Archer Financial Services, Inc.

Energy Brief

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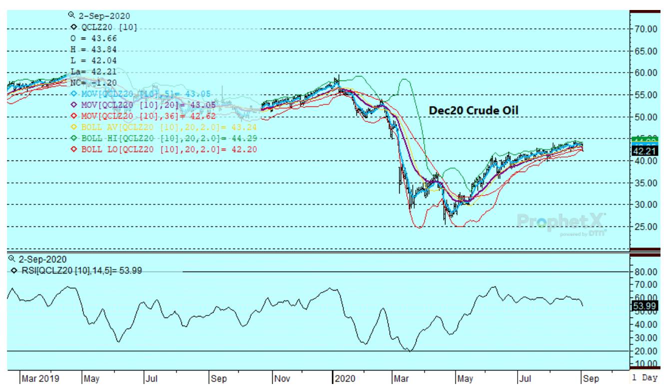
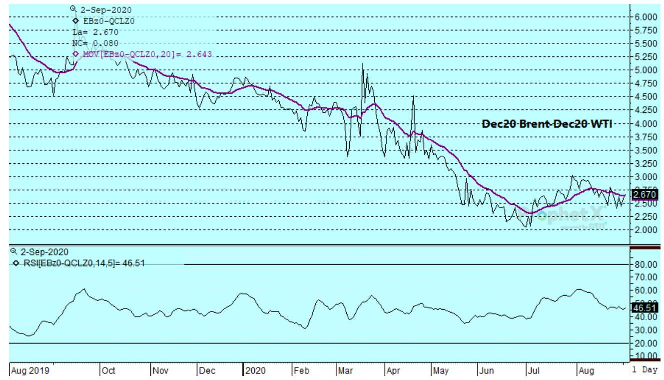
Price Overview



The petroleum complex traded on the defensive, failing to respond to a larger than expected decline in crude oil and product inventories in today's EIA report. The market also failed to react to a relatively healthy increase in US factory orders, which rose by 6.4 percent in August compared to July levels. This lead to disappointed long liquidation influenced by strength to the dollar and suggestions by the Russian Oil Minister Novak that OPEC should react to a recovery in anticipated demand by boosting output in an effort to balance the market. He indicated that that demand, which has recovered to 90 percent of pre pandemic levels, should recover in 2021 to pre-pandemic levels. The forecast appears optimistic given the lack of a vaccine and changes in longer term work and travel habits. In other news OPEC+ output in August showed 99 percent compliance with the anticipated target of 21.8 mb/d at 21.9 mb/d.

The DOE report showed crude inventories falling by 9.4 mb compared to expectations of a 2 mb decline. Domestic production was reported at 9.7 mb compared to 10.8 in the prior week as Hurricane Laura and Marco shut offshore platforms in the Gulf of Mexico. Net imports of crude declined as the LOOP shut down in anticipation of the storms, helping limit shipments into the offshore facility. Gasoline stocks fell by 4.3 mb while distillate inventories fell by 1.7, slightly above expectations. Product supplied fell sharply to 17.0 mb from 19.6 the previous week. Gasoline supplied fell .4 mb to 8.8 from the prior week while distillate supplied was steady at 3.9. Refinery utilization fell to 76.7 percent from 82.0 percent last week.

The markets failure to respond to the storms and today's decline in crude oil inventories continues to suggest overhead resistance above 43.50 is stiff as OPEC+ continues to keep prices low enough to discourage production, particularly in the US. The weakness of Brent to WTI in anticipation of rising production in the North Sea could undermine values for WTI as the tighter spread differential attracts global demand for Brent. In addition Chinese imports of crude are expected to soften in the months ahead reflecting large stocks. One key focus will be on China's domestic demand trends, and whether the strong rebound in their economy continues along with the demand for petroleum products as we move into the fourth quarter. Any doubts that these trends will continue, accompanied by dollar strength, could lead to weakness in crude values down to the 38.50 level basis December.



Natural Gas

As expected volatility has been high as the market surmises the recovery of natural gas infrastructure in the wake of Hurricane Laura. Prices dropped 26 cents from yesterday's high at 2.675 to an intraday low today at 2.415 before buying surfaced to help prices recover to end 4 cents lower at 2.486 basis October. The weakness seen since the end of last week has been driven by a much quicker return of lost production in the Gulf than the rebound in LNG flows. Power outages have been the main deterrent to getting processing plants back online, as actual damage to the facilities was limited. Rumors today that Sabine Pass would see more flows starting tomorrow ignited some recovery in prices. Weather remains an overall negative influence as CDD expectations have been revised downward recently as we near the shoulder season. The market continues to maintian solid underlying support as trade looks ahead to a winter setup that could bring steadily decreasing production into an expected recovery of LNG flows. Tomorrow's storage report is expected to show a 34 bcf injection verses the 5 year average at 66. Although prices saw some recovery off the lows, the violation of the 2.50 level brings the next support to the 2.37 area, which would represent a 38% retracement of the rally from the mid-July lows. We look for the market to continue higher, with positive LNG news over the next few days a necessary catalyst to avoid further retrenchment.