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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Rolling blackouts in China, depleted coal inventories across Asia, natural gas prices soaring in Europe, and barrels of U.S. crude oil selling at their highest level in seven years; a global energy crunch is here, placing further pressure on consumers and producers who are already experiencing elevated prices from a hampered supply chain. Primary markets within the energy sector have experienced significant squeezes over the past few weeks, just in time for winter in many regions across the globe.

Energy producers are struggling to meet a surging global demand as more and more countries move towards a full reopening. Worldwide production of crude oil and liquid fuels fell by 12% in Q1 of 2020[1] and is still a far cry from pre-pandemic levels, meanwhile, consumption has increased 24% since that time and is charging back towards 2019 levels[2]. A similar scenario can be found in the coal industry where worldwide production fell by 5.2% in 2020 but consumption only fell by 4.2% and has grown by 4.5% in 2021[3]. Russia, the world's second-largest producer of natural gas behind the U.S., has announced that many of its producers will not be filling all of their export contracts with other countries as they work to build up their own reserves ahead of winter. This move has heavily impacted other parts of Europe where natural gas prices have skyrocketed by 90%[4] in some areas.

Depleted reserves, lagging production, and surging demand culminate in a textbook case of inflation. So, where do we go from here? In the near term, an easy answer would be to ramp up production, however, some believe the surge in prices will subside early next year on the grounds that the global economy has reached its peak recovery and demand will begin to slow, allowing producers to replenish supply. They also cite green power generation which is expected to significantly reduce long-run demand for fossil fuels. As a result, many of the world's largest producers are hesitant to increase production on fears that they will be sitting on massive surpluses in the coming years. The opposing view argues that demand will persist and without

[1] Energy Information Administration
[2] Energy Information Administration
[3] Energy Information Administration
[4] BP Statistical Review of Energy

an increase in production, so will the elevated prices. This crowd feels that on a global scale there is insufficient investment in green energy and it will not supplant fossil fuels any time soon.

We expect energy to remain a polarizing topic in the coming weeks and will be paying close attention to the OPEC meeting slated for November 4th. Nevertheless, with low inventories and producers hesitant to increase supply, don't be surprised to see those utility and heating oil bills continue to creep up. Thanks for reading, and as always, if you have any questions, or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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