ADM

Archer Financial Services, Inc.

Energy Brief

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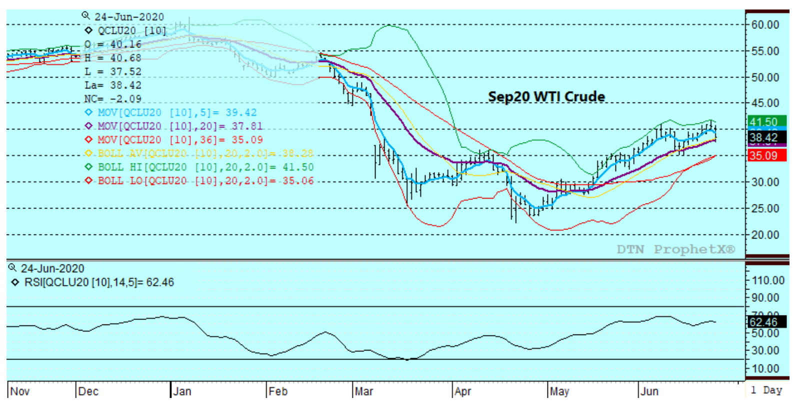
Price Overview



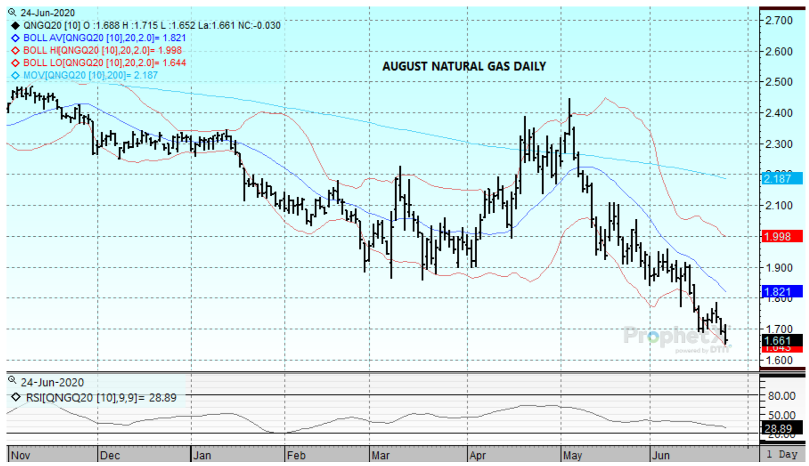
The petroleum complex traded under pressure with gasoline and crude oil showing the sharpest losses. Weakness was traced to ongoing increases in crude oil stocks and doubts that the global economy is set for a sustained recovery as fears of a second wave of the coronavirus pandemic emerge. The possibility that reinstating lockdowns and restrictions on travel will be necessary in some areas raised concern that the increasing mobility noted in recent weeks might stall and lead to a reversal in demand prospects for gasoline and fuel oils helped undercut sentiment. Raising caution flags were reports that Chinese and Indian import levels have slowed dramatically following the strong purchase levels of last month and the weakness evident today to equity values.

The DOE report did little to dispel the more negative sentiment. Crude stocks continued to build rising by 3.4 mb overall, with commercial crude inventories increasing by 1.4 mb compared to expectations of an increase of 300 tb. Cushing stocks continued to fall with inventories reduced by 1 mb to stand at 45.8 mb. Refinery utilization rose to 74.6 percent compared to 73.8 in the prior week but well off the 94.2 level a year ago as weak margins continue to undercut refinery runs. Lower 48 crude oil production recovered from the sharp decline last week rising to 10.6 mb compared to 11.6 a year ago. In products the situation was brighter. Gasoline stocks fell by 1.7 mb but stand at 255.3, 23 mb above a year ago. Gasoline disappearance rose to 8.6 mb compared to 7.9 last week and 9.5 a year ago. Distillate stocks rose .2 mb to 174.7 mb compared to 125.74 last year. Total stocks of crude and petroleum products including the SPR rose 5.9 mb to stand at 2104 mb. The inability to pare stock levels despite the reduction in crude oil output and increase in disappearance remains a source of disappointment and suggests the balancing of inventories with respect to the US has yet to occur.

Fear that demand might be stymied by a resurgence in the pandemic should undercut the optimistic sentiment evident since late April as the economic recovery continues to have a rocky start. The lapsing of government programs in July aimed at supporting the economy might also weigh on sentiment as well.

Today's decline could be the start of a weaker price trend as demand considerations and stalling out of production cuts slow the rebalancing of the market and raise questions on how much further OPEC is willing to go to curb production. We continue to see recent highs near 40.60-41.40 basis August in WTI and 43.40 on Brent as intermediate tops for the crude oil market.

Natural Gas



The market continues to struggle, putting in contract lows each of the last two sessions. The August traded down to 1.652 today and settled near that level. The two main issues pressuring prices at the moment are LNG cargo cancellations, which have been estimated as high as 45 for the month of August, and a resurgence of COVID-19 cases in the US that has rekindled concerns over demand. The summer months remain burdened by these issues with the large stock overhang in the background. Above normal temperatures and decreasing production will need show signs of continuing if prices are going to avoid the fate of the last 5 contract months. Production has slipped below the 88 bcf level the last two sessions, with early estimates at 87.0 bcf today although that likely gets revised upward by tomorrow. Despite the decrease, concerns remain over the return of associated gas output from crude rigs, as the EIA reported today that crude production bounced back to 11.0 mb/d from 10.5 the prior week. With the poor close the 1.60 level is within reach, but we continue to expect the market to begin to find support and challenge the downtrend channel resistance in the 1.80 area.