Energy Brief

March 15, 2021

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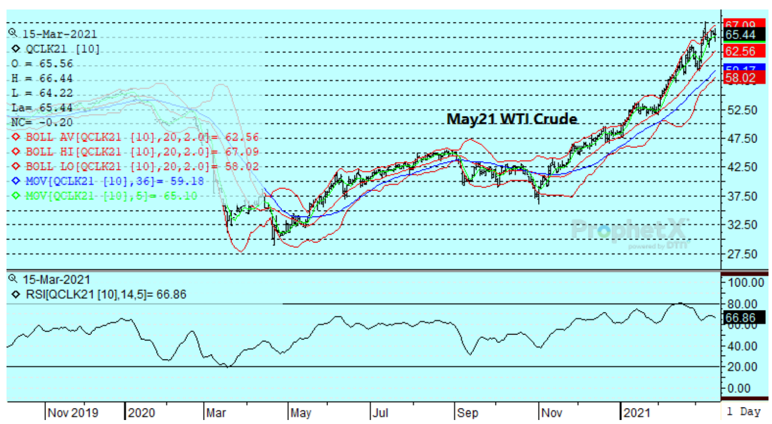
Price Overview

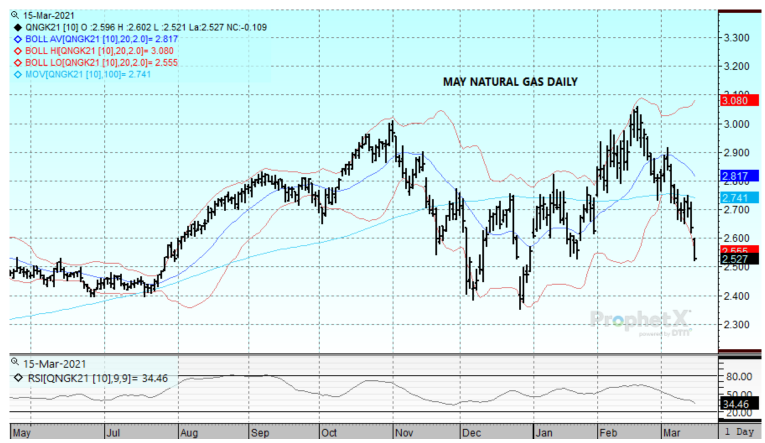


The petroleum complex traded under pressure with product markets showing the largest losses. The weakness appeared to reflect fear that the recent increase in retail prices for gasoline and diesel might curb demand. The pressure ignored what some believed to be constructive news, as Chinese industrial activity and retail sales rose sharply in February. This helped buttress expectations of a surging economy in 2021, with OPEC revising their estimates upward last week to 8 percent growth from 7.4 previously. Saudi output curbs along with the US stimulus package helped attract scattered bargain hunting but concerns that inflationary pressures could lead to a tighter monetary stance helped limit buying interest ahead of the Fed Monetary Meeting that begins tomorrow.

For tomorrow, key US data on industrial production and retail sales will be released. The reaction of interest rates will continue to be watched closely for potential impacts on economic growth. Nevertheless it appears the quicker vaccine rollouts and availability of stimulus in the US will translate into higher than expected economic growth. In addition, the rise in savings rates throughout the pandemic will be watched to see if it begins to lead to higher consumer expenditures. Economies in Europe will also be monitored as sluggish growth there might undercut the response to brighter US economic numbers. On the supply side, how quickly OPEC addresses the potential tightness in the second half along with the response of US producers to current price strength will need to be gauged. Outside forces such as the dollar, interest rates, equity valuations, and trends in commodity prices will all have some bearing on sentiment as well.

Natural Gas

After late selling pressure on Friday pushed the April contract through the 2.60 support level the market has been unable to recover, with a gap lower open overnight and follow through pressure that took prices to an intraday low at 2.478 today. The weakness intensified despite a mix of supportive fundamental issues, as production dropped below 90 bcf/d and LNG feedgas hit 11 bcf/d for the first time since December. The output losses appear to be temporary, as the Rockies are in the midst of a severe winter storm that has shut in production. Weekend forecast revisions continued to lessen HDD expectations as the weather remains the driving force behind the price weakness. As a result, power burns have decreased and renewables have grabbed a larger share of the stack, further pressuring prices. The poor close exposes the market to further downside possibilities. As we turn our attention to the May contract, which surpassed the January lows today, we could see near term follow through that pushes prices below 2.50 with potential to the December lows under 2.40 on stop loss selling that typically overextends price moves. Upside potential remains limited, with the chart gap at 2.619 a likely recovery point once the market flushes through the current selling wave.



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