Energy Brief

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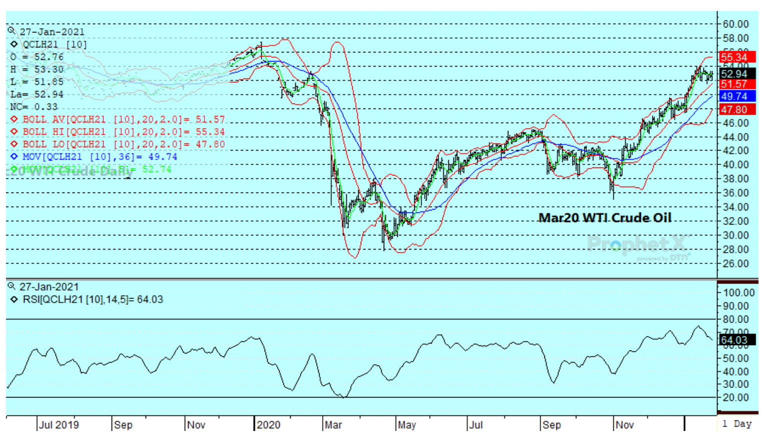
Price Overview

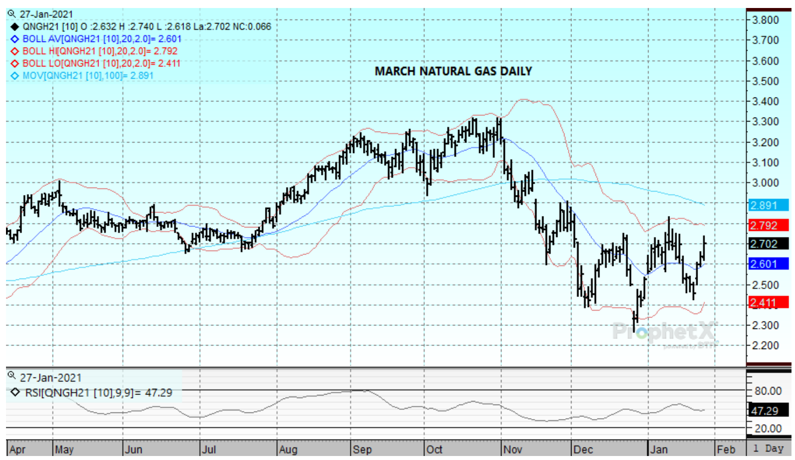
Early weakness in the petroleum complex was later reversed by the larger than expected decline in crude inventories reported by the DOE. The early losses were linked to pressure on global stock indices and ongoing concern over COVID-19 infections, as well as on reports of an increase in export levels from Iran in January.



The market encountered good buying interest on the release of the DOE report which showed a larger than expected decline in crude inventories of 9 mb compared to the API report which showed a 5.3 mb decline, when expectations had been for a .4 build. A decline in import levels and a rise in exports accounted for the bulk of the drop, which primarily occurred on the Gulf Coast or Padd3. Stocks of gasoline rose by 2.5 mb while distillate fell .8 mb and in line with expectations. Refinery utilization was reported at 81.7 percent, off .8 from the prior week. Total product supplied held near the 19.7 and in line with year ago levels. Gasoline disappearance was reported at 7.8 mb while distillate rose to 4.3 mb compared to 3.8 in the prior week and so far remain 3.3 percent above year ago levels.

To some extent the market seems range-bound which reflects a combination of factors involving the prevailing supply/demand trends and future outlook. The voluntary output cut by Saudi Arabia is expected to lead to a modest deficit during the 1st quarter. Of consequence will be the drawdown in stock levels in consuming nations and how well it matches up with demand trends and the level of forward cover, which remains above average but improving. Of critical concern is the strength to the Chinese economy, but their ability to limit the rise in virus cases suggests a buoyant economy compared to other OECD countries. For now the adverse demand potential has been discounted as questions arise as to whether the increase in cases will significantly restrict economic growth. President Biden's proposal to pause new oil and gas leases on federal properties and eliminate fossil fuel subsidies raises questions over future production in the US, and suggests that OPEC output levels will be key for maintaining valuations over 50.00. Indications that Iraq will be cutting back to compensate for past overproduction might help bolster confidence, but economic recovery in many of these countries hinges on their output and exports of crude.

Natural Gas



Prices continued to work higher as the March managed to end the day just above the 2.70 level for a gain of over 6 cents, putting it near the highest settlement of the year. The rally has ridden on the back of forecasts that have continued to cool with every revision this week. HDD expectations are now actually above normal into the second week of February. The return of solid LNG flows following issues encountered last week has assisted the recovery, with lower 48 production that is hovering just under 91 bcf/d a neutral factor. Tomorrow's storage report is estimated to show a 136 bcf stock drawdown compared to the 5 year average at 174. Despite the colder revisions the market is running out of time for any major shocks to emerge and skew prices. If the current temperature trend is maintained a continuation to the 2.80 level basis March is likely. Anything beyond that will need below normal temperatures to be maintained into the second half of February, which could lead to a move to the chart gap from mid-November and a run at the 3.00 level. The 20 day moving average just under 2.60 now looks like support on any retrenchment.