Energy Brief

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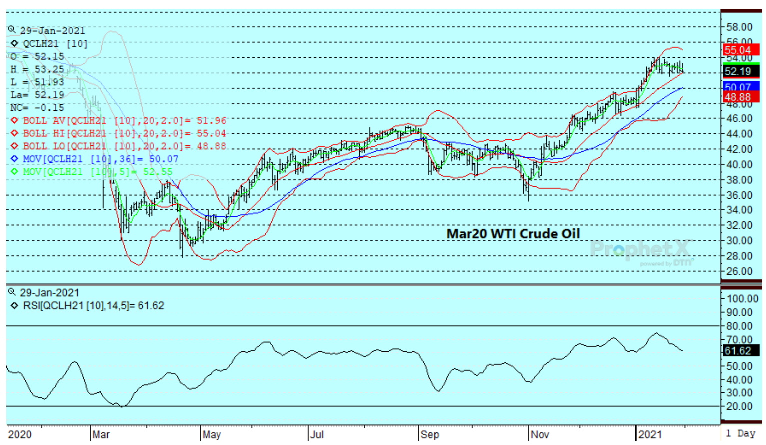
Price Overview



The petroleum complex failed to follow through on early strength as an equity selloff and concern over new strains of the COVID-19 virus helped uncover profit taking and pre-weekend book squaring. In the background were reports that Saudi Arabia was expected to lower their Official Selling Prices in March, the first cut in three months on falling benchmark prices and virus induced demand weakness. In addition reports that US oil output had risen in November by .7 mb/d from 11.1 in November also weighed on sentiment.

The complex continues to uncover support on setbacks in response to ideas that Saudi Arabia will follow through on their promised output cut of 1 mb/d during February and March, along with the declining level of US petroleum inventories, which are 6 percent above the five year average from as much as 14 percent above in June. In crude the surplus supply has shrunk to 9 percent from as high as 19 percent above the five year average in June. The possibility that US crude inventories will continue to move down and reach more normal levels late in the second quarter as import levels remain constrained and export levels expand seems to be underpinning values.

To a large extent the market is range-bound, which reflects a combination of factors involving the prevailing supply/demand trends and future outlook. Of critical concern is the strength to the

Chinese and Asian economies. Reports that refined product stocks have rebuilt in the Asian region, leading to reduced refinery throughput, suggests sluggish demand which might be reflective of lockdowns in many areas. Nevertheless the Chinese economy has remained stronger than most expected. For now the adverse demand potential has been discounted as questions arise as to whether the increase in cases will significantly restrict economic growth. The trends in virus cases and vaccine effectiveness will be key considerations for demand trends given the emergence of new variants that are more contagious.

Natural Gas

The market retrenched over the last two sessions with the March settling lower by 10 cents today at 2.564 and near the lows of the day. Yesterday's weekly storage report showed a draw of 128 bcf verses expectations near 136 as selling picked up after the release. The downside momentum gained steam after the Baker Hughes report was released today showing an increase of 6 rigs, all of which were oil directed. The positive performance of oil prices and steady increase in rigs has brought the issue of associated gas production back into focus. Today also marked the first time this week that the weather ensembles retracted HDD's, which turned the bias lower as the market continues to react more strongly to warmer revisions than it does to cooling, mostly due to the fact that we are running out of time for cold temperatures to do much damage to storage levels. Profit taking was also a likely downside catalyst late in the session as traders choose to stand aside due to the risk of large price moves coming out of the weekend as we have seen recently. Underlying support from LNG flows were the main bright spot as overseas premiums remain substantial, with production also lending a supportive influence recently with contraction to the 90.5 bcf/d area. If we can come out of the weekend with current weather expectations intact then we may have seen the near term lows this afternoon in the 2.50-2.55 range, with a bounce to retest the 2.70 area possible. Cooler revisions will likely need to be seen to push through that area and test the 2.80 level. 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.