Energy Brief

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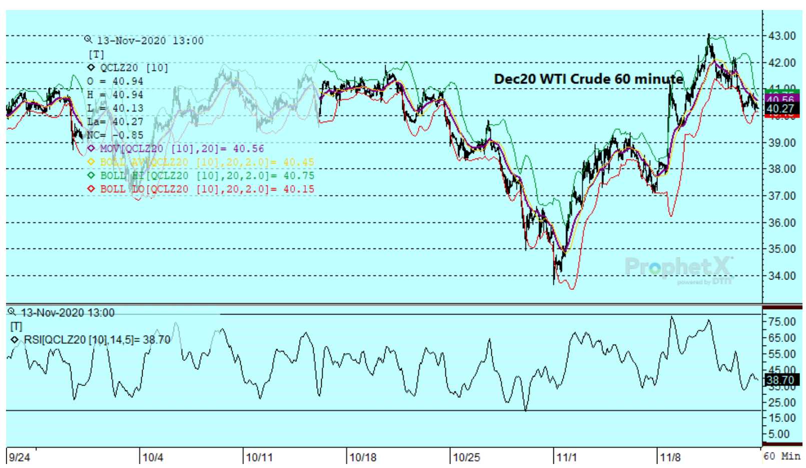
Price Overview



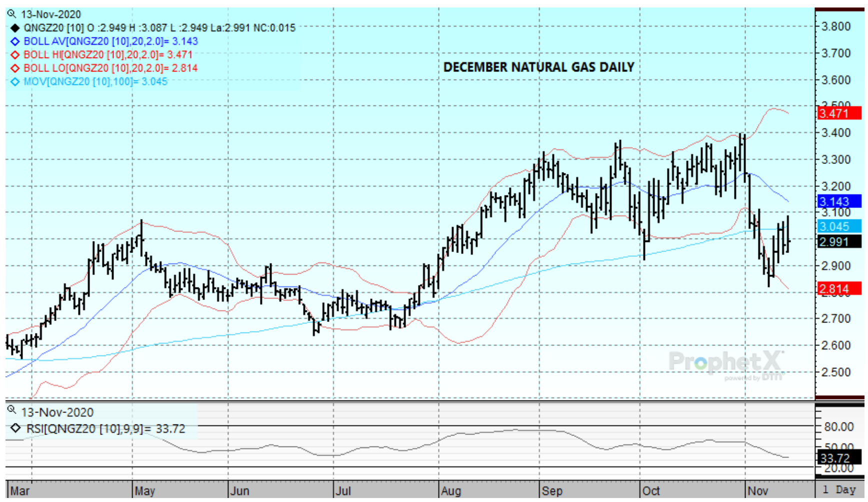
The petroleum complex traded on the defensive following the gains recorded this week in response to vaccine hopes. Good selling interest was noted in today's trade on concerns that despite the positive vaccine developments, delays in immunizing the general public would not quickly reverse the current rising infection rates Europe or the US. The possibility that lock-downs would adversely affect demand encouraged active selling. In the background were comments by the IEA that global oil demand was unlikely to get a significant boost until well into 2021. The COVID concerns came against a backdrop of a rise in crude oil inventories reported yesterday by the DOE, up 4.3 mb against expectation of a draw of .9 mb and the API report which showed a draw of 5.1 mb. The DOE report also showed inventories declining by 2.3 in gasoline and 5.4 in distillates. Overall inventories of crude and products fell by 11.5 mb which remains encouraging. Overall stocks at 1.36 billion barrels are still 100 mb above year ago levels.

The IEA report released yesterday showed revisions downward in demand prospects by .4 mb/d in the third quarter of 2020, 1.2 in the 4th quarter of 2020 and .7 in the first quarter of 2021. The IEA indicated that supplies in October rose by .2 mb/d from the prior month with compliance by OPEC at 103 percent. In November the agency expects world oil supply to rise by over 1 mb/d as the US recovers from hurricanes and Libyan production, currently at 1.2 mb/d, bounces back. For 2020 production from outside OPEC is expected to fall by 1.3 mb/d but rise by .2 in 2021. US supply is expected to decline by 600 tb/d in 2020 and 655 tb/d in 2021. OECD industry stocks of crude and products declined at the end September by 19.7 mb/d to 3,192 mb/d and were 225 mb above the five year average. For October stocks are expected to decline further.

Despite the surge above the expected resistance near 41.00 basis December this week, the weakness today has taken values back below that area and into the upper end of our expected range of 37.50-41.00. With the OPEC meeting beginning on November 30th, prices below 40.00 for WTI would likely help them come to an agreement maintaining output curbs at current levels of 7.7 mb into the first quarter given a weaker than expected demand environment. Another factor that might be considered is the difficulty getting a new US stimulus deal through congress. The hope that some normalcy might return in the 2nd half of 2021 continues to dominate sentiment and while recent declines in US crude inventories have been encouraging, they need to be maintained in the month ahead given the large global stock overhang in both products and crude.

Natural Gas

Prices continued to jockey around the 3.00 area basis December as we ended the week. Early support was seen as HDD expectations were revised upward in the two week forecasts as well as in the longer term 45 day model. Assisting with the upside bias was continued strenght in LNG flows at 10.4 bcf today, as the front month popped to an intraday high at 3.087. The market lost momentum after the delayed release of the weekly storage report. The 8 bcf build was well above estimates for a 3 bcf draw, and prices worked lower for the remainder of the session with the December settling 2 cents higher at 2.995.



The recent surge in output to near 90 bcf/d along with a fairly tepid weekend on tap added to the late weakness and flushed out some profit taking ahead of the close. For now the December looks fairly priced near 3.00, with any positive developments likely finding initial resistance in the 3.10 area. The 2.80 level should offer solid support on any pullback.