Energy Brief

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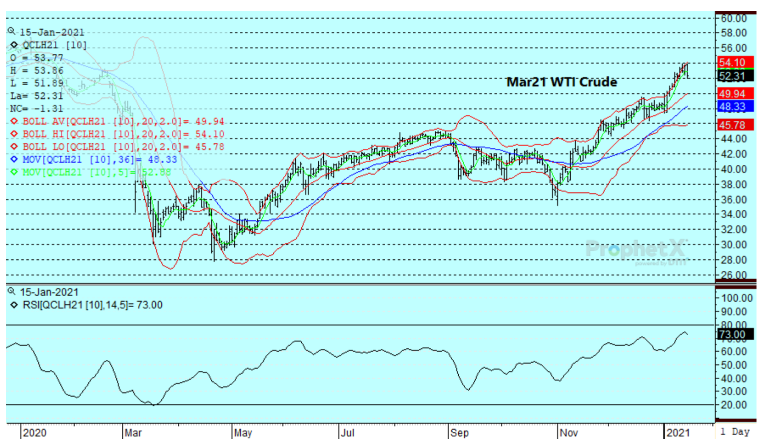
Price Overview

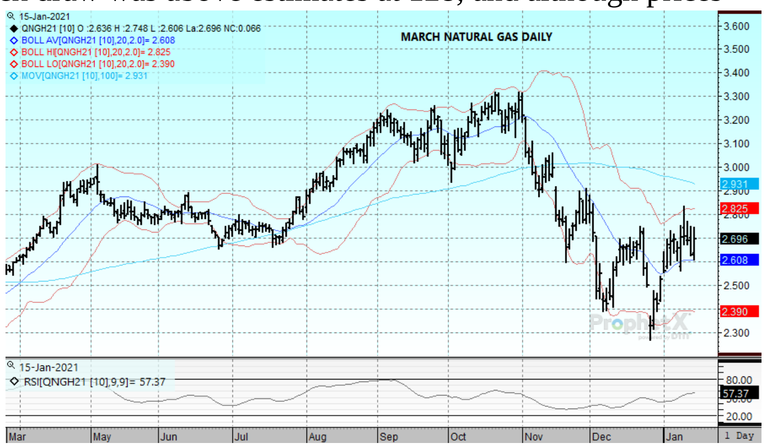


The petroleum complex traded on the defensive, succumbing to reports of a resurgence in COVID-19 infections, uncertainty linked to new variants, and lock down measures in major consumer countries. Fear that demand forecasts might be overoptimistic appeared to encourage profit taking. In the background was the OPEC Monthly report, which did not show much change in the underlying supply/demand forecast, suggesting that US output levels were being favorably influenced by the higher prices which might support a recovery in production later this year. While some early support was evident on a new stimulus package proposed by President Elect Biden, uncertainty over its implementation, ultimate level of stimulus, and timing along with worse than expected US jobs data raised uncertainty over the pace of the economic recovery on both a domestic and global level. Although reports that Saudi Arabia will cut as much as 1 mb/d in production during February and March remains supportive, uncertainty over compliance levels remains due to the reluctance of Russia to cut output further and the failure of Iraq to live up to previous promises to compensate for overproduction in prior months.

The OPEC Monthly Oil Report released today had 2021 demand for OPEC crude unchanged from the previous report at 27.2 mb/d, 5 mb/d above the levels prevailing in 2020. Preliminary data showed OECD commercial stocks fell 24.5 mb in November. At 3,104 mb stocks were 205 mb above year ago and 163.1 above the latest five year average. Crude stocks totaled 1,546 mb and are 98.4 above last year and 72.6 mb above the five year average. Forward cover was 70.5 days in November which is 8.5 days above the latest five-year average. A key variable will be the strength to Asian markets which have rebounded sharply. The rising incidence of infections in China and ensuing lockdowns have potential to undermine values, while dollar weakness has tended to provide support. Despite today's outside reversal, follow through to the downside might be limited to 49.00 level basis March WTI and to the 1.50 area in March ULSD.

Natural Gas

Volatility followed the release of the weekly storage report yesterday but did not lead to the expected price result. The 134 bcf stock draw was above estimates at 128, and although prices initially spiked up to 2.75 basis March, the remainder of the session saw levels leak off to ultimately test 2.60. Some of the weakness could be traced to the sharp pullback in overseas LNG prices seen the last two days as weather reports in Asia trended warmer. Nonetheless premiums are firm and the outlook for US exports remains positive. Overnight weather runs indicated colder US temperatures into the end of the month as the market became well bid and again tested 2.75 this morning before ending the session over 6 cents higer at 2.696. Some of the retreat from the highs was likely the result of position squaring ahead of the long weekend to avoid the risk of any gap in prices as we have seen recently. Despite the model agreement on the end of month cold, it still remains uncertain as it is over 7 days out. Any pullback in expectations over the weekend likely leads us back to 2.60 and a possible test under 2.55 to fill the chart gap from the new year weekend. If the cold is confirmed the 2.80 level could be attempted with potential to the 200 day moving average near 2.88.



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