ADM

Archer Financial Services, Inc.

Energy Brief

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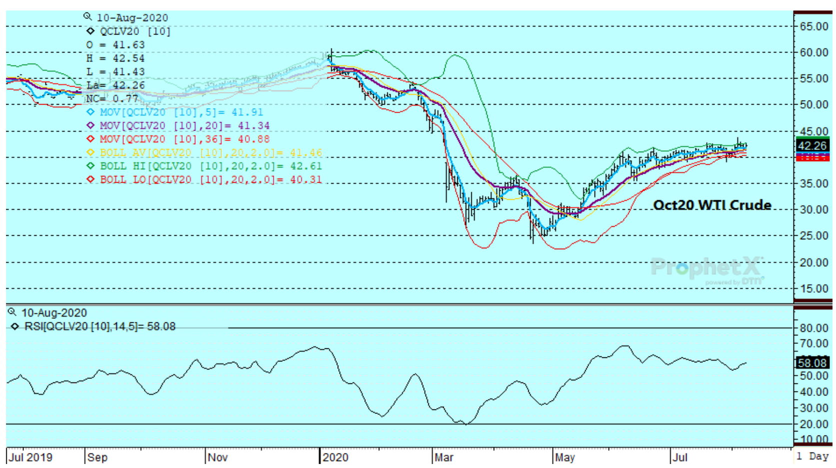
Price Overview



The petroleum complex attracted steady support on reports of an improvement in Chinese factory orders and on ideas that oil demand is beginning to improve as lockdowns ease. Support was also traced to comments from the CEO of ARAMCO who suggested that demand in Asia was improving. Some analysts continue to see the oil market as undersupplied as production remains in check and demand gradually improves. Reports suggesting that Iraq will cut their output by an additional 400 tb/d in August and September to make up for overproduction in prior months helped support beliefs that global supply and demand was beginning to balance. The recent strength to US equity values also helped the optimistic tone.

While many expect the unwinding of pent up oil demand to underpin values, it appears that the large stock overhang, particularly of products in Asia, could keep the market confined to a trading range of 39.75-42.75 basis October. The approach of fall should create higher export availability from Saudi Arabia as crude demand for power generation tails off. In Asia weak margins will likely keep refinery rates down as high product stocks are slowly worked off. While the DOE report will be watched closely for further declines in crude inventories, the high level of product stocks in the US remains of concern particularly as we move past the peak demand period for gasoline. The report is expected to show crude stocks off 3.1 mb, distillate unchanged and gasoline down 1.5 while runs are expected -.1 percent. Of particular interest for the world supply/demand situation will be this week's OPEC and IEA monthly reports to be released on Wednesday and Thursday which should shed considerable light on the progress being made toward reducing petroleum inventories and on demand potential.

Natural Gas

Prices retrenched today as strong weekend production numbers outweighed continued improvement in LNG flows. September traded down to 2.118 before settling off 8 1/2 cents at 2.153. Lower 48 output moved past 89 bcf over the last three days, and with the recent trend in daily adjustments, today's 89.1 number could very well reach 90 bcf after revisions. LNG feedgas demand was indicated at 4.6 bcf early today, an impressive improvement of .6 bcf over Friday's flow. Weather forecasts have added little variation recently, while demand has been revised downward due to gas to coal switching concerns at these higher levels. The recent reset to pricing is predicated on the assumption that global gas demand will continue to improve and bring back the original trajectory of the LNG market in the US. Continued improvement will need to be seen in flows to maintain an underlying bid to the market. The 200 day moving average near 2.12 basis September held up today, and the next few sessions will go a long way toward determining if another wave of buying can develop. If it does we could test the 2.30 area rather quickly, with 2.40 a possibility if we see the domino effect similar to early last week. A failure at the 200 day likely leads to a test of the 2.00 level.

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