Energy Brief

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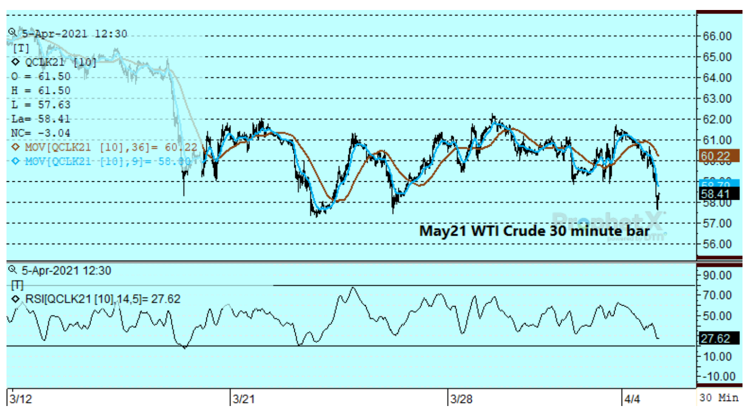
Price Overview



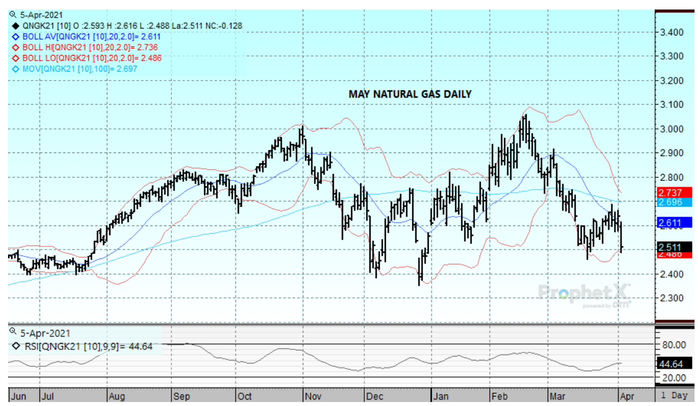
The petroleum complex continued to respond to the unexpected news that OPEC+ had decided to gradually ease its oil output cuts at their meeting on Thursday. They agreed to ease the cuts instituted in response to the pandemic by 350 tb/d in May, an additional 350 in June and a further 400 in July. Saudi Arabia also indicated that they would be phasing out their voluntary cuts by 250 tb/d in May, 350 in June and 400 in July. Although they suggested that the decision had not been influenced by discussions with any other consuming nations, the US dissatisfaction with the higher prices and India's move toward relying on other suppliers might have had an impact on their change in stance. The action was generally unexpected given statements prior to the meeting that had suggested a more cautious approach was needed due to uncertainty over demand prospects and the recent spike in infections despite the rollout of vaccines. Although the Saudi Minister said output could still be adjusted at its meeting scheduled for April 28th, it was overlooked given the actions this month and rising competition for market share by non-OPEC producers.

The change was surprising given comments made by members last week, as well as the downward revision in demand forecasts by OPEC prior to the meeting due to the upsurge in COVID cases and ensuing lockdowns. An important consideration in the decision might have been reports of increasing Iranian export availability along with talks in Vienna next week on reviving the nuclear deal signed by world powers in 2015 and abandoned by the Trump Administration. Another likely consideration was the ongoing increases in rig counts in the US as prices improved. With production curbs restraining balance of trade revenues for members of OPEC+, a more expansive production policy was likely welcomed but might test their ability to draw stocks down to levels consistent with the averages that had been common in the 2015-2019 period.

Given the magnitude of today's breakdown and uncertainty over the strength of the US and Chinese recovery, we would not be surprised to see support develop near current levels, but movement above the 59.80 area, which would be a 50 percent retracement of the range from late in the session on 4/1/21 to today is unlikely as the 61.50-61.80 area basis May proves to be an intermediate swing high.

The DOE report Wednesday is expected to show Crude stocks -1.3, distillate +.6 and gasoline +.1. Refinery utilization is expected +.9 to 83.9 percent.

Natural Gas



The market finally gave in to the steady drumbeat of negative fundamentals as the May contract lost 11 1/2 cents to settle at 2.511. Weather continues to be a negative as forecasts this morning were significantly warmer than last week, with Total Degree Days running more than 20 percent below normal for this time of year. Add to that the 7th straight day where production exceeded 92 bcf/d and something had to give. Last Thursday's storage report showed a 14 bcf stock build, which was lower than expectations at 21. The market found some support after the release, but it was tempered by a revision to the prior weeks number that adjusted the draw from 36 to 32 and bumped the storage low for the year to 1750 bcf. The May contract will likely have difficulty mounting any substantial recovery with the shoulder season in full swing and temperatures uncooperative. A further washout, which would likely find support down at the March lows of 2.459 and after that the December low of 2.352, could set the stage for a recovery in the summer contracts as LNG exports look poised to continue at their record pace and attention begins to turn to the upcoming summer and the potential for warmer temperatures adding to risk potential.