Energy Brief

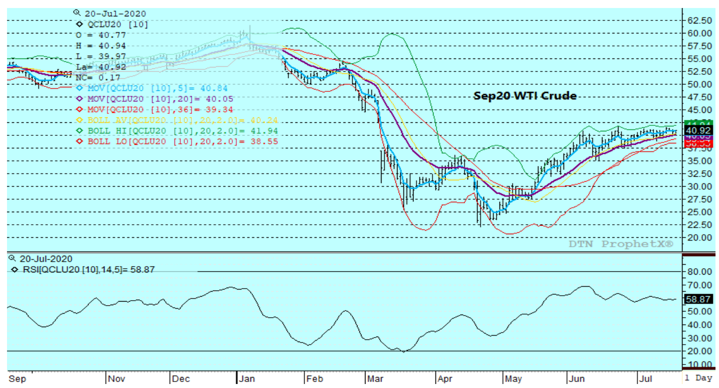
July 20, 2020

Prepared by Steve Platt and Mike McElroy

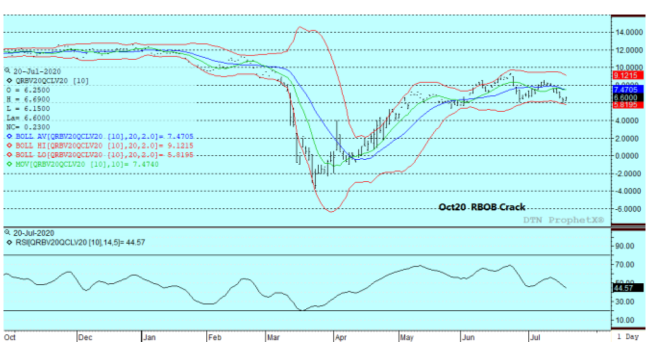
877-377-7931

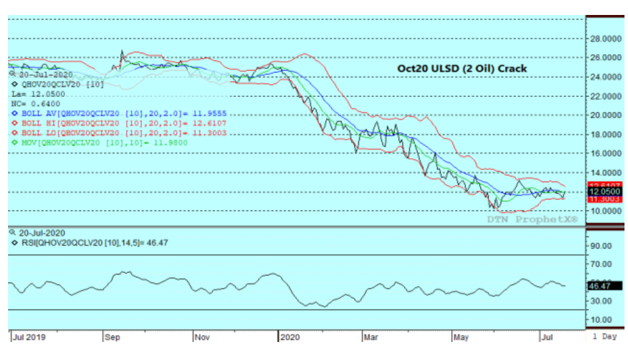
Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

Price Overview



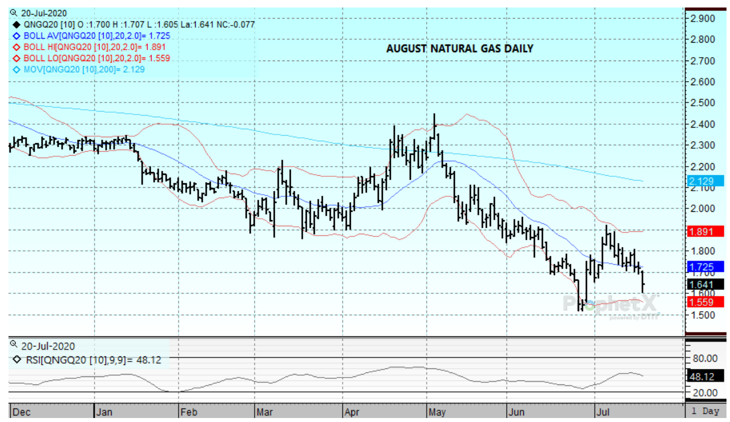
Not much has changed in the petroleum complex since Friday with values gravitating around unchanged. The lack of fresh news, uncertain economic environment and adequate inventories appears to be keeping participants sidelined. The purchase of Noble Energy by Chevron along with the recent bankruptcy of Chesapeake has helped highlight the volatile valuations and uncertainty in shale oil areas and helped encourage the cautious tone. For now the market is looking for the new normal in oil production, demand and inventories for crude and products domestically as well as globally.





With the lack of movement in flat prices it might be worthwhile to review the status of both the gasoline and 2 oil cracks as we work toward the fall. Refinery utilization, due to weak margins, remains well below year ago levels at 78.1 percent compared to 94.4 percent. Although gasoline demand has recovered, it still remains below year ago levels and questions over commuting levels remain for the fall due to what appear to be longer term changes in work habits. In diesel, freight and air traffic will be key along with stock builds ahead of winter. In addition the approach of harvest will attract demand from agriculture. Supply availability will likely entail some shifting of gasoline production to heavier oils but margins remain unfavorable. For the October gasoline crack we see a trading range between 4.50-10.00 while on the October ULSD crack we favor the long side on additional weakness to 9.80 risking 8.50 with an objective of 14.00-15.00.

Natural Gas



Prices gave out today as the August traded down to 1.605 and remained on the low end of the range to end the session. Current warm temperatures have proven to be unable to overcome stubborn production levels as weekend output stayed above 89 bcf/d. The heat has pushed power burns to record levels, but that has not been enough to overcome the ample storage situation and potential risks that have been rekindled with the COVID-19 resurgence. Estimates of 4+ tcf in supply at the end of injection season have seen little revision despite the string of below average injections. Last weeks Baker Hughes report showing a decrease of 4 gas drilling rigs may add potential to the winter contracts as production looks increasingly likely to slow considerably in the coming months. With support taken out, the contract lows at 1.516 basis August are in play near term as the summer months continue to have difficuly overcoming the myriad issues emanating from the demand destruction over the past few months. We will begin to assess the winter contracts for a potential recovery as the low current prices precipitate supply side issues down the road.