Energy Brief

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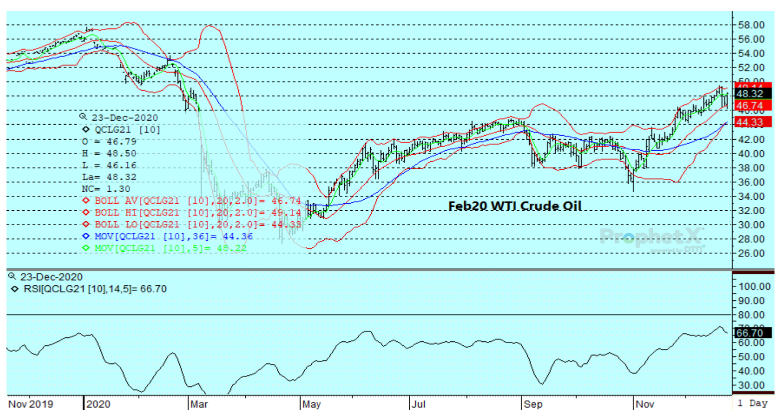
Price Overview

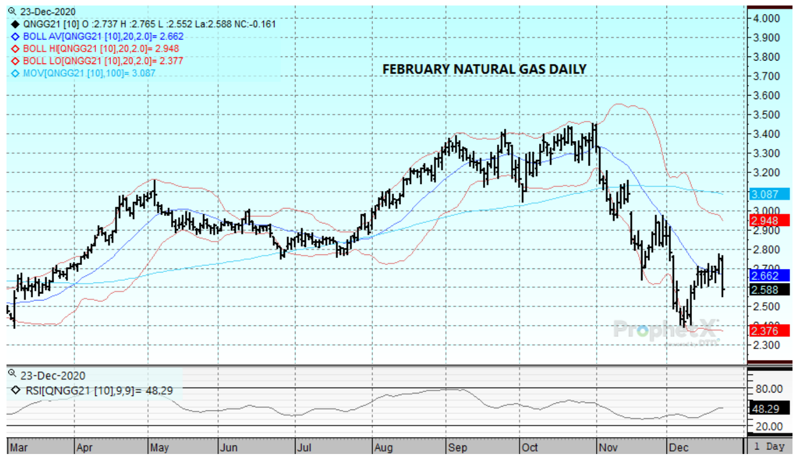


The petroleum complex attracted renewed buying interest after trading down through Monday's low of 46.39 basis February as the draw in inventories reported by the DOE touched off short covering. The magnitude of the gains, which reached as much as $1.50 per barrel, appeared to be an overreaction but was also supported by reports of a force majeure in Nigeria by Exxon on shipments from the Qua Iboe terminal, and by the reported recovery in Indian imports in November to near pre-pandemic levels.

The DOE report showed crude inventories fell by .6 mb compared to expectations for a 3.2 mb decline. More importantly the decline occurred on the West Coast which showed a drop of 1 mb/d while stocks on the Gulf Coast increased by 1.1 mb/d. Refinery utilization showed a decline to 78 percent from 79.1. Total petroleum stocks including products showed a large decline of 10.7 mb with propane, gasoline blending components and other oils showing large declines. Distillate also showed a large drop of 2.3 mb compared to expectations for a decline of .9, while gasoline stocks fell 1.1 compared to expectations for an increase of 1.2 mb. Total product supplied was 19.1 mb compared to 21.3 mb a year ago, a decline of 10.8 percent. Given the rise in infections and the restrictions in mobility, further weakness is likely as we move into

January, So far for the year, disappearance for all products is down 12.1 percent, gasoline is off 12.9 percent, jet kero 39.5 percent and distillates are off by8.5 percent from last year.
We still see the potential for a scaling back in demand expectations at a time when OPEC+ might attempt to expand output. Reports of tighter restrictions in the UK and new mobility restrictions across Europe should dash bullish sentiment. Despite the vaccine roll-outs, questions over how quickly it will be available globally should persist and remain a source of concern. Overall stocks remain high, particularly in crude, which should ultimately limit upside potential to 49.00 basis February.

Natural Gas



The market finally managed to push through the 2.70 area yesterday with a high put in at 2.775 prior to a settlement at 2.749. Those gains were short lived as the February contract closed sharply lower at 2.588 today. Early session weakness was evident on increased production, as nominations indicated 91.8 bcf/d of output today which likely gets revised beyond 92 after late revisions. With much of the recent upward trend in output being credited to associated gas, concerns were rekindled regarding the recovery in crude values since the worst of the pandemic, and how it will contribute to natural gas production. Weather revisions added to the negative tone, but there was underlying support from the expected cold snap at the end of the week. Due to the Christmas holiday the weekly EIA storage report was released a day early. It showed a draw of 152 bcf, which was below estimates in the 160 area. The release was followed by extensive selling pressure as the markets entire recent range was traversed. The storage number and other fundamentals did not justify a move of the magnitude seen as fund liquidation ahead of year end seemed to overextend losses. With 2.60 support taken out a test of the 2.50 level can't be ruled out prior to year end.