Energy Brief

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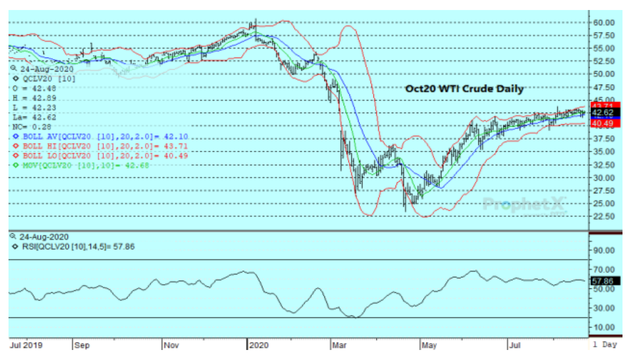
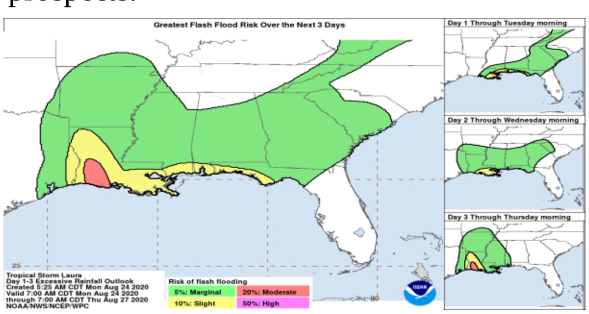
Price Overview

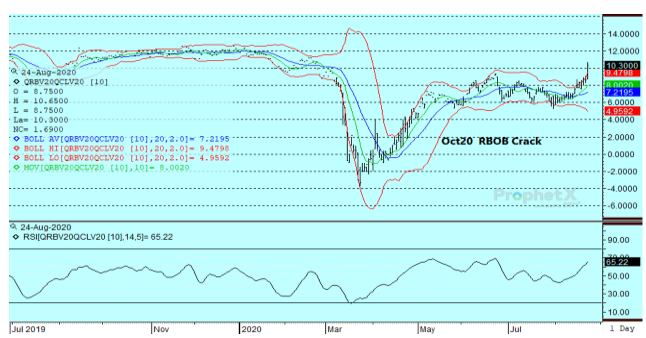
Prices traded moderately higher in crude and sharply higher in gasoline and heating oil as the approach of Tropical Storm Laura and Hurricane Marco raised concerns over potential disruption of refining and pipelines from the upper Texas coast through the North Central Gulf Coast due to possible flooding.



The risk to key refining areas was evident as Motiva in Port Arthur considered shutting their refinery with a capacity of 607 tb/d in anticipation of heavy rains following the landfall of Marco on Tuesday and Laura on Thursday. The storm threat helped divert attention from other influences including demand prospects.



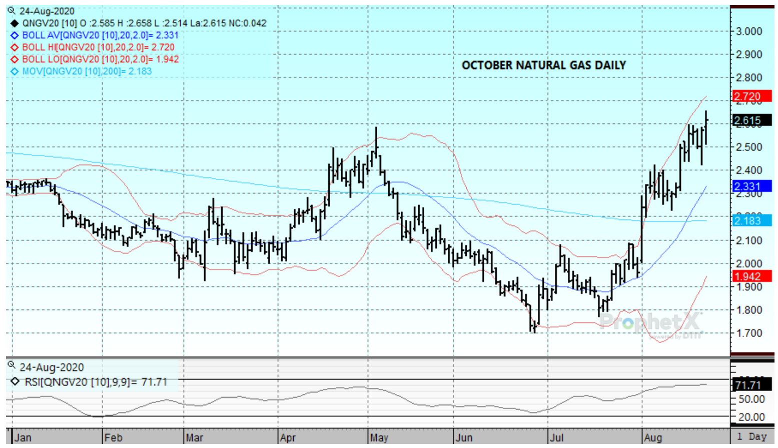
The possibility for refinery shutdowns helped direct trading interest into the crack spreads. The gasoline crack basis October traded as much as 2.00 higher at one point while the 2 oil crack rose over 1.00 per barrel.



Recent Commitment of Traders reports from the CFTC had shown a shift in managed funds from the long side of crude to the long side of products. The heightened speculative interest has been attracted by low margins and fear of further cuts in refinery runs.

Although the marked recovery in the gasoline crack remains impressive with the high at 10.50 well above its lows of -3.00 in March, it is near the range which had prevailed for the second half of 2019 between 10.50-12.00. With stocks still 7 percent above the five year seasonal average compared to 4 percent for crude, resistance is likely near the 12.00 area provided damage is limited to pipelines and refining facilities.

Natural Gas



With Tropical Storms Laura and Marco churning toward the Texas/Louisiana coast and shutting in a large portion of Gulf production, prices jumped higher today. The front months had the strongest reaction as September gained 10 cents intraday while the October was higher by as much as 8 cents before settling at 2.616. With landfall expected mid-week look for volatility to remain high as upside pressure from shut-ins competes with potential demand losses from the power sector as heavy rains move onshore. The results are already surfacing with production trending lower over the weekend, as early nominations this morning were at 86.2 bcf. LNG loadings have not seen fallout as of yet with today's number at 5.1 bcf/d and in line with weekend numbers. Weather for the rest of the US has taken a back seat for now, but forecast revisions have upped CDD expectations to offer background support. With the October taking out the 2.60 high from early May look for follow through volatility to pust prices to a test of 2.70 before the storms run their course. With US temperatures cooling considerably later this week into next, look for a retrenchment that likely doesn't find much support until the 2.50 area.