



Archer Financial Services, Inc.

Energy Brief

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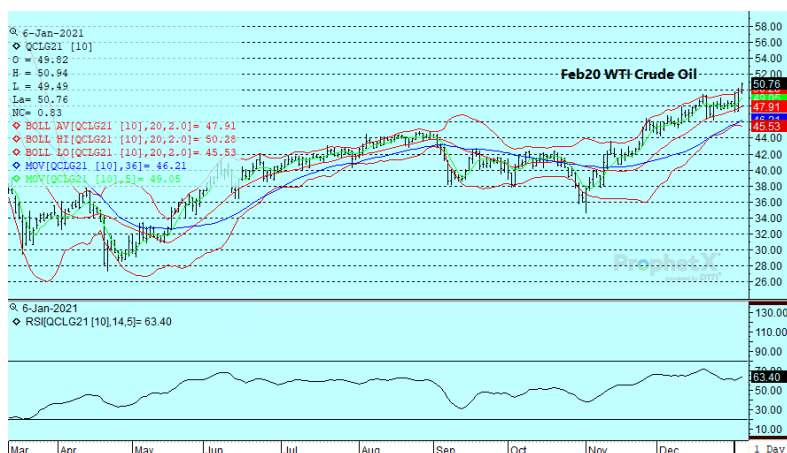
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Price Overview

The petroleum complex traded higher on news that Saudi Arabia had pledged additional voluntary output cuts totaling 1 mb/d in February and March as part of a deal under which most OPEC+ producers will hold production steady. The agreement followed two days of talks, with Russia and Kazakhstan being allowed to increase their production by a combined 75 tb/d in February and a further 75 in March.

Although there were concerns that the increases might frustrate other OPEC peers looking to expand output, the allowances appeared to be linked to their concerns over the higher costs associated with non-maintenance winter shutdowns. Additional support was offered by the DOE report. A larger than expected decline in crude inventories attracted buying interest despite a sizable build in product stocks.

The DOE showed a larger than expected draw in crude oil inventories of 8 mb/d compared to expectations for a drop of 2.1. Ongoing increases in refinery utilization in response to firmer margins was evident, coming in at 80.7 percent compared to expectations for 79.4 percent. Overlooked were the increases in product stocks which rose 4.5 mb in gasoline and 6.4 in distillate. Total crude stocks including products rose by 1.7 million barrels in the latest reporting week. Total disappearance remains weak and was 11.9 percent below year ago levels, while gasoline was off 8.5 percent and distillate was down 12.8 percent. Jet kero disappearance

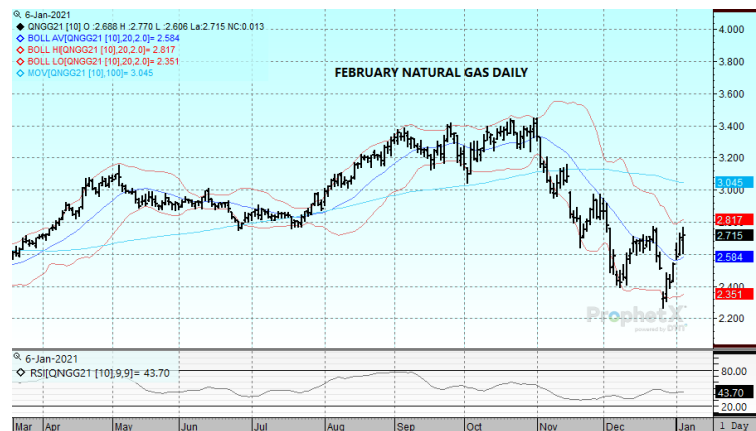


remained off by 43.1 percent with propane remaining the only bright spot rising by 11.3 percent from year ago levels.

The new pact by OPEC attempts to address underlying demand concerns. The potential for a modest surplus in the first quarter still exists. While demand recovery is possible for the 2nd quarter, how quickly it emerges is still a concern. The OPEC action for now has forestalled additional price weakness. Nevertheless the threat from production increases by non-OPEC+ members remains, particularly given current price level, and should pose continued challenges to the upside as OPEC market share is eroded.

Natural Gas

The market has maintained its upside bias with new highs for the move carved out each of the last two sessions. The February contract traded up to 2.77 today before settling just over a penny higher at 2.716. Prices had retrenched early this morning as a result of downward revisions to HDD expectations, but managed to claw back those losses as a steady increase in open interest is likely signaling a return of managed money interest. The strength has brought the 3.00 area back into striking distance, with the 200 day moving average just below there at 2.974. A continuation of the rally will require the cooperation of the weather, as we have seen how quickly the market can bail out when forecasts trend negative as they did during the Christmas week. Look for the 2.80 area to be tested near term as LNG flows remain strong and Mexican exports continue to improve. Any significant revisions toward warming could lead to a quick pullback under 2.55 to fill the gap created on Monday's open.



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