



Archer Financial Services, Inc.

Energy Brief

January 11, 2021

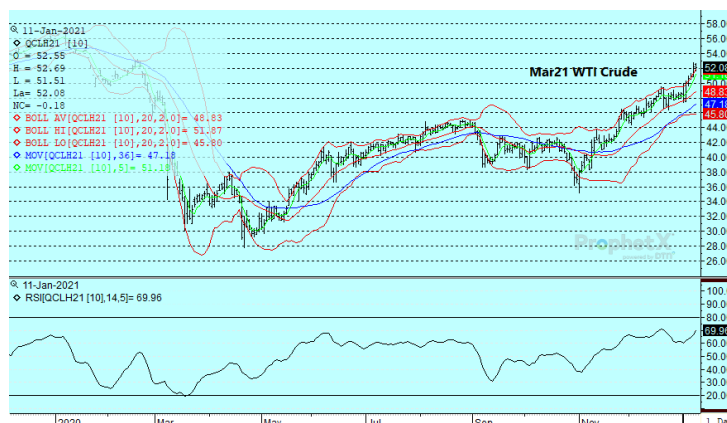
Prepared by Steve Platt and Mike McElroy

877-377-7931

Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

Price Overview

The petroleum complex traded on both sides of unchanged and settled with modest losses. Weakness emanated from rising infection levels and a slowing US economy due to the pandemic. A pullback in equity values following strong recent gains and dollar strength also encouraged profit taking. Underlying support continued to be traced to the Saudi announcement last week that they would undertake a voluntary cut in production of 1 mb/d to avoid an unwanted build in global inventories. Forecasts by Goldman Sachs that a small deficit will ensue over the next few months also helped raise uncertainty and limit losses.



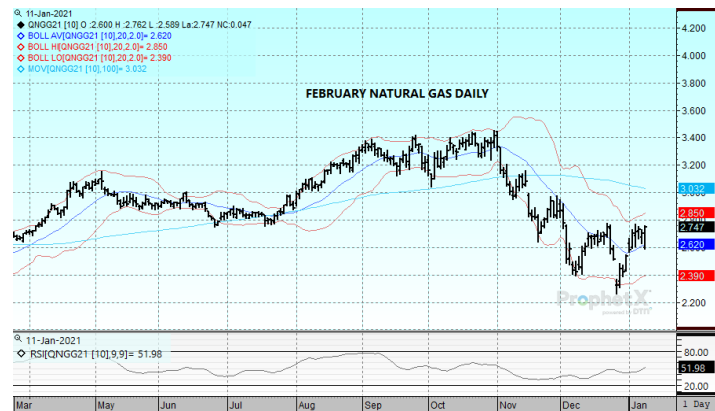
Remaining in the background as potential negatives are ongoing concerns over demand trends, strengthening margins, a moderately high stock overhang and concerns over output expansion by producers such as the US, Canada and Brazil. With OPEC still expecting members that had previously overproduced to compensate with future decreases, some members might see their lack of compliance with their prior pledges as a sign of weakening support for the agreement.

In the days ahead the market will anxiously await the Monthly Oil Reports from OPEC and the IEA scheduled for release on January 14th to see how the supply/demand situation is shaping up. A balanced scenario in the first quarter and a strong demand revival in the second half have been baked into values. How quickly and by how much it recovers will be the final arbiter of pricing.

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 levels. With OPEC production plans longer term profoundly diminished and under threat from carbon neutral legislation, the underlying change to the forward curve has been profoundly impacted and will need to be watched closely for longer term changes in price expectations amid uncertain supply and demand prospects.

Natural Gas

The weekend again brought forecast revisions that lead to a sharp price change on the Sunday night reopen. The February contract gapped lower by 10 cents and near the lows of the day at 2.60. Most of the initial concern emanated from warmer revisions in the back half of the two week forecasts, and as the day wore on the market clawed back most of those losses before rallying late in the session to end nearly 5 cents higher. Production levels continue to offer underlying support as weekend output hovered near 91 bcf/d, and cold temperatures in China are keeping faith in LNG flows remaining strong for the foreseeable future. The weather will continue to be the price driver, but with the late strenght today, a test of the double top on the charts near 2.77 is likely near term, with more substantial cooling possibly leading to a test of 3.00 and the November gap. The 2.58-2.60 area should offer support if forecasts continue to warm.



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