ADM

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Energy Brief

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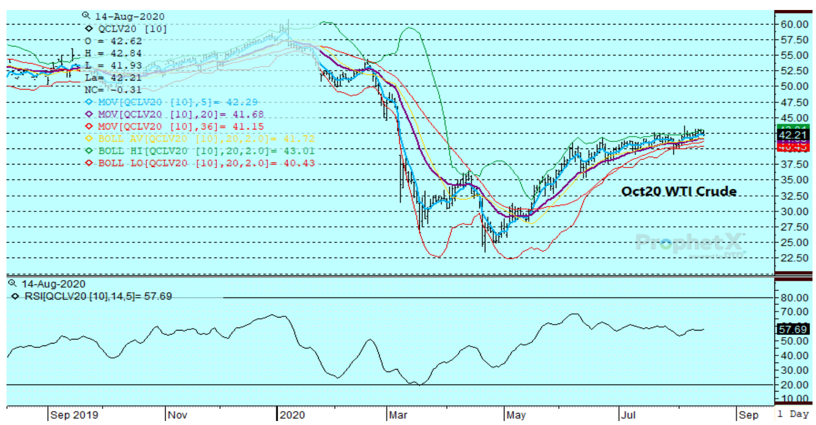
Price Overview



The petroleum complex traded quietly today on both sides of unchanged. Fresh news was generally lacking as summer holidays set in. The market continued to reflect on both the IEA and OPEC reports of the past few days, with declining inventory levels in the US creating optimism that it reflects a rebalancing of inventories and better demand. The Price Monitoring Committee video-conference was postponed by one day to August 19th. Expectations for the meeting appear to suggest that production cuts from OPEC+ members of 7.7 mb/d and an additional cut of .4 mb by Iraq will be maintained through the third quarter. Ideas that the market has moved closer to balancing inventories as economies open up continues to provide comfort to crude producers in light of the recent strength to values. Nevertheless questions remain over global demand given the impasse in Washington over new stimulus measures and the possible revival of COVID-19 infections into the fall.

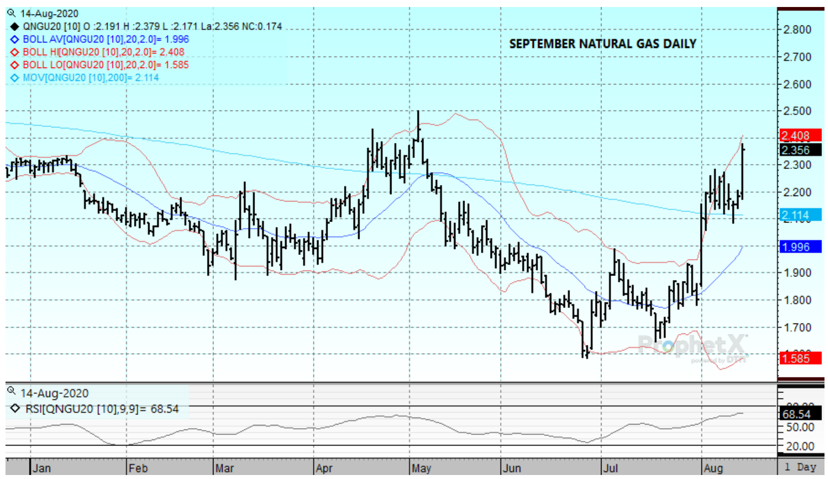
In yesterday's report the EIA appeared to validate how uncertain the demand outlook is. For 2020 they forecast global oil demand at 91.1 million barrels a day, a decline of 8.1 mb/d from last year. The forecast is 140 tb/d lower than the IEA's previous forecast. For 2021 the agency revised down its forecast by 240 tb/d to 97.1 mb/d,with jet fuel demand identified as the weakest sector.

For next week growing concern over worsening economic conditions in the US along with uncertainty over school re-openings and how quickly people will return to work will be key to demand prospects. China/US trade tension also might build and provide bearish input as well. With the US election just over 80 days away, political considerations will begin playing more of a role in determining the level of participation.

Recently the forward curve for crude has flattened. This appears to reflect the belief that as we move into 2021 the strengthening of demand will be counterbalanced by a pickup in available supplies from OPEC+. Currently they appear to be getting a high level of compliance, but questions over how long this cooperation lasts will undoubtedly need to be addressed given the large spending deficits of many countries.

While many expect the unwinding of pent up oil demand to underpin values, it appears that the large stock overhang, particularly of products in Asia, could limit upside to near the 43.00 area basis October. The approach of fall should create higher export availability from Saudi Arabia as crude demand for power generation tails off. In Asia weak margins will likely keep refinery rates down as high product stocks are slowly worked off.

Natural Gas



The rally was reignited today with September making an intraday peak at 2.379 before settling the week higher by 17 1/2 cents at 2.356. The move seemed to pick up steam when Tuesday's high near 2.23 was violated, and additionally at 2.275, which was Monday's top, on likely stop-loss orders. Major fundamental improvements could not be pointed to for the move. The storage report yesterday pegged the build at 58 bcf, slightly above expectations, while production remained steady and weather revisions actually decreased CDD expectations for the two week outlook. Speculative buying has likely been a major driver, while the key fundamental factor being used to justify the strength is expectations for a major improvement in the LNG market as we work through the fall. Asian and European prices have outpaced the US strength, as some improvement does appear to be brewing for US LNG cargos. With the 2.30 target reached today, the market likely tests 2.40 early next week, with the 2.60 level a possibilty if we mirror the strength of last weeks spike higher move. The 2.27 area should offer support on any retrenchment.