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Archer Financial Services, Inc.

Energy Brief

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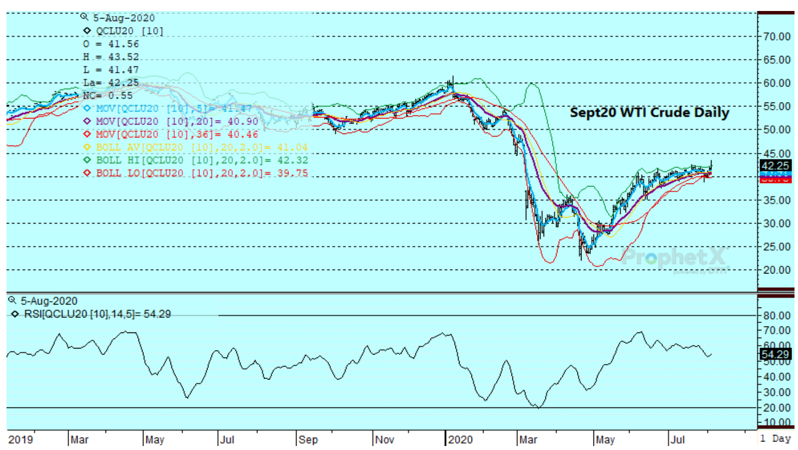
Price Overview



The petroleum complex attracted strong buying interest, reaching a five month high early in the session as prevailing resistance at the 42.50 level gave way and active short covering emerged with values advancing to a high of 43.52 basis September WTI crude before retreating late in the session. The strength appeared to reflect the ongoing rally in hard assets with gold and silver reaching new contract highs while copper strengthened as investment demand continued to expand. Background support was traced to encouraging news on the supply/demand front as US inventories of crude oil were reported to have dropped sharply in the latest reporting week. Additional support was attracted by reports that the US Congress was moving to a new package of stimulus measures to stem widespread insolvency due to the pandemic, while the recent improvement in factory orders was also taken in a favorable light.

The market appeared to be ignoring generally negative developments. These included reports that China would undershoot targets for energy imports agreed to in the trade agreement due to the higher prices. Although import levels have reached record high of over 1 MB/d, concerns that the undershoot in energy and other areas along with recent political considerations raised questions regarding the viability of the agreement in advance of the US election. Another concern might be the increase in Russian output as OPEC+ attempts to raise production levels, while in Canada western producers appear intent on restoring production to pre-pandemic levels in response to the higher prices.

The DOE report showed crude inventories falling 7.4 mb despite an increase in import levels to 6 mb/d from 5.2 last week. Refinery utilization was generally flat at 79.6 percent with crude oil inputs at 14.6

mb compared to 17.8 last year. Gasoline inventories increased .4 mb/d while distillate inventories rose 1.6. Crude oil inventories are 8.4 percent above year ago levels, gasoline stocks are 5.4 percent above and distillate is 30.9 percent over. Overall total stocks excluding SPR are 11.3 percent above last year. Implied domestic disappearance for gasoline trailed last week at 8.6 mb compared to 8.8 while distillate was relatively unchanged at 3.7 mb. So far this year gasoline demand is showing a decline in disappearance of 14.7 percent while distillate is off 10.4 percent.

Despite today's gains and the penetration of resistance, we are reluctant to believe the gains can be sustained. Key to the outlook remains the US stimulus package and its impact on work and entertainment patterns. In addition, US-Sino relations remain a center of focus given the substantial impact it might have on the Chinese economy and petroleum consumption, and the associated increase in petroleum imports from the US market. Global demand also looks likely to be a challenge and the impact on inventories will be watched closely for signs of whether the inventory overhang can be absorbed quickly and without additional production cuts.

Natural Gas

The market managed to find good follow through to the spike seen on Monday as prices advanced another 9 cents yesterday and tacked on 6 more overnight before retrenching during the day session. The bulk of the strength continues to look computer related, with much of todays move higher achieved in the middle of the night over a very short time period. Nonetheless fundamentals have improved, with the most excitement emanating from an uptick in LNG flows that has us at a 4 bcf/d average thus far in August. Hope springs eternal that the worst of the demand issues are over, with many analysts expecting solid improvement in exports as we move into the fall. Production has also hinted at slowing, as early estimates put today's lower 48 output under 88 bcf for the first time in nearly a week, while exports to Mexico remain strong at 5.8 bcf today. Despite the firming signals, power outages along the East Coast in the aftermath of Hurricane Isaias along with potential coal to gas switching due to the higher prices brought out near term demand concerns as prices retrenched from the highs. With two days of settlements through the 200 day moving average at 2.12, it now becomes solid support with 2.30 likely being the next target of the newfound bulls.