



Energy Brief

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Price Overview

The petroleum complex traded sharply lower as the market ignored recent supply disruptions in Libya, Canada and North Sea and focused upon the status of the OPEC production agreement and how strongly the US will enforce sanctions against Iran. In addition, reports some OECD countries might consider a strategic oil release also appeared to weigh on values.



Nervousness developed in response to reports that Iran's Oil Minister had told the Saudi Oil Minister that last month's OPEC supply pact does not give member countries the right to raise oil production above their targets. Just making the statement suggests that the lack of clarity in the agreement makes it open to interpretation by OPEC's members and that the Saudis intend to produce well over their quota. Currently, production in Saudi Arabia is indicated at 10,489 mb/d compared to their target of 10.06 mb/d. In addition, reports from Treasury Secretary Mnuchin suggesting that the administration would consider providing some wavers on Iranian oil export sanctions confirmed the statement from Pompeo on Friday that the US might be softening their stance given the approach of the November mid-term elections and the fear a high oil price will fan anti administration support. We also suspect that the meeting between Trump and Putin also gave rise to speculation that Trump and the US administration likely encouraged Russia to work with Saudi Arabia to help limit the strength to oil prices and ease supply tightness.

Despite the breakdown in values through the 68.00 level basis Sept WTI Crude, the market will likely remain cautious on the downside given the appearance that supply availability is still tight given not only recent supply disruptions in key areas but also the longer term structural problems in crude oil production recovering in Venezuela. In addition the recent decline in crude inventory levels in the US will become more of a concern if they continue.

As we have been saying, the market will need to watch progress with respect to seeing additional export availability from Libya along with whether any further news is forthcoming on the Iranian sanctions and further European actions on limiting Iranian exports ahead of the November 1 sanctions deadline. In any case, it does appear that today's breakdown might carry values down toward the 64.00 area basis September.

Natural Gas

Prices traded slightly higher on a lack of fresh news and the maintenance of forecasts for above normal temperatures into late July. Forecasts for the EIA report Thursday are for a 50 bcf build compared to 31 bcf last year and 62 bcf for the five year average. Given the above normal temps



forecast into the end of the month, we would look for any continuation move toward the 2.70 area basis August to attract good support.

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