



EoW Product Report

Week of February 3 – February 7 CY2020

Energy Sector

EoW Product Report

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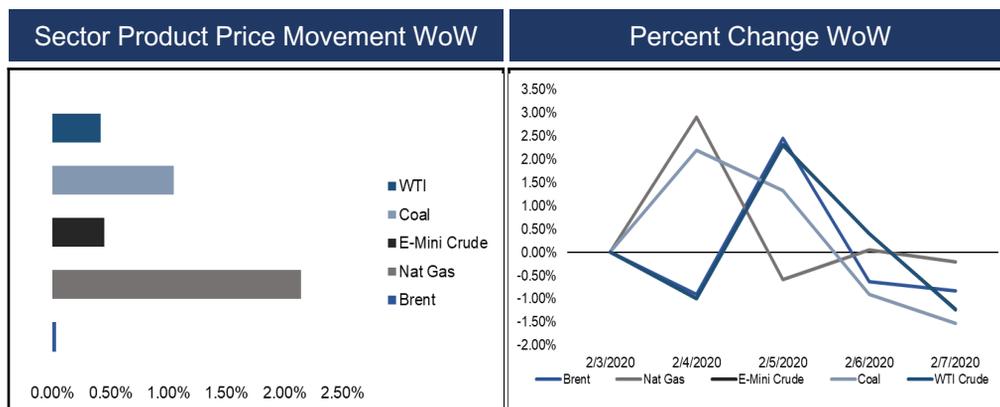
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	EoW Close	EoW % Change
Brent	\$54.47	0.04%
Nat Gas	\$1.86	2.14%
E-Mini Crude	\$50.33	0.45%
Coal	\$48.25	1.05%
WTI	\$50.32	0.42%

Market Data as of Friday February 7, 6:00 pm EST

Energy Price Movement



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Shrinking Jet Fuel Demand

China's independent oil refiners have cut their processing an additional 20.00% from 50.00% to 30.00% in response to the current global demand crunch on fuel. Much of the blame for the shrinking demand can be pinned on a lack of jet fuel sales to China; the world's second-largest consumer of the product. Fuel sales to China fell 25.00% last week compared to the same week in CY2019. Since then the W.H.O. has declared a global health emergency causing several airline companies to suspend flights to China. An anonymous spokesman for the China National Aviation Fuel Company expects fuel sales to take an even larger hit in February CY2020 due to greater flight restrictions. The spokesperson also predicted 1Q2020 consumption of jet fuel to be ~50.00% of what it was in 1Q2019. This has caused Chinese oil refiners to reduce their crack margins 34.00% just in January, as demand for the product has fallen. Additionally, Chinese airlines have considered canceling some of their international flights because of weak consumer demand. However, China's civil aviation authority has advised against this as it will create a further impact on domestic oil refiners.



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Russia Refuses Saudi Arabia's Proposal

OPEC+ is scheduled for a meeting to assess their current production cuts and adjust their stance moving forward on March 4 – 5, CY2020, however, the bearish impact of the coronavirus on oil prices caused them to hold an emergency three-day meeting this week. Since the virus has hit headlines, oil prices have fallen ~19.00% down to \$54.00 for Brent on Monday. At such a low price many OPEC member countries cannot balance out their expenses. Saudi Arabia requires a price above \$60.00 to aid their Aramco IPO and diversify their economy. The kingdom was the frontrunner pushing for production cuts this week as they originally proposed a temporary 2Q2020 decrease in supply of 800,000.00 – 1.00 MM Bbl/d. The amount was quickly rejected, forcing Saudi Arabia to compromise down to \$600,000.00 Bbl/d. Once again, Russia refused the idea as their Minister of Energy, Alexander Novack stated that any decision this week would be premature. Novack wants more time to assess the impact of the global demand for oil. Russia is not an official member of OPEC, however, this decision showed just how much influence they have being the second-largest producer of oil in the organization. Regardless of Russia's decision, other members supported the Saudi Arabian compromise and will continue to push for measures to be taken to support the low Brent price. It is still possible for OPEC+ to meet again before their scheduled March meeting and come to a consensus as they continue to weigh the factors affecting the global economy and oil prices.

Natural Gas vs. Coal

Natural gas is continuing to tighten its squeeze on coal demand as the cleaner and more efficient energy source becomes cheaper. Warmer-than-usual winter temperatures this year have pushed natural gas prices below \$2.00 as electricity and heating demand has fallen. Additionally, U.S. shale efforts have created a vast supply of the commodity with production growth ~10.00% YoY. With the new lower prices, it has become economically advantageous for more power plants to switch from coal to natural gas after considering efficiency and transportation costs. According to EIA, to generate one-kilowatt-hour of electricity coal-fired plants need to burn 10,000.00 BTUs while gas-fired combined cycle plants only require 7,600.00 BTUs. This is leading to the demise of coal-fired power plants. Across the lower 48.00 states, for the week ending February 4, CY2020, coal-fired plants only supplied 18.00% of all electricity, down from 28.00% in the same time frame during CY2019. Coal has steadily lost its share of generation as more plants have closed and the ones that remain operate for fewer hours. At the same time, natural gas supplied 38.00% of all electricity generation, up from 31.00% over the same period in CY2019. A colder finish to winter or a warmer than average summer would temporarily boost coal demand and its lifespan, however, in the medium term, coal demand depends on a rise in natural gas prices to make it cost-competitive. Natural gas production was still growing from September through November last year at ~9.00%, however, EIA forecasts that number falling and even becoming negative by the end of CY2020. This would give coal the boost in natural gas prices it needs to stay relevant in power and heat generation. In the long-term, coal is a dying industry as it is the most pollutant fossil fuel in a world that is prioritizing clean renewable energy.