Energy Brief

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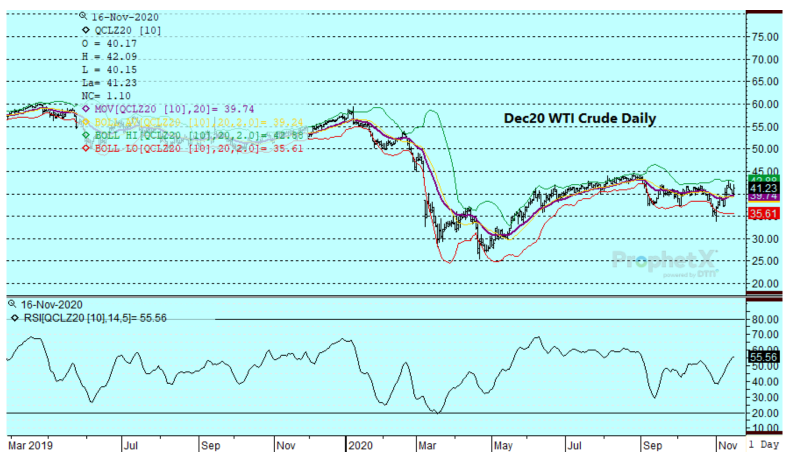
Price Overview



The petroleum complex traded higher as hopes for a COVID vaccine were bolstered by news that Moderna had also developed a vaccine with high efficacy rates. Favorable economic news from Japan and China also helped encourage optimism that demand would rebound in 2021. Japan's 3rd quarter GDP rose 5 percent against 4.4 percent expected, while Chinese industrial production increased 6.9 percent year over year. The strength to the Asian economies has been a bright spot in the global picture for demand but still needs to be watched closely for any divergent trends. In the background was the associated strength in global equities which helped underpin crude values.

Despite the hopes regarding a vaccine and the recent declines in inventory levels, the petroleum complex still faces considerable uncertainty. The approach of the OPEC meeting on November 30th will be a key barometer of their commitment to production cuts. Compensatory cutbacks totaling 2.35 mb have yet to be fulfilled and could prove to be an obstacle to reaching agreement on rolling the current agreement over in the first quarter. Additional concerns will be caused the sharp rise in Libyan production levels. Any sign that OPEC is proceeding with its production increase at the beginning of January would likely push the market back into surplus, particularly if mobility is restrained further by the spread of the COVID virus in Europe and the US. While progress has been made in reducing inventory levels since the summer they still remain well above the five year averages and maintaining production at current levels will be a key to maintaining price stability.

With the OPEC meeting approaching, prices below 40.00 for WTI would likely help them agree to maintain output curbs at current levels of 7.7 mb into the first quarter given a weaker than expected demand environment. Another factor might be 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 through the first quarter given the large global stock overhang. Recent increases in US rig counts are also a concern as an uptick US output would put renewed pressure on OPEC+ output levels, which has been reflected in the flattening of the forward curve seen even today.

Natural Gas

The market gapped lower overnight and never looked back as prices plunged by over 30 cents on the December contract to settle at 2.697. Weather continues to be the issue as weekend forecast revisions lost HDD's, and then the morning runs today were even worse as the two week outlook continues to trend further below normal. Production hitting 90 bcf/d was no help, despite LNG flows continuing to set records coming in at 10.4 bcf/d today. The drop below 2.80 likely flushed out managed money traders who had built up substantial long positions The only remedy for this market now is colder temperatures, which at the moment are not on the horizon. The charts took major damage on the move with support now at 2.60 on the December which will likely be tested soon.