Energy Brief

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Price Overview

Pre-weekend book squaring into early price strength pushed the market to modest losses today. The upside trend seen this week was linked to economic strength in both China and the US and helped provide confirmation of a more optimistic longer term demand outlook provided by OPEC and the IEA this week. The demand side continues to be the primary focus, with reports of rising infections in India and Europe being pushed into the background as strength to equities and the dollar provided a bullish backdrop to values. Economic news was also supportive, with 1st quarter GDP in China rising by 18.3 percent against weakness a year ago, strength in US retail sales, and lower unemployment claims.

For next week, the market might begin to focus on the supply side despite the potential for an overshoot in terms of economic activity and stronger than expected demand. Rig counts were up 7, marking the fifth straight week of increases and continuing to suggest that prices are encouraging new investment. None the less uncertainty over the Biden Administration's Energy policies continues to restrict new capital flows as they are expected to expand modestly despite the price recovery. OPEC+ production policies will be watched closely ahead of planned increases in May-July. Whether further adjustments are made in May will likely hinge on whether progress is seen in India and Europe toward combatting infections. Another influence will be the Iran nuclear talks and how likely it is for sanctions to be lifted. Given the sharp decline in US crude stocks last week, the DOE report will be watched for further confirmation of rebalancing for crude, where inventories are currently ample relative to a more balanced situation in products ahead of the summer travel period.

Natural Gas

The market continues to be supported by the below normal temperature pattern that will likely be in place over much of the next week. The May contract pushed to a test the 200 day moving average, putting in a high at 2.70 before ending the session up by 2 cents at 2.68. Yesterday's storage was indicated at a 61 bcf build, below expectations near 67, which added to the upside tilt. Total storage is currently at 1,845 bcf, which switched to a small surplus to the 5 year average. A continuation of cold temperatures in Europe has maintained a contra-seasonally draw down in storage levels that is also offering underlying support as LNG exports look to continue at a brisk pace. These factors along with the impressive rate of exports to Mexico have pushed prices to the upper end of our recent range. With the summer months managing to settle through their 200 day moving averages, it looks like we may be transitioning toward a new trading range as we work through the shoulder season and attention turns to the summer injections and potential weather issues.