Archer Financial Services, Inc.

Energy Brief

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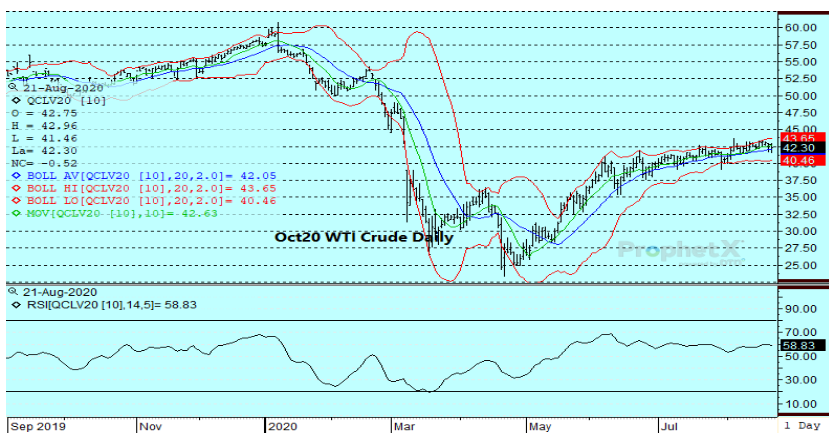
Price Overview



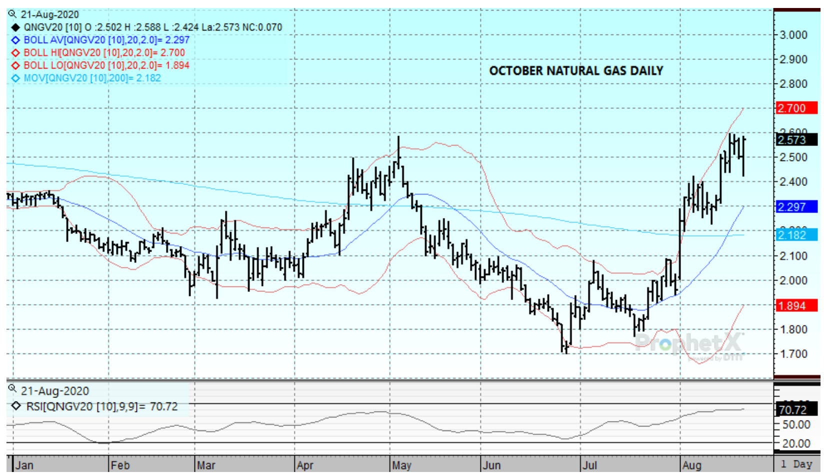
Petroleum prices traded lower on a combination of factors which included weaker than expected Purchasing Manufacturing Data for Europe, with the Manufacturing PMI at 51.7 compared to 52.9 in the prior month and the service sector falling to 50.1 versus 54.7. Additional selling was attracted by an internal OPEC+ report indicating they would need to cut output by an extra 2.31 mb/d to make up for oversupply from May through July. Production cuts totaling 8.85 mb/d would need to be adopted compared to 8.1 mb/d currently in force, which include the additional cut by Iraq of 400 tb/d as compensation for overproduction. Fears that demand declines might overshoot the 9.1 mb/d currently forecast in 2020 remains in the background, with some suggesting demand might fall by 11.2 which would lead to another surge in commercial oil inventories. Concerns continue to be linked to ideas that the recovery in demand will be at best sluggish, with some key markets such as India reducing imports in July to their lowest levels since 2010 due to reduced refinery rates and coronavirus lock-downs.

The headwinds to the market remain pronounced. Crude producers that are suffering from unprecedented budget deficits due to the decline in demand, weaker economic growth, and higher government expenditures face unprecedented challenges which in the past have led to overproduction and the violation of production quotas. With prices now at levels that provide many areas with incentive to maintain production, the desire to cut revenue remains limited, which is keeping output stable. Additional pressure will derive from the demand side as the recovery in the transportation sectors continues to slow and the move toward renewable energy sources and away from hydrocarbons continues. The latter will affect expected valuations for the future.

OPEC+ still needs to address the overproduction that occurred earlier this year. Although demand typically recovers during the third quarter as the Northern Hemisphere winter approaches and secondary consumer stocks are built up, the high inventories on hand will be a limiting force and the market will have to deal with the 2021 outlook. Current expectations for a demand recovery to 99 mb/d in 2021 seem overly optimistic and today's breakdown looks to be a reflection of these doubts. For now we see initial resistance at 43.20-43.50 being maintained with the potential to test the 38.50 area near term on the downside in the absence of a more constructive demand environment.

Natural Gas

The retrenchment in prices since Wednesday was not surprising with the RSI reaching 77 percent, as the October traded down to an intraday low at 2.424 this morning. The weakness didn't last long as the market regained its footing and ending the session higher by 7 cents at 2.573. An explosion and fire on a natural gas pipeline in Corpus Christi keyed the recovery as the September outgained the rest of the curve on the short term issue. Adding concern into the weekend was the development of two tropical storms that have potential to effect Gulf operations. Yesterday's storage report showed a 43 bcf addition to stocks, which was in line with estimates. Other indicators have been mixed, with weather forecasts remaining above normal into early September although recent revisions have tended to decrease expectations, while production has swayed slightly lower but stayed in the 88 bcf/d range. LNG continues to be the driver that the market is betting on. Feedgas flows to export terminals crept up to 5 bcf/d over the last to sessions as signs continue to improve. With the strong close we likely test the 2.60 level again early next week, which could lead to a run at 2.70 if another round of speculative buying surfaces.



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