Energy Brief

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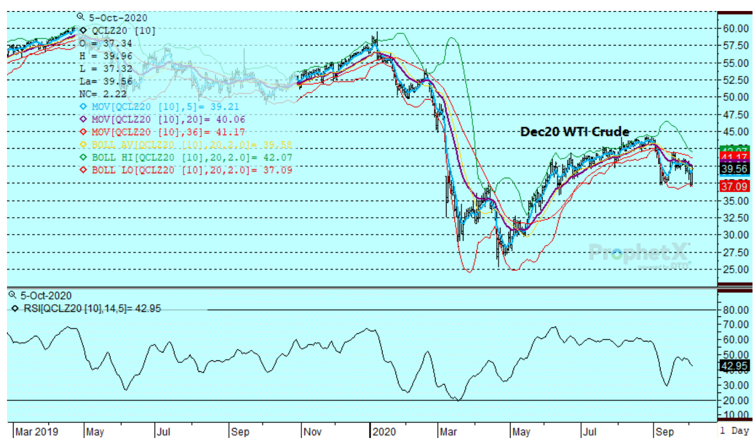
Price Overview



The petroleum complex traded higher in response to news that President Trump might return to the White House on Monday following treatment for COVID-19. The appearance that progress is being made on a US stimulus package along with the recovery in global equity values also aided sentiment. In the background was an oil worker strike in Norway where crude output could be cut by up to 330 tb/d, or about 8 percent of their total production. The cut was balanced by reports that Libyan production had recovered to 290 tb/d from around 100 prior to the lifting of the blockade.

While US policy developments will remain in view, particularly a stimulus plan, the global supply/demand situation will likely come into clearer focus on Oct 13th when OPEC will release their monthly Oil Market Report. The appearance that the global economic recovery might be slowing on the potential for a second virus wave as we move into the 4th quarter continues to be a concern. Whether OPEC needs to take additional action as we move into the new year is a major question mark for the market.

Concerns are building over excess supplies. The potential that Iranian sanctions will be lifted if Biden gets elected, along with reports that Libyan production has increased to 270 tb/d puts the focus on OPEC and their willingness to throttle back production amid consumption declines. With refinery throughput reduced by weak margins, the crude market continues to face strong headwinds in its effort to rebalance inventories.

Near term support from the Norwegian oil workers strike could be seen as North Sea availability tightens. However the potential for a settlement becomes higher as the economic costs increase. Its resolution would likely force an assessment of the broader influences on supply and demand fundamentals, which remain generally negative and will likely need to be re-addressed by OPEC. A stimulus package could also attract buying, but will likely be limited by a recognition that the economy remains weak and the pandemic continues to be an underlying risk.

The DOE report is expected to show crude inventories up .4 mb, distillates down 1.4 and gasoline off by .9. Refinery utilization is expected to fall .3 to 75.5 percent.

Natural Gas

Prices staged a strong recovery today as the November opened the week slightly higher and never looked back as it ended the session with an 18 cent gain, settling at 2.615. Solid LNG flows over the weekend supported the higher open, and this mornings nominations at 7.6 bcf/d compared to Friday's 6.6 added more upside pressure. Continued signs that the Cameron LNG facility is close to coming back online aided the positive sentiment. Risk premium was also priced in as Tropical Storm Delta became more organized as it tracked into the Gulf. Current estimates would have some production shut in by mid-week, with hurricane status reached before it makes landfall Friday on the Louisiana coast near New Orleans. Despite the strength to values, weather demand remains lackluster as power burns have lagged behind last year's levels for over a month. The 2.60 resistance level held up overnight but gave way early this morning as volume increased, and it now becomes support on any retrenchment. With early estimates for this week's storage build in the 70 bcf area verses the 5 year average at 87, the signs of tightening continue to creep into the picture, especially when you consider the lack of weather related demand. Expect strength to follow through near term with initial resistance surfacing in the 2.70 area, with trade much above that area difficult until LNG facilities are all back online or weather begins to offer demand potential.