ADM

Archer Financial Services, Inc.

Energy Brief

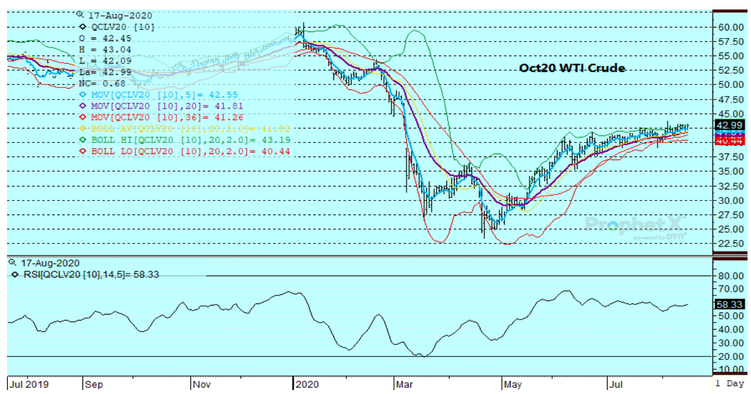
August 17, 2020

Prepared by Steve Platt and Mike McElroy

877-377-7931

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

Price Overview

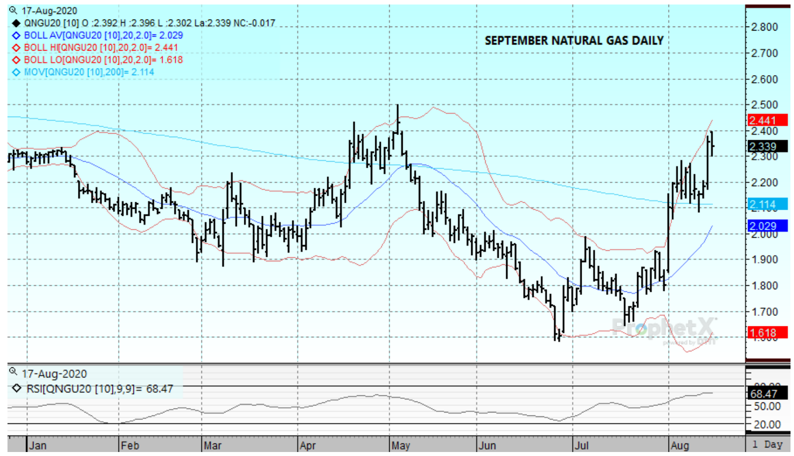


Early weakness traced to the ongoing trade dispute between the US and China along with rising coronavirus cases in Europe was reversed as buying emerged in response to reports that Chinese state owned oil firms have booked tankers to transport up to 20 mb of US oil in August and September. Nevertheless, trading was cautious in advance of the Price Monitoring Committee video-conference scheduled for August 19th. Expectations for the meeting suggest that production cuts from OPEC+ members of 7.7 mb/d and an additional cut of .4 mb by Iraq will be maintained through the third quarter and likely tentatively into the 4th quarter. Ideas that the market has moved closer to balancing inventories as economies open up continues to provide comfort to crude producers in light of the recent strength to values. Questions remain regarding global demand given the impasse in Washington over new stimulus measures and the possible revival of COVID-19 infections into the fall. US economic news was mixed with housing remaining strong with the National Association of Homebuilders Housing Market Index surging to 78 compared to expectations of 73, while the NY Empire Manufacturing Index showed limited growth of 3.7.

This week the market will likely focus on the Democratic Convention and their approach toward regulating fracking. The DOE report will also be watched closely amid ongoing declines in crude inventories and domestic disappearance trends. Reports suggest some wells that had been shut down are resuming production. Another metric that will gain increasing importance as we enter September will be mobility trends. Currently US trends suggest mobility to workplaces is off 38 percent from the early January baseline while activity at transit stations is off 31 percent.

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 limit upside to near the 43.00 area 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.

Natural Gas



The market took a breather today as volume was light and prices pulled back following Friday's strong move. The September contract settled lower by 1.7 cents at 2.339. The weekend brought expected sweltering temperatures in the West, with rolling outages in California due to the pressure on the grid. Despite the demand hot spots, strong production numbers near 89 bcf/d this weekend helped keep a lid on prices. LNG feedgas demand continued to improve, which should keep a bid under the market. Weekend indications were at 4.7 bcf/d, with early nominations today at 4.8. These exports remain the key price driver and will need to be watched closely as we work through the fall. The 2.40 level got its first test overnight and now looks like solid resistance. The 2.27 area should offer support on any further retrenchment.