



Archer Financial Services, Inc.

Energy Brief

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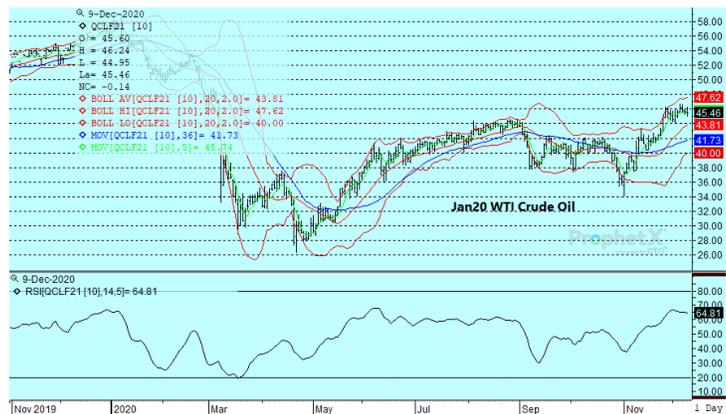
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Price Overview

The petroleum complex held up surprisingly well despite a bearish DOE report which showed substantially larger builds in crude and product inventories than had been expected. The report indicated that crude stocks increased by 15.2 mb compared to expectations for a draw of 1.4 mb. Although initial selling was seen in response to the release, it failed to garner follow through. The failure to respond to the report attracted nervous short covering and stop loss buying.



The large build in crude inventories was traced to a sizable increase in imports to over 6.4 mb compared to the 4 week average near 2.8, and a drop in crude exports to 1.8 mb from a four week average over 3 mb. Refinery utilization rose to 79.9 percent from 78.2 the prior week. The news also prompted an initial bearish reaction as both gasoline and distillate showed a larger than expected builds. Gasoline inventories increased by 4.2 mb and distillate jumped by 5.2 compared to expectations for a 2.3 and 1.4 mb increase respectively. Total commercial stocks of crude and products rose by 19.9 mb to 1,373.9 mb against 1,275.7 a year ago. Disappearance levels were stable at 18.5 mb, with propane and other oils showing the best gains while distillate fell .4 mb to 3.4 and gasoline was off .4 mb to 7.6.

Overall we were surprised by the lack of reaction to the report. Despite the underlying support, we still see the build in inventories as symptomatic of an unbalanced situation which OPEC will have problems addressing given developing budget issues on the part of many members, and the desire to increase production to generate revenues and maintain market share.

Natural Gas

Prices have staged a minor recovery since Monday's selloff, but not before they probed to another new low yesterday at 2.368 basis January. The support was garnered from forecast revisions over the last two days that began to show signs of increased heating demand in the two week outlooks, with model agreement this morning leading to an intraday bounce of over 10 cents. With the market at oversold levels, profit taking surfaced as 2.50 was briefly exceeded. Support

was also provided by the large storage draw expected tomorrow. Trade is looking for a decrease of 82 bcf, which is bullish in comparison to the 5 year average draw of 61. With storage levels 7% above average for this time of year the cushion is ample, and it will likely take a much larger than expected draw to precipitate any substantial bounce after the release. With solid LNG flows and contracting production offering underlying support to the market, prices remain dictated by the most unpredictable variable of all-weather. With the poor close near the days lows, any decrease in HDD expectations likely sends us to a quick test of the 2.30 level on the January contract. Further signs of a cooling trend, ideally aided by a solid stock draw tomorrow, would likely not find substantial resistance until the 2.60 area due to the oversold technical status of the market.



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