Energy Brief

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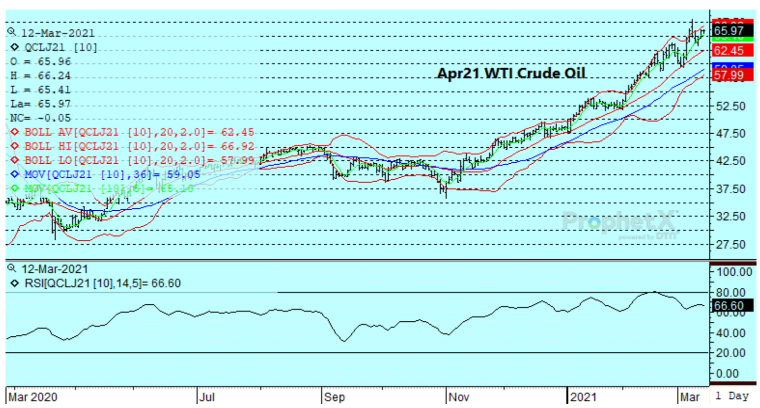
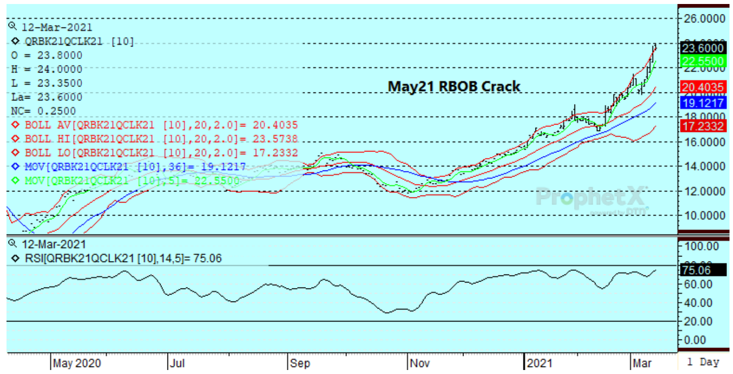
Price Overview



The petroleum complex traded in a relatively tight range with small losses in crude while gasoline and diesel continued to attract support. Yesterday's OPEC Monthly Report provided some modest underpinnings following revisions to their demand outlook, which fell by 9.6 mb/d in 2020 and is now expected to recover by 5.9 mb/d in 2021 from 5.8 estimated last month. The bulk of the gains are expected to occur in the second half. The forecast took into consideration upward revisions in global economic growth, for an increase of 5.1 percent despite uncertainties surrounding the COVID-19 virus and variants, sovereign debt levels, inflationary pressures, and central bank responses. Of importance was the increase in the growth forecast for China to 8 percent from 7.4 and India's growth outlook revised to 9 percent from 7.5 last month.

Moving into next week the market will be closely monitoring how the combination of quicker vaccine rollouts and the availability of stimulus in the US translates into economic growth. In addition, the rise in savings rates, noted to have increased throughout the pandemic, will be watched to see if it begins to lead to higher consumer expenditures. On the supply side, how quickly OPEC addresses the potential tightness in the second half along with the response of US producers to current price strength will also need to be gauged. Outside forces such as the dollar, interest rates and equity valuation will have some bearing on sentiment as well.

Of particular interest will be the movement of the gasoline cracks and their impact on consumer prices. The recovery in margins has been swift and refiners have seen their product stocks decline sharply due to weather and to some degree on caution toward bringing refinery production back given the pandemic. A surge in driving as the economy opens could continue to underpin the recovery in margins if refineries are slow to bring units back online and crude availability is ample.



Natural Gas

The constant flow of negative fundamental data continued to weigh on the market as the week wound to a close. Yesterday's storage withdraw of 52 bcf was again a low side surprise, with the remainder of the season likely to come in below average as well. Coupled with an increase in production back above 91 bcf/d and weather forecasts pointing to below average demand, the market lacked any upside catalyst. LNG remains the only positive story, as overseas prices remain firm as storage levels have been drawn down sharply. The issue for the US remains the maximum capacity for LNG flows, which is not set to increase substantially in the near term, so no matter how much of a premium oversea markets demand, our exports are near capacity at this time. The poor close today opens up the potential for follow through weakness, although we believe that the 2.60 area marks solid longer-term support due to the LNG situation and coal to gas switching. None the less upside potential is limited as we head into the shoulder season with range bound trade.