Energy Brief

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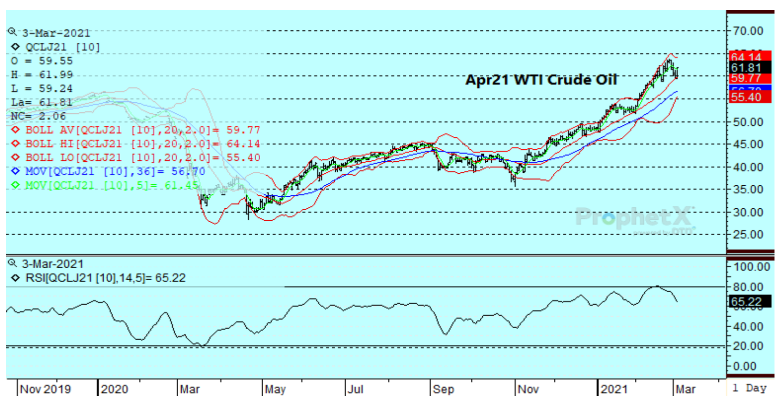
Price Overview

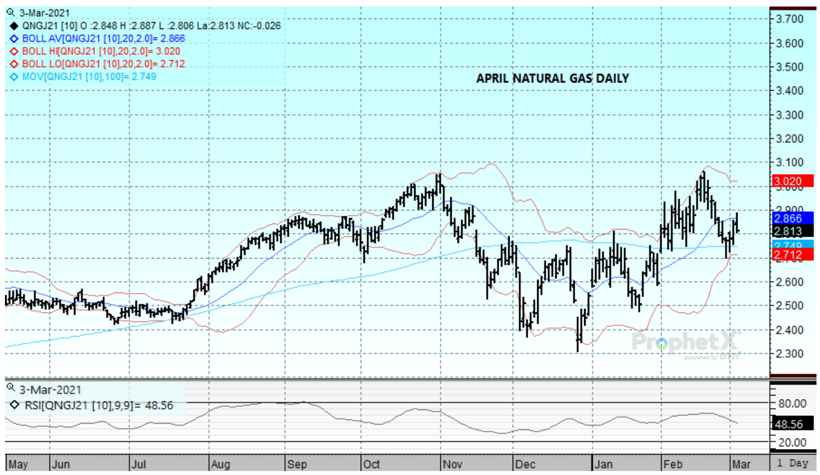


The petroleum complex rallied sharply in response to unconfirmed reports suggesting OPEC+ is considering rolling over production cuts into April instead of raising output. Their caution appeared to be linked to uncertainty over demand prospects given the impact COVID-19 has had on travel and how quickly it will recover. Although OPEC+ experts at the Price Monitoring Committee Meeting called for “cautious optimism” they recognized underlying uncertainties in the physical markets along with macro sentiment, including risks from virus mutations that are still on the rise. They cited speculative participation as a possible reason for recent price strength rather than an improvement in market fundamentals. There is still uncertainty as to whether Saudi Arabia will maintain their voluntary cut of 1 mb/d into April. The reports were generally unexpected given the strengthening prices that had reached pre-pandemic levels.

The DOE report also added surprisingly to the bullish enthusiasm. The report showed an unexpectedly large build in crude inventories of 21.6 mb, putting crude stocks at 484.6 mb compared 444.1 last year. Large net imports of crude totaling 3.9 mb/d was offset entirely by a sharp decline in product stocks of 13.6 mb in gasoline and 9.7 in distillate, reflecting lower refinery runs at 56 percent and steady disappearance. Total stocks including crude fell 2.8 mb.

The market will be watching the results of the full Ministerial Conference that takes place tomorrow. Despite today's information we are not entirely convinced that OPEC+ will approve the continuation of current output curbs given recent stances by Russia and Iraq to expand production levels in order to address fiscal deficits and generate hard currency. The high prices are likely beginning to restrain the demand response in many areas. In addition, the pace of economic recovery is beginning to stagnate in some parts of Europe and in China. Subsequently we would not be surprised to see resistance build near the 62.30-62.50 area basis April.

Natural Gas



The last two sessions have seen the market continue to recover, with the April contract working up to an intraday high this morning at 2.887 before pulling back to end the session slightly lower. Continued upticks in demand expectations supported the move as weather forecasts have gradually raised HDD expectations to bring March back to normal levels verses what had been expected late last week. LNG feedstocks hit their highest levels today since the cold snap at 10.4 bcf/d, which added support along with production pulling back under 91 bcf/d following the weekend jump above 92. With estimates for tomorrow's storage draw in the 146 bcf area, total stocks look to be near 1,800 bcf with four weeks left in the withdrawal season. End of season storage estimates are currently in the 1,600 bcf area, which would be close to the median value of the last 10 years. With LNG exports expected to be robust through the summer, the question to be answered is whether stocks can be rebuilt to comfortable levels by fall. The 2.70 area could mark a longer term bottom as LNG flows return to normal and a clearer picture of the end-of-season storage situation comes into view over the next few weeks.