Energy Brief

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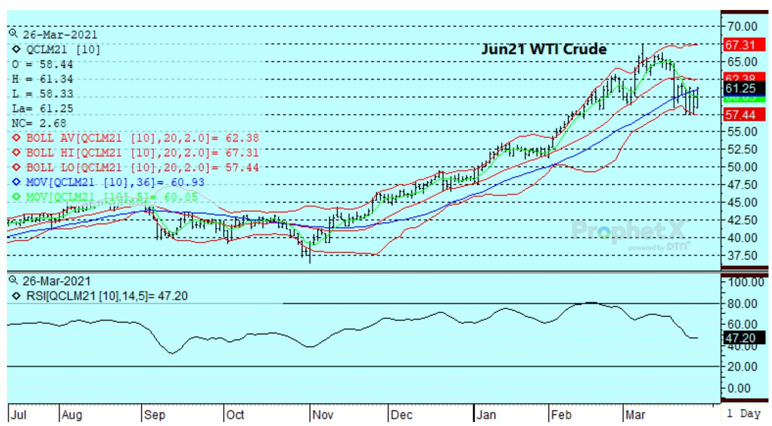
Price Overview

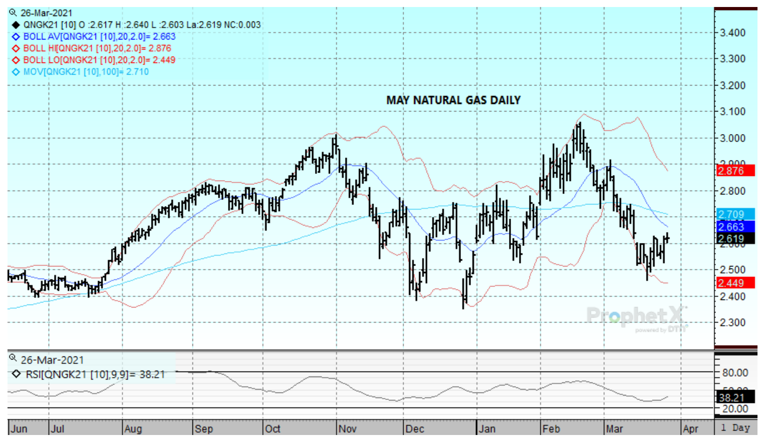


The petroleum complex rallied sharply in response to the blockage of the Suez Canal by a stuck container ship and the possibility that it could take weeks to free. The associated rise in freight rates along with reports that OPEC will continue to constrain production at their meeting on April 1st attracted buying and short covering. Despite the recent price swings, we are within reach of last weeks close of 61.44 basis May. The volatile trade reflected conflicting viewpoints on the market.

Although the closure of the Suez Canal has helped support values, longer term prospects will likely be contingent on the actions of OPEC as they try to balance the market amid the slow recovery from the pandemic in Europe while signs in the US point to the recovery progressing faster than generally expected. With rising debt levels continuing to be a source of concern among oil exporting nations and demand also an issue due to the increase in prices, the market will be increasingly sensitive to any sign that OPEC is leaning toward a looser production policy. In addition, given rising rig counts in the US, it appears that the higher prices and a desire to jump ahead of new legislative initiatives to curb carbon emissions is supporting higher production as well.

With global crude stocks still ample, the market could face strong headwinds as we move into the 2nd half of 2021. For now, the market will be challenged at the 61.50-61.80 level basis June until clearer indications of OPEC's production plans are made in early April. Products, and particularly gasoline, should fare better in the current environment given the potential strength to the US economy and likelihood of stronger usage rates while refinery throughput is constrained by demand uncertainty.

Natural Gas



Yesterday's storage report managed to uncover enough buying interest to push the May contract to a settlement above 2.60. The 36 bcf drawdown was well above expectations in the 22-25 range as prices pushed to a new high for the week after the release. Today's trade saw another new high achieved on follow through buying and concerns surrounding the blockage of the Suez Canal. The issues there have delayed multiple vessels, some of which are LNG tankers going to Europe and Asia. The delay and possible re-routing could add over a week to transit times and boost demand for US cargos. As we have mentioned in the past, regardless of the supportive demand situation US LNG flows are already running at current capacity which helps to explain why the price strength has been limited. The consistent weather, production and exports that we are seeing likely keep prices range bound as we transition into the shoulder season. The 2.60 level now looks like initial support on any pullbacks, with the 2.68 area solid resistance as it marks the 200 day moving average as well as a 38 percent retracement of the break since mid-February.