Energy Brief

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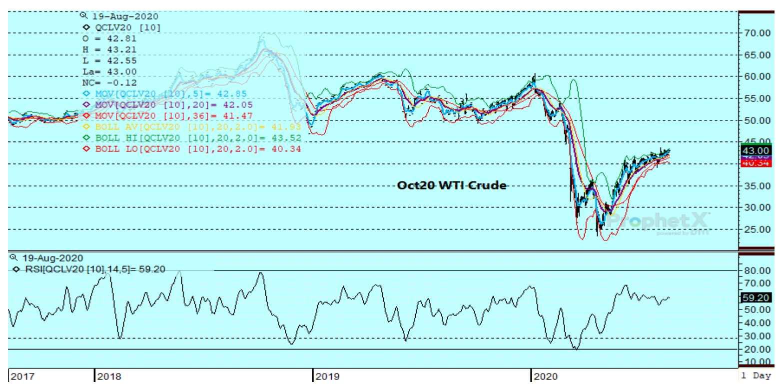
Price Overview



Petroleum prices traded moderately lower despite the larger than expected drawdown of crude inventories reported by the DOE. The weaker tone was traced to ongoing concerns over the stalemate in trade negotiations between the US and China, along with the impasse in the US Congress over additional stimulus measures.

The DOE report showed crude oil inventories falling by 4.3 mb, which was slightly above expectations. Movement out of the SPR continued with a 2.7 mb decline. Stocks at Cushing were off .6 mb and stand at a comfortable level of 52.7 mb. Net imports of crude surged to 3.6 mb compared to 2.5 last week. Refinery utilization was reported at 80.9 percent which is basically unchanged. Crude oil refinery inputs totaled 14.5 mb compared to 14.7. Gasoline stocks fell by 3.3 mb compared to a sizable build of 5 mb reported overnight by the API. Distillate stocks rose .7 mb and above expectations for a drawdown of 1. Product supplied for gasoline totaled 8.6 mb compared to 9.6 last year while in distillate product supplied was at 3.3 mb compared to 3.8 last year. Total product supplied fell back to 17.2 mb from the strong showing last week of 19.4 mb. The four week average for total product supplied was 18.1 mb compared to 21.7 in 2019, a decline of 14.5 percent. Other oils showed a large decline of 25 percent from the prior week.

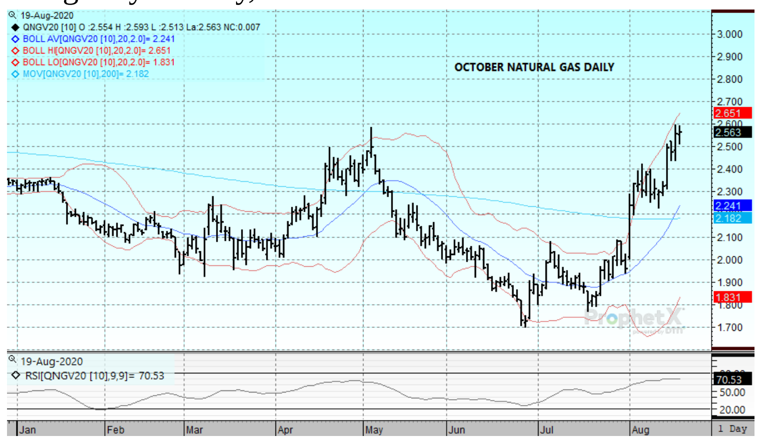
Nothing unexpected ensued from the Price Monitoring Committee video-conference today, which kept interest low as participants continued to gauge demand trends. The Russian Oil Minister appeared satisfied with progress at reducing inventories and the level of compliance, limiting any dissension within the group.

Ideas that the market has moved closer to balancing inventories as economies open up is providing comfort to crude producers in light of the recent strength to values. Questions remain regarding global demand given the impasse in Washington over new stimulus measures and the possible revival of COVID-19 infections into the fall.

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 just above today's high in the 43.20 area basis October. The approach of fall should create higher export availability of crude from Saudi Arabia as 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

Prices remained stubbornly close to their highs despite a lack of overly impressive fundamental signals. Volume was again anemic following the move higher yesterday, as we traded on both sides of unchanged before the active October contract settled slightly higher at 2.563. Not much has changed on the weather or production front, with explanations of the recent strength pointing to improving LNG demand. With Asian and European prices returning to a premium that is conducive to US exports, it does look as though the market may have turned a corner, but solid improvement will need to continue. At the moment the market seems determined to press higher, and follow-through likely finds strong resistance near 2.70 basis October. Despite the upward bias the market does look technically overbought, and with end of season storage expectations showing little change and production remaining steady, a setback seems likely near term with the 2.40 area being tested if profit taking emerges.



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