Energy Brief

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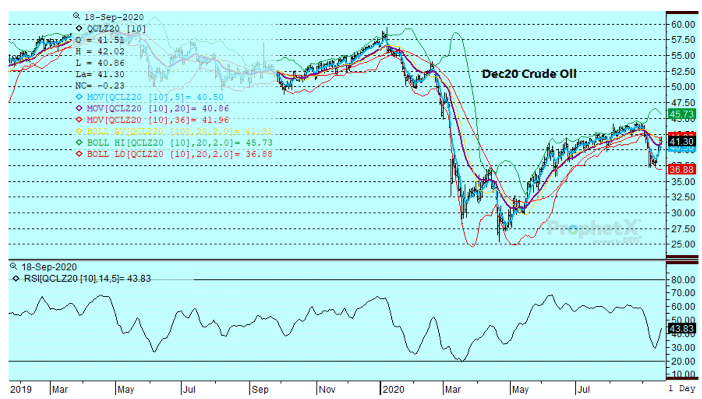
Price Overview



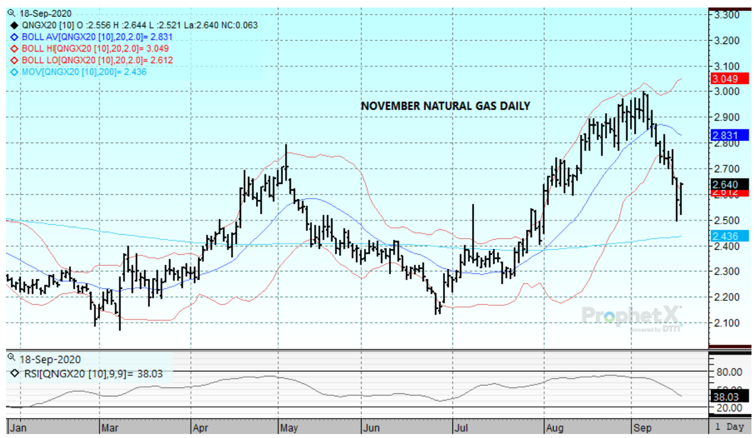
The petroleum complex appeared to gain renewed confidence in response to the commitment of OPEC and particularly Saudi Arabia to support the market following comments yesterday that OPEC+ would be willing to hold an extraordinary Ministerial meeting in October if prices weakened as they had in advance of the recent meeting. The joint ministerial monitoring committee pressed for better compliance with output cuts from members such as Iraq, Nigeria and the UAE who had failed to cut their production as promised and are extending the time period to December for them to compensate for their overproduction. The Saudi oil Minister indicated that OPEC+ would take a proactive stance in addressing oil market challenges and warned speculators of gambling on the market. Despite the strong gains into the meeting yesterday, movement was limited today by reports the Eastern Libyan Commander would lift the blockade of oil output for one month. Libyan production had been slashed from 1.2 mb/d to near .1 mb/d. How quickly production recovers remains questionable. Forecasts by Goldman Sachs for a market deficit of 3 mb/d with a target for Brent of 49.00 by year end also aided sentiment early in the session but pre-weekend profit taking along with weakness in equity markets helped drag the complex down into the close.

Demand concerns remain in the background as a bearish influence, particularly with respect to middle distillates such as diesel. Jet fuel consumption remains the hardest hit sector of the global market for petroleum products, and the ULSD crack remains weak. Jet fuel, which accounted for about 8 percent of global petroleum consumption prior to the pandemic, was one of the fastest growing sectors of the market, rising by 2.7 percent per year compared to 1.6 percent for other products. The pandemic has cut consumption by over half for jet fuel, but accounts for as much as a third of middle distillates which includes diesel. Due to the weak demand jet fuel has found itself moving into the supply of other products, leading to the build in distillate inventories. This has had an adverse impact on the margins of distillates such as diesel to crude oil and has helped shade the slate to lighter crudes which could provide support to the ULSD crack. With October typically marking a seasonal low as demand for heating oil picks up, support might emerge near the 8.00 level basis December given the adjustments that have taken place to address the weak consumption trends in the aviation area.

In crude, the failure to hold resistance has taken it back into the trading range that had dominated movement late last month and early this month. With OPEC marking a line in the sand it looks like a tight trading range could persist as the market awaits progress on a vaccine and the election.

Natural Gas

The price washout this week culminated in a drop of over 20 cents yesterday as the October contract has given back the majority of its rally from the June lows. Prices had already weakened considerably prior to the storage report, and the sizable 89 bcf build pushed the market to its lows on the day. A recovery in production over the last two days initiated the pressure with demand issues taking center stage as Hurricane Sally brought heavy rains in its path, and the ensuing demand destruction lead to sharply lower cash prices at Henry Hub. The overextent of the pullback likely indicates that a large amount of managed money was also flushed out of the market. Despite the current weakness the winter months have maintained their hefty premium to the front as improving LNG flows and slowing production continue to be accepted assumptions. LNG feedgas demand was estimated at 7.6 bcf/d today with Cameron still at 0. Rumors of its restart have suggested anywhere from next week to the end of October. As we turn our attention to the active November contract, prices held the 100 day moving average near 2.53 which now looks like solid support that is more likely to be tested the longer Cameron remains idle. The strong close today could lead to follow through that would find resistance in the 2.70 area.



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