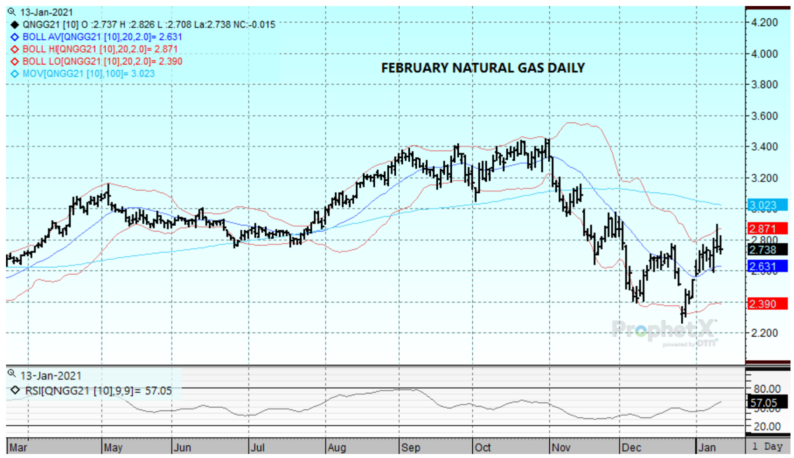


The petroleum complex traded on both sides of unchanged and settled with modest losses. Early support linked to the API report lacked follow through as demand concerns remain in the background. Reports of lockdowns in China due to the pandemic helped increase caution regarding demand prospects given the possibility that travel could be restricted for the Chinese New Year. Market participants continue to watch rising infection levels and a slowing US economy due to the pandemic. Nevertheless the potential for additional stimulus measures being enacted by the Biden Administration following the inauguration on January 20th continues to be a supportive influence along with the Saudi move to restrain output by 1 mb/d over the next two months. Reports from Petrologistics that OPEC compliance levels in December fell to 75 percent raised questions on the veracity of statistics given that other sources had indicated compliance levels closer to 100 percent.

The DOE report showed crude inventories continuing to fall in the US, with a decline of 3.2 mb compared to expectations at 2.7 mb. Refinery utilization was put at 82.0 percent compared to 80.7 last week. Stocks of gasoline and distillate continued to rise increasing by 4.4 and 4.8 mb respectively verses expectations for an increase of 3.0 mb for both. Total stocks fell by 9.4 mb as sharp declines in propane and other oils offset the increase in products. Total disappearance recovered from the weak levels last week, rising to 19.6 mb and actually improved on last year as propane and distillate disappearance surged.

The OPEC Monthly Oil Report scheduled for release tomorrow should shed some light on prevailing supply and demand trends. Whether the report addresses the 1 mb/d voluntary cut by Saudi Arabia and why other members did not support further cuts remains to be seen. Remaining in the background as potential negatives are ongoing concerns over demand trends, strengthening margins, a moderately high stock overhang and potential output expansion by producers such as the US, Canada and Brazil.

Natural Gas



The market could not make up its mind today, changing direction multiple times before ending the session slightly lower. Prices managed to work up to a test of the 2.90 level basis February yesterday before profit taking emerged as HDD expectations were revised moderately lower on the last few model runs. LNG flows bounced back after a brief blip downward due to maintenace issues, with early nominations today at 10.4 bcf/d, but warming temperatures in Asia lead to a sharp drop in overseas prices. Tomorrow's storare report is estimated to show a 128 bcf withdrawl from storage compared to the 5 year average draw of 161. The weather will continue to be the price driver, but any surprise in the storage number could lead to volatility. with 2.80 initial resistance to a high end number, and 2.70 likely being revisited with anything at or below expectations.