ADM
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Energy Brief

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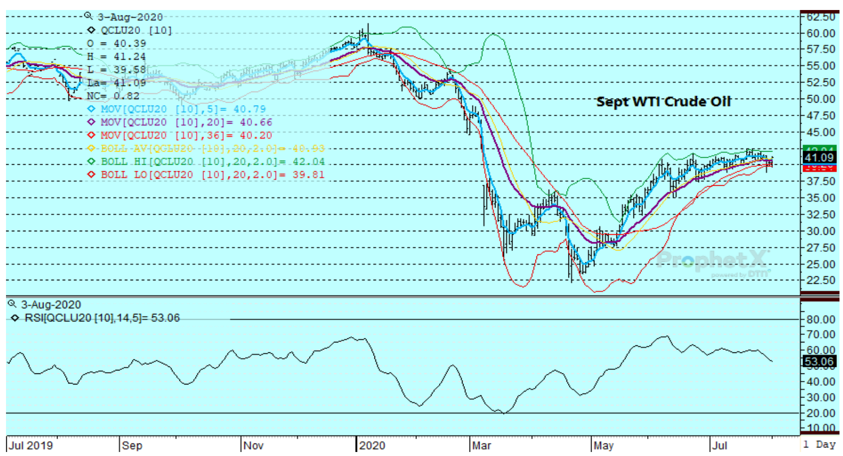
Price Overview



The petroleum complex traded higher on an uptick in manufacturing activity in Europe along with continued strength in equity values. The move came as OPEC+ raised output by 2 mb/d, lowering cuts to 7.7 mb/d from 9.7 mb/d in July and as concerns remain of a worsening in COVID infections in the US. For the most part the resiliency of crude oil values remains surprising with the demand uncertainty for the 2nd half of 2020.

Support continues to be apparent in response to the stabilization of economic activity outside the US and the appearance that the price pressure from high Saudi Arabian imports to the US have run their course and are slowly being absorbed. Ideas that the lower import levels along with decreased US production will lead to a further drawdown in inventories appears to be supporting the more constructive sentiment.

Key to the outlook will be the level of stimulus approved by Congress and its impact on work and entertainment patterns. In addition US-Sino relations remain a center of focus given the substantial impact it might have on the Chinese economy and petroleum consumption and the associated increase in petroleum imports from the US market.

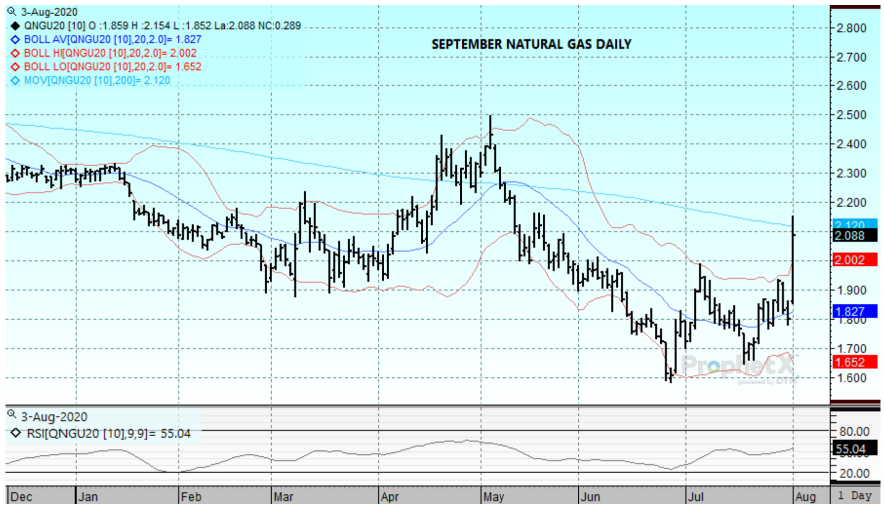
The adequacy of supplies and large inventory overhang along with uncertainty over the demand side as we enter the fall should limit upside progress. Supply issues also will remain in the background as prospects for future production expansion and capital investment are assessed in light of OPEC+

restraint and the waning profitability of US shale oil producers. The relaxation of OPEC quotas in August appears to be discounted. However compliance levels by Iraq and Russia will be watched closely.

The crude oil market still looks vulnerable to downside price pressures if the recent high of 42.50 basis September is not violated, with potential for values to weaken toward 35.00 basis September if additional fiscal stimulus is not forthcoming to avoid further declines in US economic activity.

Natural Gas

Prices moved sharply higher today with the September reaching 2.154 intraday before settling at 2.101, an increase of over 30 cents on the session. Overnight trade saw prices start the week higher by 4 cents, which was explainable by forecast revisions that jumped up CDD expectations next week, along with improved LNG flows over the weekend and a dropoff in production estimates for today that justified some strength to values. The action since then has been less explainable. The push higher seemed to come in three waves, as last weeks highs offered some resistance this morning before giving out as prices ran to the 2.00 area, again meeting resistance before being taken out at mid morning for a run to 2.10, which in turn held up for a couple of hours before prices pushed through the 200 day moving average at 2.12 up to the session highs at mid day. Volume shot higher as well, with the September more than doubling last weeks daily average. The indications point to an influx of algorithmic and fund buying with key chart levels being violated. The action now will focus on the 200 day moving average and whether we can settle through that level in the coming sessions to trigger additional technical buying. Pullbacks likely don't find decent support until the 1.95 area as fundamentals need to do a lot of work to catch up with current pricing.



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