Archer Financial Services, Inc.

Energy Brief

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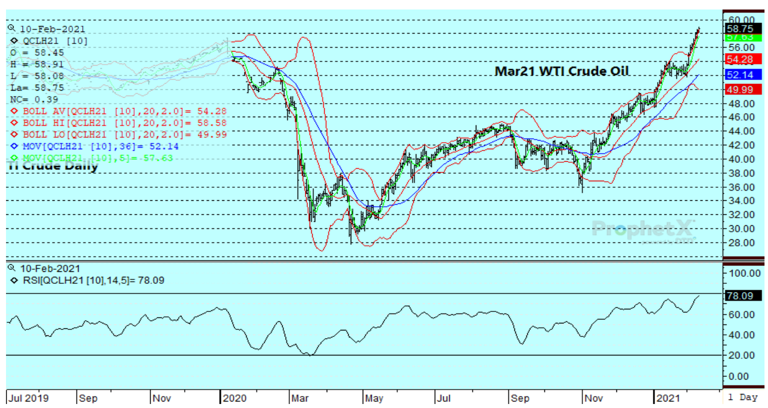
Price Overview



The petroleum complex traded cautiously in advance of the monthly reports by the IEA and OPEC scheduled for release tomorrow. The reports will provide an update on the demand outlook for 2021 along with tentative supply prospects given the increase in prices. Scattered support was provided by both the API and DOE inventory reports that showed a larger than expected decline in crude inventories and a further drawdown in stocks at the key delivery hub at Cushing. In the background were reports of some pullback in Libyan export levels due to a strike by security guards at one port, reducing shipments by over 100 tb/d, and reports that the Kurdish autonomous region had disagreements over the level of shipments to the central government in Baghdad.

The DOE report showed crude inventories fell 6.6 mb, continuing the drawdown seen in recent weeks, and was substantially below expectations for a build of .5 mb. Stocks at Cushing fell by .7 mb to stand at 48 mb compared to 38.4 last year. Domestic production rose by 100 tb to 11 mb while refinery utilization rose to 83 percent compared to 82.3 last week. Gasoline stocks rose more than expected by 4.3 mb while distillate fell 1.7. Total product supplied rose impressively to 20.2 mb compared to 18.5 in the prior week with jet kero and propane showing impressive gains. Although gasoline so far this year remains 10.1 percent below a year ago, distillate is currently up 4.5 percent on a cumulative basis.

Ideas that the market will swiftly move through the surplus as supplies tighten continues to create a positive environment for values. The strong stance of Saudi Arabia to maintain prices along with comments by President Biden that Iranian sanctions will not be lifted without assurances that they will comply with the JCPOA agreement in its entirety remain in the background as supportive influences and might lead to a test of the 60.00 level and potentially 63-65 where an uncertain demand environment along with an overbought condition should provide resistance.

Natural Gas

The market continues to gyrate on every weather update, with prices settling over 7 cents higher at 2.911 after an outside day on the charts. Overnight action saw prices lower after model updates downgraded the extreme cold event expected early next week. Prices recovered into the day session as production estimates pointed to a likely drop to the 89 bcf/d range today as a result of freeze-offs due to current frigid temperatures. The output dip offset a downward glitch in LNG feedgas that was again due to fog issues at Sabine Pass. Late session strength was attributed to talk that afternoon weather runs were showing signs of temperatures again trending down. In the midst of the coldest stretch of the year, prices remain somewhat range bound, spending most of February between 2.75 and 2.95. Tomorrow's storage report is expected to show a draw of 180 bcf verses the 5 year average of 125, with the next couple of weeks pointing to well above normal drawdown's as well. With the high current burn rate it looks like the lows are in for the March contract, but upside potential appears limited to the 3.00 area unless extreme cold can stay in place through the second half of the month in conjunction with slowing production and recovery of LNG flows to full bore.

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