Energy Brief

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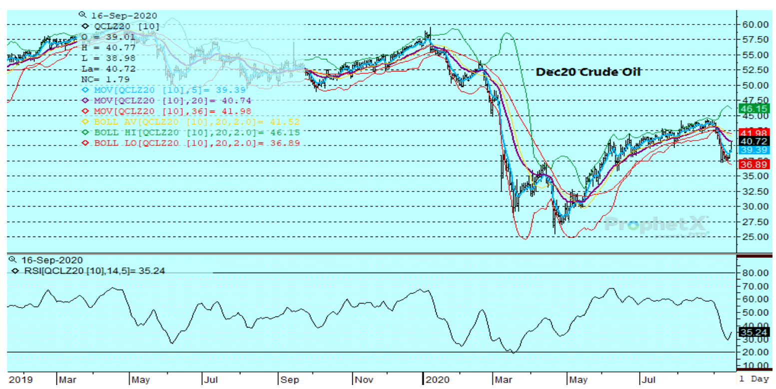
Price Overview



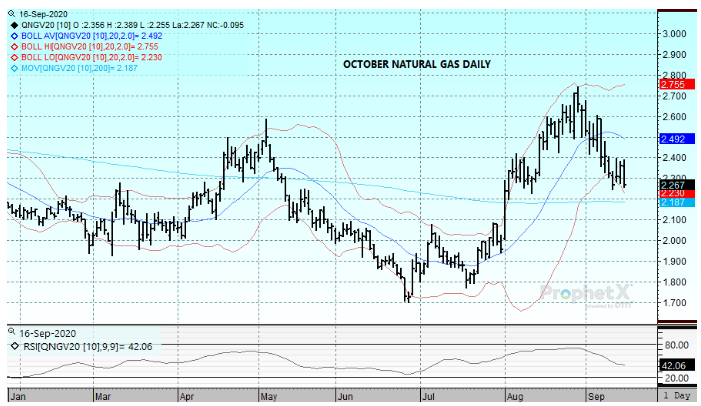
The petroleum complex attracted good buying interest with crude and gasoline showing the best gains while ULSD lagged. The strength reflected active buying in response to a larger than expected draw in crude inventories that was reflected in the API and DOE reports, along with storm related production shut-ins due to Hurricane Sally. Additional support was provided by reports the US Congress was moving closer to a compromise on additional stimulus measures.

Despite the recovery from recent losses, concerns continue over demand prospects and a modest recovery in production from some non-OPEC countries in North America. The IEA in their most recent monthly report indicated that global demand from January-July was 10.5 mb below last year's level at 91.7 mb, an area not reached since 2013. In August the easing of OPEC production cuts from 9.7 to 7.7 mb/d led to an increase of only 1.3 mb/d in output as some countries produced less than their target to compensate for earlier non-compliance. The OPEC Price Monitoring Committee, which meets tomorrow, is expected to recommend no changes to the current quota but might allow some countries that had overproduced in earlier months to extend the time period into early 2020 to compensate. With global output increasing along with downward revised demand data, the IEA calculates the implied stock draws at about 3.4 mb/d in the second half of the year which is nearly 1 mb/d below what was estimated last month. Despite the draw expected from global stocks, OECD data shows they have returned to record levels in July. Although the agency indicated that the market remains in a state of delicate re-balancing, they feel the outlook appears even more fragile.

The DOE report showed crude inventories fell by 6.5 mb with commercial inventories falling by 4.4 mb and 2.1 mb/d moving out of the SPR. Domestic production recovered to 10.9 mb from the storm ravaged output levels of 10.0. Currently as much as 500 tb/d are offline due to Hurricane Sally. Export levels contracted to 2.6 mb of crude reflecting weaker Chinese interest that is expected to persist. Gasoline stocks fell by .4 mb while distillate stocks rose 3.5 mb. Refinery utilization recovered and reached 75.8 percent compared to 71.8 percent last week. Total product supplied was 17 mb, well below last week's level of 18.7. A sharp decline in distillate supplied to 2.8 mb compared to 3.7 accounted for the bulk of the decline while gasoline was slightly off at 8.5 mb compared to 8.9.

The challenges to price stability at these levels are considerable. Ongoing weakness to the Iranian and other oil producing economies remains intense, and the ability to control production will be challenging especially if Libya moves to lift the months long blockade of oil facilities. It appears that supply pressures will begin to build, and whether OPEC can cut production in line with prevailing demand trends remains a key consideration. The OPEC Price Monitoring Committee meets tomorrow and might foreshadow sentiment toward possible production adjustments. Look for resistance to be maintained near current levels of 40.70 as trade waits to see if the meeting provides any meaningful guidance toward resolving the oversupply issues as we approach a seasonal weak period for prices during October.

Natural Gas



Prices slipped today with the October losing 9 1/2 cents to settle at 2.267. Lack of weather demand along with the continued shut-in of Cameron LNG were the main catalysts for the weakness. Concern is building that the terminal may not be up and running until October which could further strain the already ample storage situation. Hurricane Sally made landfall today as a Category 2 storm, and although some gulf production was effected, the bigger concern seems to have switched to demand losses as the storm looks to pack large amounts of precipitation. With tomorrow's storage report expected to show a build of 79 bcf verses the average for this time of year at 78, a larger number could lead to further washout to the 2.20 level and possibly to the 200 day moving average at 2.17. The first resisitance area remains at 2.40, which likely will not materialize until Cameron shows signs of life.