Energy Brief

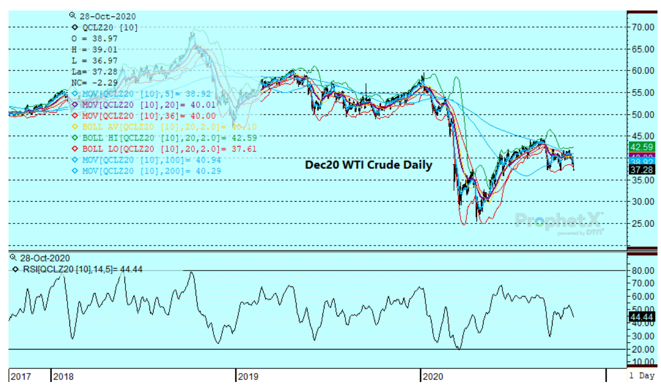
October 28, 2020

Prepared by Steve Platt and Mike McElroy

877-377-7931

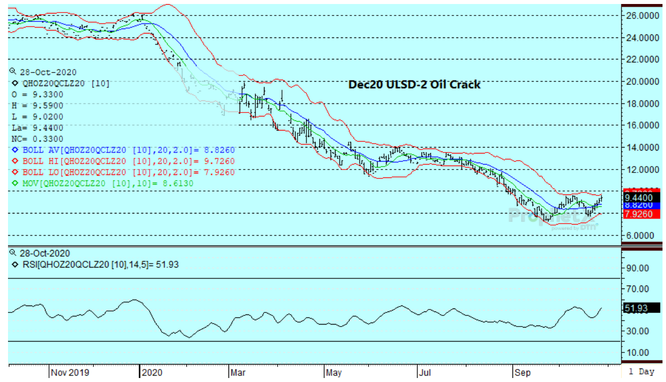
Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

Price Overview



The petroleum complex remained on the defensive as weakness to equity markets in response to the rise in COVID infections and a recovery in Libyan production weighed on values. Reports that OPEC would likely rollover their current output cuts of 7.7 mb into the first quarter did little to slow negative sentiment. The lack of leadership in addressing the developing demand concerns, as a decision is not likely until the late November Ministerial meeting, leaves the market vulnerable to any additional demand concerns that may emerge. One area that might be questioned, which has been a bright spot for the market, is China. Demand has recovered significantly from the lows earlier this year as industrial activity and even domestic air travel has recovered to levels seen in January and February. The higher demand has correlated with the recovery in mobility as COVID cases eased dramatically. Any sign that infections are rising might disrupt the recovery and cause currently unanticipated downward adjustments to global demand forecasts. Whether China can avoid the same problems affecting the US and Europe remains to be seen but is doubtful as colder weather forces the population inside. Any sign that demand is falling short of current forecasts would likely undercut values. This would be exacerbated by a democratic victory in the presidential elections as the potential for rapprochement by the US to Iran could lead to the elimination of US sanctions on their oil exports.

The DOE report did little to dispel bearish sentiment. The build in crude inventories of 3.7 was above expectations. Although refinery utilization rose to 74.6 percent from 72.1 percent in the prior week, crude oil throughput at 13.4 mb remains 16 percent below year ago levels. The lower refinery utilization is helping balance out product inventories more than crude. Distillate inventories fell 4.5 mb while gasoline stocks declined by .9 mb. Total stocks including crude fell 3.9 mb. To some extent the disappearance of products helped soften the impact of the report on the complex. Total product supplied rose to 19.6 mb compared to 18.1 in the previous week and 21.6 last year. For the year domestic disappearance for all products is 12.7 percent below year ago levels. The report continued to provide good underlying support to the ULSD crack which traded to as high as 9.59 today. With winter fast approaching and construction usage strong, good support should be apparent in the December ULSD crack near the 8.70 level. In crude the market reached the lower end of our anticipated range of 37-38 but recovery rallies are likely to be labored with further downside potential to the 35.00 area in the intermediate term on the potential for a deteriorating outlook for China. The 40.00-40.30 level should be strong resistance.



Natural Gas

The market traded cautiously with an inside day on the charts as the December lost 2 cents to settle at 3.291. With Hurricane Zeta expected to make landfall later today, trade seemed willing to wait for news as current expectations have it not packing the punch of previous storms. GOM shut-ins nearing 1.5 bcf/d coupled with freeze-offs in the Rockies dragged production under 85 bcf/d yesterday. The output drop supported the market over the last two sessions as LNG flows have fared better, dipping .3 bcf yesterday but bouncing back today by .2 to 8.9 bcf/d. Macro pressure from the equity selloff due to increasing COVID concerns lead to across the board risk-off weakness in commodities and kept the nat gas in check, although it fared better than most. With weather continuing to be inconsistent, a near term retrenchment to the 3.20 area would not be surprising as any storm damage is assessed and operations return to normal. Look for the September highs at 3.37 to eventually be tested as exports continue to expand and we head into the winter demand season.