Energy Brief

December 16, 2020

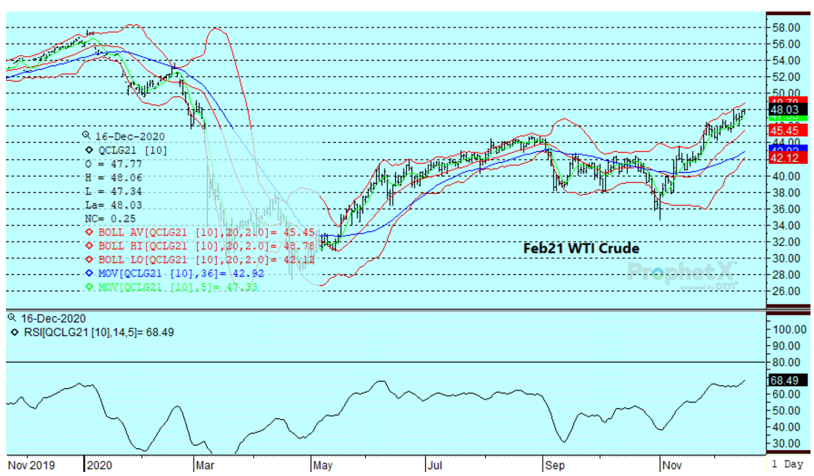
Prepared by Steve Platt and Mike McElroy

877-377-7931

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

Price Overview

The petroleum complex traded mixed before settling moderately higher. Underlying support was provided by the potential rollout of a second vaccine and the appearance that the US will adopt a stimulus package. Some profit taking on the DOE report and ideas the sharp rise in COVID cases will stifle demand in key areas in the US and Europe was noted. In the background were adjustments downward in demand expectations by OPEC and the IEA in their monthly reports.

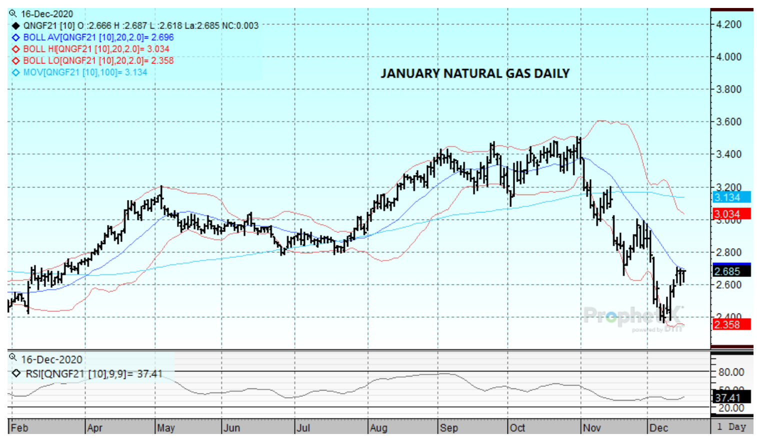


The IEA warned Tuesday that despite rising vaccine availability, the sharp decline in global oil demand will not be easily reversed. Instead continued weakness in jet fuel and jet kero will undercut demand despite the outlook suggesting gasoline and diesel demand will rebound close to their 2019 levels in 2021. The agency noted that global oil supply increased by 1.5 mb/d in November on the US recovery from storms and also the increase in Libyan output. Further increases are likely in December ahead of the production bump of 500 tb/d slated by OPEC for January. On the demand side China remains a bright spot while the picture in OECD countries remains bleak with demand in Europe 5.3 mb/d lower than last year.

The DOE report did not have a dramatic impact on prices. Crude oil inventories fell 3.1 mb compared to expectations for a decline of 3.5. Gasoline inventories rose by 1.0 mb compared to expectations of 1.6, while distillate increased marginally by .2 mb. Imports and exports of crude returned to more normal levels compared to last week. Total disappearance levels rose to 19.3 mb for an increase of .8. Total disappearance is off 12.2 percent for the year.

With prices near the 48.00 area basis February WTI, we expect better resistance to emerge. News was lacking from the Joint Price Monitoring Committee Meeting that took place today, but we expect them to push for a further relaxation in quotas as the next meeting approaches in early in January. We still see concerns over loss of market share if prices remain high, along with the possibility of demand being scaled back on COVID concerns providing the potential for values to decline back toward the 44.00 area basis February.

Natural Gas



Prices have steadied over the last two sessions with an inside day seen on the charts today. The January contract ended the session near unchanged at 2.677 with the February nearly identical at 2.681. The market found weakness yesterday as LNG flows contracted due to power issues at the Cameron facility that had all three liquefication trains down temporarily. Things appeared to return to normal today with loadings back above 11 bcf/d overall. Forecasts have tended to improve HDD expectations recently, although minor downward revisions over the last two days have lead to some additional weakness. Underlying support came from the arrival of a large storm into the Northeast today, with substantial snowfall expected and cold temperatures that will likely lead to the largest daily storage withdrawl of the week. All eyes remain on the weather and daily revisions to HDD expectations. The 2.70 level was tested each of the last 3 days and remains solid resistance in the absence of a cooler temperature trend in conjunction with exports remaining maxed out and production being held in check. Any significant downward HDD revisions could lead to a quick retrenchment to the 2.50 area.