Energy Brief

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Prepared by Steve Platt and Mike McElroy

877-377-7931

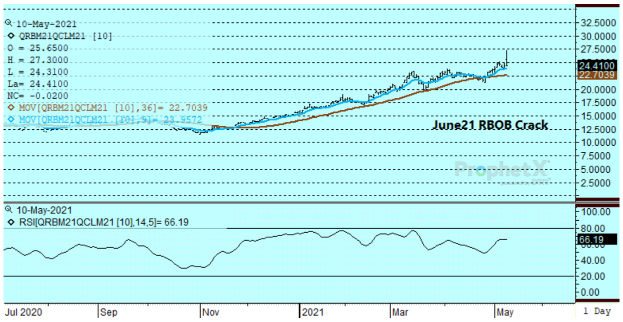
Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

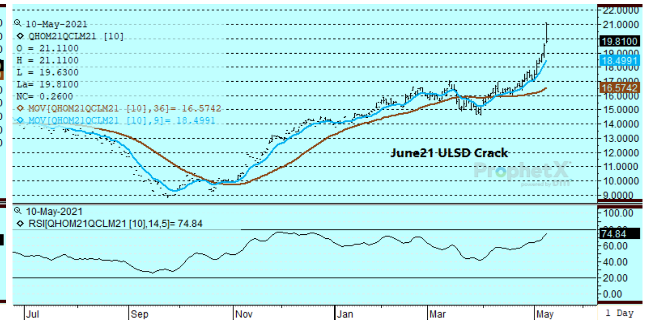
Price Overview

The petroleum complex traded mixed with crude steady while products were higher. Reports that the Colonial Pipeline had been shut down due to a ransomware attack provided the basis for overnight strength but lacked follow-through, especially in crude, on ideas that the inability to move product might force a retrenchment in refinery runs and lead to an increase in prices for gasoline and diesel that might discourage consumption. Additional selling interest reflected fears of increasing COVID infections in India and other areas of Asia.

The Colonial Pipeline has been shut since Friday and reports that the Port Arthur Motiva refinery was shutting some crude distillation units due to the issue and their inability to transport fuel to the Southeast and East Coast seemed to dull overall sentiment on the long side. The pipeline handles over 2.0 million gallons per day over approximately 5,500 miles and connects as many as 27 refineries and 267 distribution terminals from as far west as Houston and as far north as NY harbor.

The shutdown should benefit products more than crude in the near term and thus help support the cracks. From a stock standpoint, product markets had already seen a more normal situation develop than that in crude. Reports that the pipeline might begin to move product by the end of the week appeared to provide some support to crude late in the session, but the potential for tightness in NY Harbor in the absence of any appreciable refining capacity should continue to underpin both the gasoline and ULSD cracks.





Expectations from Reuters for the DOE report Wednesday point to crude stocks falling 2.3 mb, gasoline dropping .4 mb and distillates off by 1.0 mb. Runs are expected up .5 percent to 86.5 percent.

Natural Gas

Prices started the trading week with a negative tone as the June contract lost nearly 3 cents to settle at 2.932 after testing support at 2.90 early in the session. Fundamentals came out of the weekend without much excitement, as weather forecasts changed nominally, production and LNG flows remained near recent levels, and exports to Mexico slid back below 6 bcf/d. The market is likely looking to the extended forcasts that are indicating an above normal temperature trend in the second half of the month, which likely leads to lower demand. Prices have now spent the last two weeks in a consolidation range between 2.90 at 3.00. We continue to expect further retrenchment near term as demand drops into the second half of the month. Another attempt at the 2.90 level could lead to a test of the 2.80 to 2.85 range, with 2.82 marking a 38 percent retracement of the April rally. A move through the upper end of the recent range will find resistance at the February highs near 3.08.