Energy Brief

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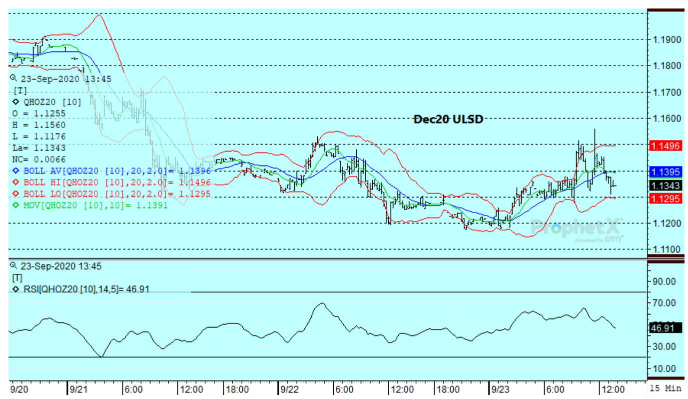
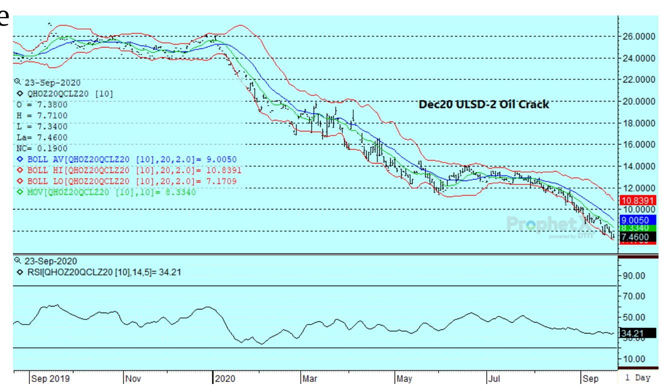
Price Overview



After trading in a tight range overnight, petroleum complex attracted renewed buying following the DOE report. The reversal developed after an unexpected build in the API report yesterday had dragged down prices initially in overnight trade. The report showed commercial crude inventories declining 1.6 mb against expectations for a 2.3 mb draw. More important to sentiment were the draws in product stocks and particularly those of distillate and gasoline which fell by 3.4 mb and 4.0 mb respectively. Expectations were looking for a build in distillate of 1 mb and in gasoline of -.6 mb. The unexpected draw in product stocks helped uncover renewed interest in the cracks and particulary the ULSF crack where inventories for 15 ppm and under distillate fell by 4.1 mb. Total commercial stocks for all petroleum products fell by 7.5 mb. Total product supplied rose to 18.4 mb as domestic disappearance of distillate rose compared to the weak level last week of 17.0 mb. With refinery utilization at 74.8 percent weak refinery margin are continuing to restrain the production of products.



We continue to look for the 2 oil crack or ULSD crack to establish a bottom near current levels as stocks of distillate begin to be worked off as we move into winter. As purchases are made of Heating Oil for winter, some better support should emerge particularly if the shifting of Jet Kero over to the production of Diesel has run its course. Whether flat prices for heating oil can improve dramatically will be dependent upon crude where headwinds emanating from the second wave are presenting challenges.

Natural Gas

The market remains volatile with values recovering from a seven week low reached yesterday by as much as 28 cents or about 15 percent in the Oct contract. The strong buying interest appeared to be linked to ideas lower production estimated at 83.8 bcf/d would provide support as we move into winter. The production level is the lowest it has been since 2018, as energy firms cut back on drilling and production from new wells does not appear to be enough to compensate for declining production at existing wells. With shifting from coal to gas also apparent, better buying support and shortcovering emerged ahead of Octobers expiration next week. Although nervousness persists over the recovery in LNG exports, some encouragement might have been garnered by news that oil workers in Norway had recommended a strike action at the end of this month which has the potential to disrupt gas flows to European markets. For tomorrow, the market will be focused on the EIA storage report, with expectations for a build of 74 bcf compared to 97 bcf a year ago and 80 bcf for the five year average. LNG feedgas demand might be tempered over the next few weeks by the uncertain timetable for the reopening of Cameron along with the shutdown of Sabine for routine maintenance for three weeks.