Energy Brief

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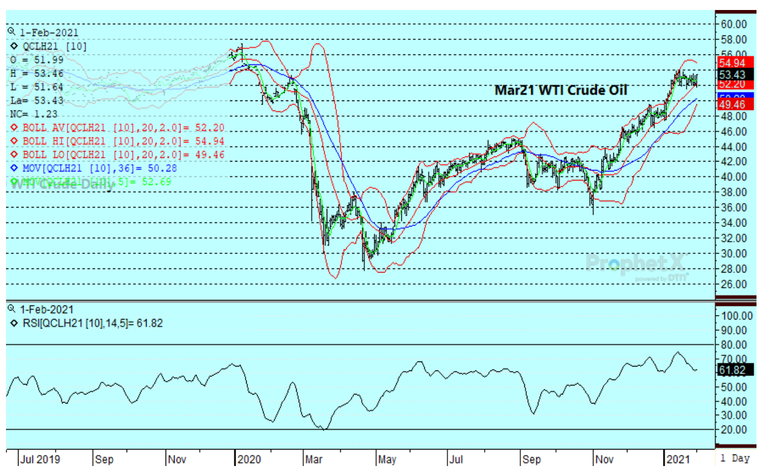
Price Overview



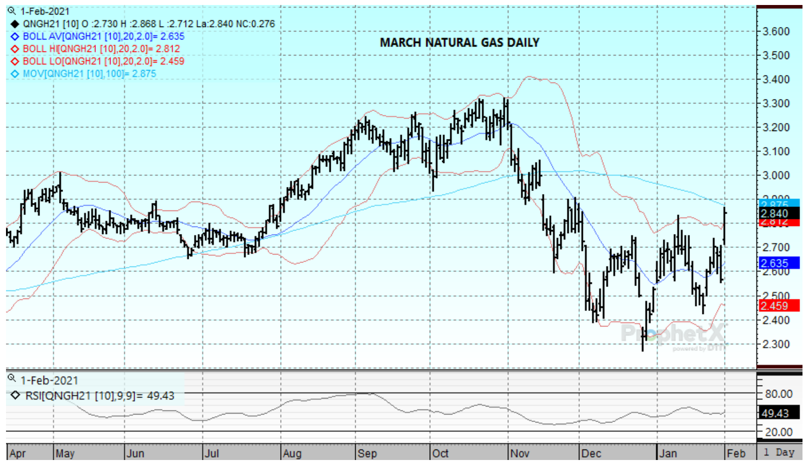
The petroleum complex traded firm to retest recent highs in the 53.50-54.00 range basis March crude. The strength appeared to reflect ideas that current production cuts along with a recovery in demand will lead to tightness as stocks rebalance later this year. Although questions over the vaccine roll-out and a sluggish global recovery remain in the background along with some modest expansion in US production, the negative influences continue to be pushed into the background.

The recent decline in US inventories has also provided support on ideas that voluntary cuts by the Saudis could potentially lead to a stock draw in coming months of as much as 1 mb/d. This possible decrease to more manageable levels despite the pandemic has helped encourage the better buying interest. Diesel has continued to hold up better than products such as gasoline and jet kero, with cold weather in Europe underpinning demand.

The market's ability to climb a wall of worry continues to be noteworthy. It has ignored the expansion in US production as rig counts have risen for a sixth straight month. Prices are moving to more remunerative levels which will ultimately compete with output from other crude producers. At some point OPEC will likely take notice and try to carve out market share, but for now their ability to maintain a unified front continues to help fuel the upside initiative.

The DOE report will likely be watched closely. Stock draws similar to last week will likely provide additional confidence that production cuts are rebalancing the market. Early estimates for the report point to a build in crude inventories of .4 mb, a drop in distillate stocks of.4 mb and an increase in gasoline stocks of 1.6 mb. Refinery runs are expected to increase .4 percent to 82.1.

Natural Gas



We came out of the weekend with another gap on the charts, this time to the upside as the opening print on the March contract was over 16 cents higher at 2.73, which was also 2 cents above Friday's high. The strength was maintained throughout the session, with an intraday top right on the 200 day moving average at 2.868. Prices ended the day nearly 29 cents higher at 2.85. Weather was again the driver as sharply cooler revisions to the European weather ensemble over the weekend boosted values. Although there was some disagreement between forecasting models, the consensus is now pointing to below normal temperatures for the next 15 days. US production looks headed for its 7th straight day under 91 bcf, which added underlying support. With the colder trend gaining momentum, it was not surprising to see the 2.70 level violated, but the quick run past 2.80 was likely a little overdone with much of the substantial cold still on the middle to back end of forecasts. Early estimates for this week's storage report are looking for a draw of 190 bcf compared to the 5 year average at 146. If forecasts can be maintained this week and Thursday's number can surprise on the upside the market could make a run at the gap on the March charts at 2.96 and likely test the 3.00 level ahead of an expected frigid weekend.