Energy Brief

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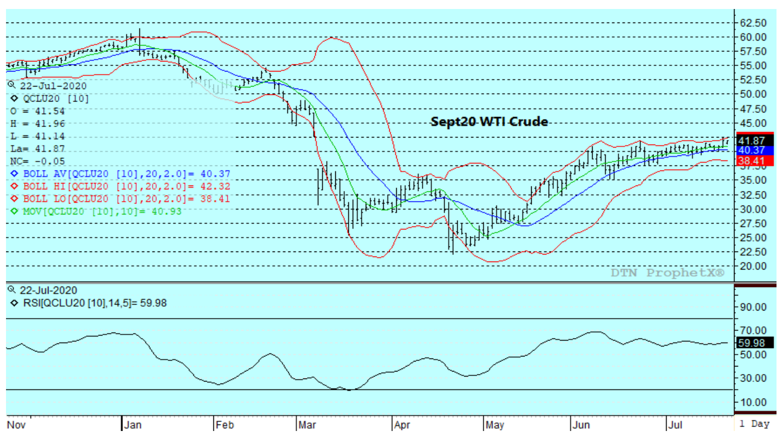
Price Overview



Following strength yesterday linked to the approval of a stimulus package in Europe along with progress on finding a vaccine for COVID-19, selling developed today on the failure of US crude inventories to decline as expected. Heightened tension between China and the US also provided a bearish backdrop for values on ideas it might impede economic growth and encourage the renewal of trade tension between the two countries. Nevertheless the scale of the declines remained modest as hope for a vaccine remained in the background.

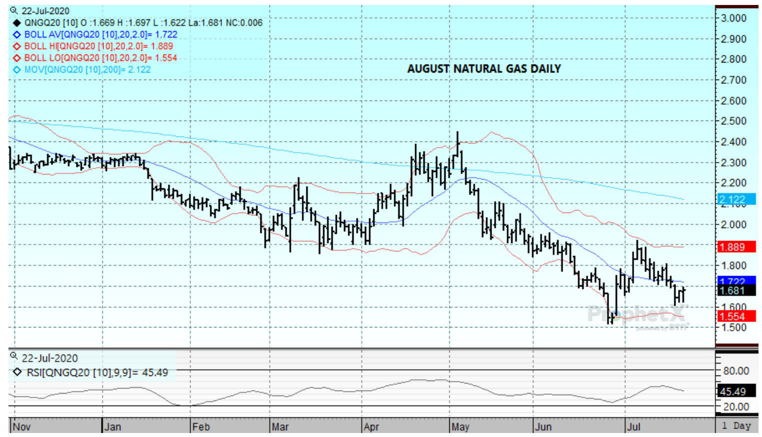
The DOE report showed crude inventories increasing in the week ending July 17th by 4.9 mb compared to expectations for a decline of 2.0. Cushing stocks rose by 1.4 mb to 50.1 while refinery utilization fell to 77.9 percent compared to 91.1 percent last year. Crude inputs to US refineries were 14.2 mb, off 16.5 percent against last year's levels. Net imports of crude and petroleum products were basically 0 compared to a net import level of 1.6 mb last year. Inventory levels in gasoline fell by 1.8 mb while distillates rose by 1.1 mb. Product supplied in gasoline fell marginally to 8.6 mb, 9.5 percent below year ago levels, while distillate product supplied totaled 3.2 mb compared to 4.3 last year or 25.5 percent. Overall product supplied was 17.6 mb compared to 21.6 mb last year for a decline of 18 percent.

The market's surge yesterday up to a high of 42.50 basis September might represent an intermediate top for the market as concern develops over the rising infection rates in the US and possible shutdowns within the domestic economy. In addition the rising tension between China and the US could disrupt the trade agreement and Chinese commitments to import crude and products in 2020. How the recovery progresses in areas outside the US given the additional stimulus being provided particularly in

Europe will be a key consideration on the extent of any decline. Near term support in September crude exists near 40.35 and again near 38.50. A break of 38.50 would suggest a larger scale decline.

Natural Gas

The market has traded inside Monday's range over the last two sessions as fundamentals have remained uninspiring. Support was drafted yesterday from macro news regarding positive initial signs from multiple COVID vaccine tests along with the announcement of a European stimulus package that supported global equities. Further downward revisions to CDD estimates in the two week outlook brought back selling interest this morning. Forecasts remain above normal, but thus far the hot July temperatures have been unable to garner any sustained buying interest. Underlying support emanated from production levels trending back under 89 bcf/d over the last to sessions as hope was rekindled of a return to slowing output. Some concern over the development of Tropical Storm Gonzalo and its track toward the gulf also added risk premium. Estimates for tomorrow's storage report are pointing to a build of 36 bcf compared to the 5 year average at 38. This would add to the string of below normal builds but overall would keep stocks in the area of 15% above normal for this time of year. Despite the minor recovery in prices the easiest path appears to be lower, with the contract lows at 1.516 possible if positive news doesn't develop near term. A settlement above the 1.75 area would be necessary to indicate that the trend has turned.



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