Energy Brief

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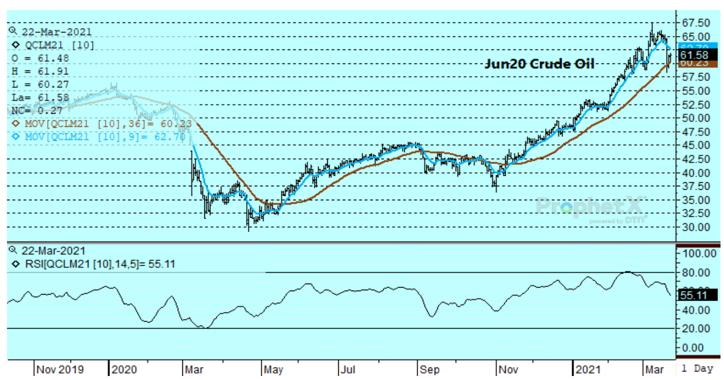
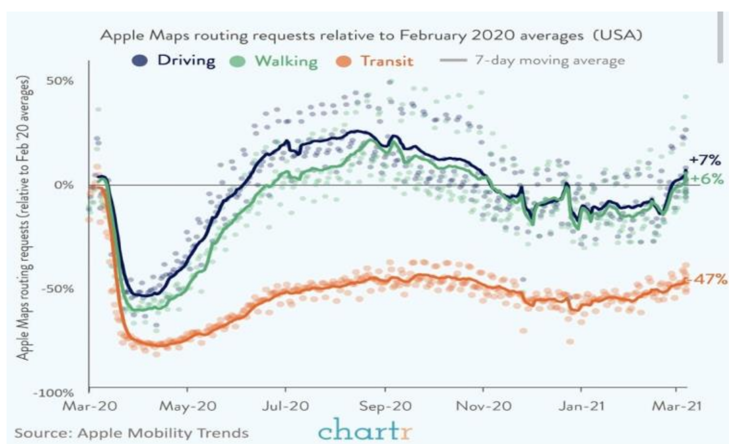
Price Overview

The petroleum complex continued to correct from last week's sharp losses, reflecting optimism for demand recovery in the US as the rollout of vaccines continues and the stimulus package provides hope for a strong rebound in consumer spending. The product markets saw the strongest gains as transportation demand showed signs of rebounding.



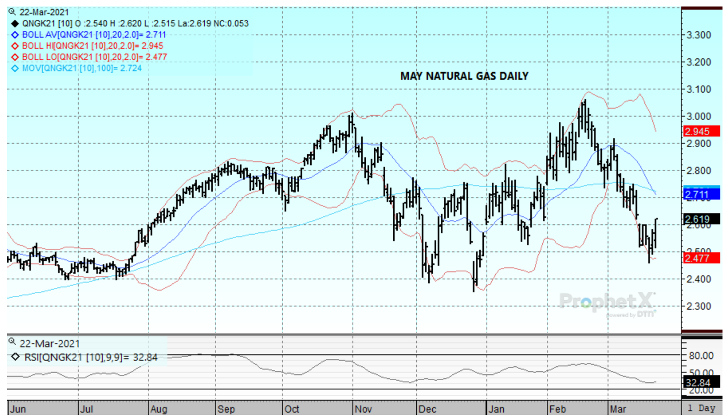
As the graphic from Apple Mobility Trends shows, driving and walking have increased now to reach above February 2020 levels by 7 percent and 6 percent respectively. With the rollout of vaccines continuing to increase, further upside acceleration appears likely. Although transit travel at 47 percent below February 2020 is still weak, it has shown an upward trend. Air travel has also had a strong recovery, as international travel remains depressed from pre-COVID levels but domestic travel has seen a noted improvement.



Although we see the strong demand trends for the underlying products the supply of crude likely remains in a surplus, particularly if OPEC moves to increase production in May. Given the substantial excess capacity and the need to prop up market share as demand expands, the product markets might be quicker to respond and support the cracks, particularly if refinery capacity is slow to bounce back, keeping product stocks relatively tighter compared to crude.

The DOE report this Wednesday will be watched closely for the underlying trends in crude and products, with strong interest in refinery utilization. Forecasts currently suggest that crude stocks will decline by .91 mb, distillates will be unchanged and gasoline will build by 1.1 mb. Refinery runs are expected at 79.3 percent of capacity.

Natural Gas



The market had been content in the range established since last Monday, only violating it for a couple of hours on Thursday's selloff before a late rally today broke through 2.60 level on the upside. Weather kicked of the week poorly, with further losses in HDD expectations as March continues to produce above normal temperatures and will likely end as one of the warmest on record. This week (next week's storage report) looks likely to be the last withdrawal of the season. Early estimates for Thursday's report point to an 18 bcf decrease verses the 5 year average of 51. The End of Withdrawal Season number now looks to be in the vicinity of 1,760 bcf, near the 10 year average of 1,720. The difference coming into this injection season is LNG, which has been the main supportive factor to prices as it hums along near capacity above 11 bcf/d and close to 3 bcf/d above last year. With Europe storage levels depleted and China steadily increasing imports, US exports look to be ample through much of the summer. The late push higher nearly filled the chart gap from last Monday. Look for overnight trade to finish the job with the next resistance level up at the 200 day moving average near 2.68.