



Archer Financial Services, Inc.

Energy Brief

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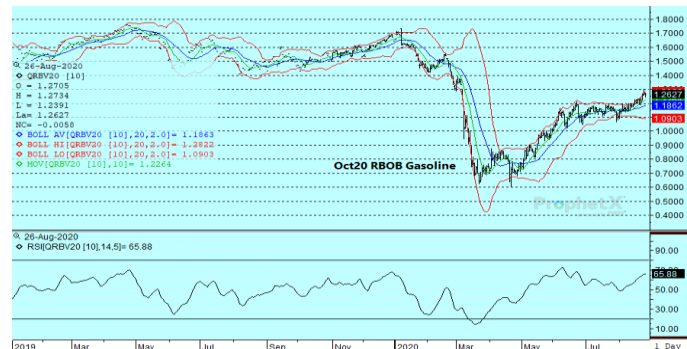
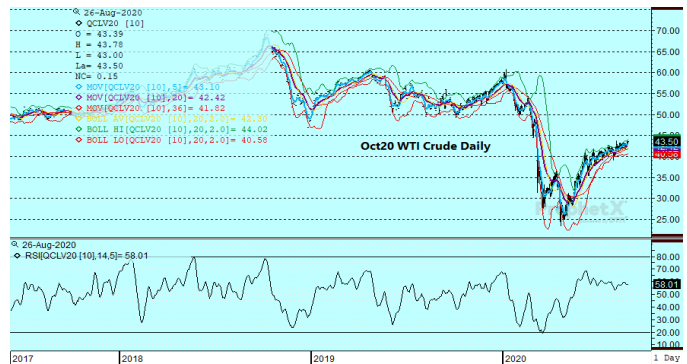
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Price Overview

Prices traded mixed with crude attracting underlying support early but giving up the bulk of the gains to end near unchanged. Product markets attracted better selling as the focus remained on Hurricane Laura and its expected landfall today near Port Arthur and Beaumont. Expectations that flooding potential would be less than Harvey, limiting damage to refineries, likely prompted the cautious downdraft in product markets despite large scale closure of refineries in Port Arthur and Beaumont.

The release of the DOE report was to a large extent overlooked. The report showed commercial crude inventories off 4.7 mb, not including the decline in the SPR of 1.8 mb/d. Net import levels of crude fell to 2.6 mb with exports surging to 3.4 mb compared to 2.1 last week. Crude oil refinery inputs totaled 14.7 mb/d compared with 17.6 last year while refinery utilization rose to 82 percent from 80.9 percent last year. Total products supplied rose to 19.6 mb/d compared to 17.2 last week and 22.2 last year. Gasoline stocks fell by 4.6 mb and are currently only 7.2 mb above year ago. Distillate stocks, which are at more burdensome levels, rose 1.4 mb to 179.2 and are 43.1 mb above year ago levels. The report was slightly larger than expectations for a 3.8 mb decline in crude and a 1.7 mb decline in gasoline while the build in distillate inventories was unexpected with forecasts of a 1 mb decline.

The market will be assessing the amount of damage to refinery assets and storage in Port Arthur and Lake Charles. The potential for a



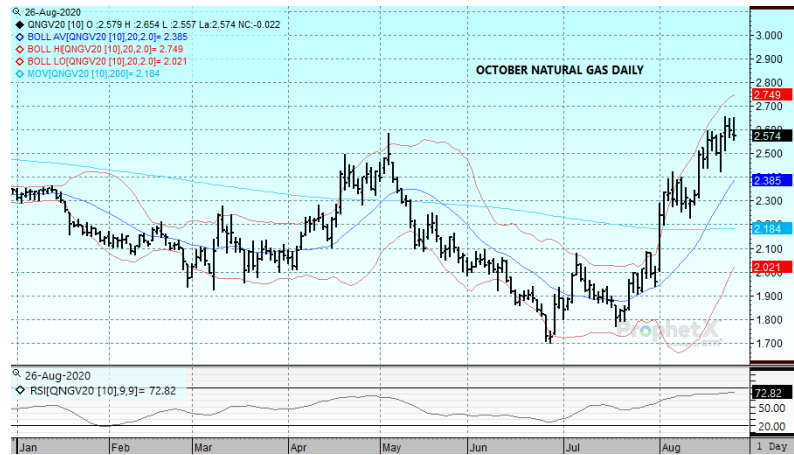
record tidal surge that disrupt refinery operations and cause damage to pipelines and storage facilities is a concern. While some precautions were likely taken after damage associated with Rita in 2005 and Harvey in 2017, their effectiveness will be assessed after the storm. Refinery utilization has been throttled back significantly due to the pandemic and excess capacity outside the affected area will likely be available given the strength to prices. Nevertheless, inventory levels will be pared as a result of the storm helping underpin the gasoline crack for now until damage is assessed and more normal operations return. Distillate is in better shape to withstand the disruption given the surplus stocks and sharp reduction in aviation travel.

Natural Gas

The market was unable to garner upside follow through today as prices settled 2-3 cents lower on the front end. A fairly tight range was seen considering that Hurricane Laura will be making landfall tonight on the Texas/Louisiana border.

Trade is waiting to gauge the severity of the storm, which is now expected to be a Category 4, and its potential effects on LNG terminals along the coast. Gulf of Mexico platform shut-ins have removed an estimated 1.6 bcf/d from production, which is being weighed against LNG liquification rates that are down nearly 3 bcf as facilities in Sabine Pass and Cameron shut down in advance of the storm.

The remainder of this week will be focused on the effects of the hurricane with volatility remaining high as upside pressure from shut-ins competes with potential demand losses from LNG plants and the power sector as heavy rains move onshore. How quickly each type of operation can get back online will be a key factor. The 2.70-2.75 area basis October will likely offer solid resistance to any further strength, and we look for prices to retrench after the storm passes as temperatures cool considerably later this week into next, with the 2.50 area the first line of support.



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