Archer Financial Services, Inc.

Energy Brief

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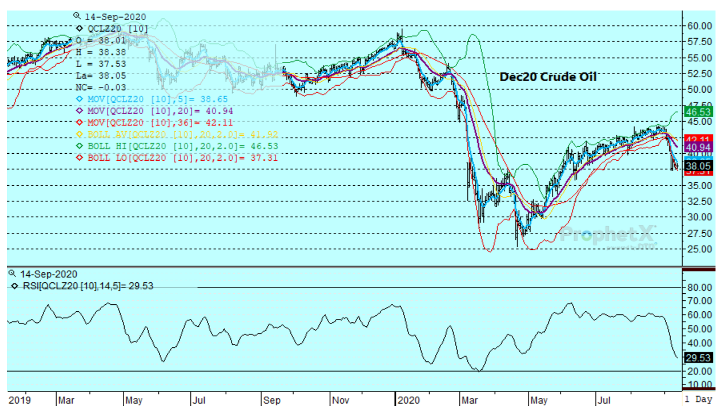
Price Overview

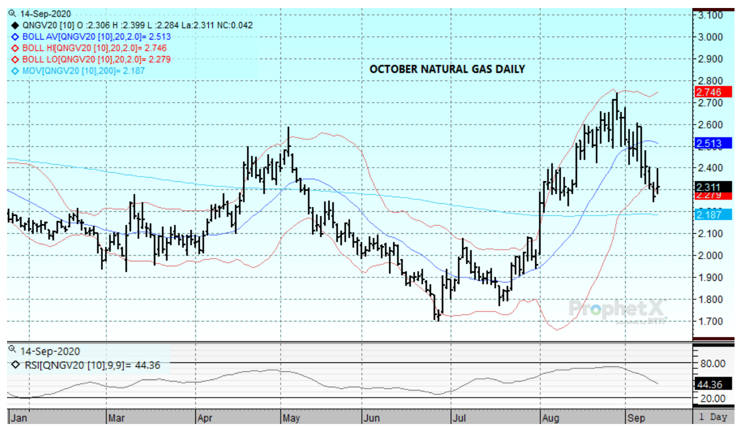


The petroleum complex continued to trade in a mixed fashion with crude easing while ULSD and gasoline showed gains. The weakness to crude appeared to reflect the OPEC Monthly report indicating a revision downward in demand prospects for both 2020 and 2021. Their forecast suggests demand in 2020 will fall by 9.46 mb/d to 90.2 mb/d, and then recover to 96.9 mb/d in 2021. These estimates are linked to ideas that the pandemic will have a long ranging impact on transportation trends, particularly in India during the 1st quarter. A recovery is undoubtedly contingent on the progress toward developing a vaccine and its ultimate distribution, along with longer lasting impacts on work habits and travel.

The Supply side was also adjusted in the Monthly Report, with non-OPEC liquids production in 2020 being revised upward by 360 tb/d due to a higher than expected recovery in the US during June. OPEC indicated that an output recovery had begun during the 3rd quarter in the US, Canada and Latin America. Non-OPEC production of crude and NGL in 2021 is expected to expand by 1 mb/d with the US, Norway, Canada and Brazil the main drivers of growth. With OPEC crude production below sustainable by as much as 10 million barrels at 24.05 mb in August, the ability to sustain production discipline will be a key consideration for the price outlook as it has been in the past year. Thus far the production quotas have been successful and compliance with the current agreement to reduce output by 7.7 mb/d is at 103 percent. Although the market is moving toward balance, the fall-off in refining margins is troubling as a growing surplus of products is reflected in higher inventory levels. Preliminary data for July showed a draw down in commercial oil stocks of 4.5 mb, to 3,231 mb. Stocks are currently 273.7 mb above a year ago and are 260.6 above the five year average. Of this, OECD crude stocks represent 95.6 mb, while product stocks stand at 165.1 mb above the five year average while forward cover is at 72.2 and 9.9 days above the 5 year average.

In conclusion, the challenges to price stability at these levels are considerable. Ongoing weakness to the Iranian and other oil producing economies remains intense, and the ability to control production will continue to be challenging especially if Libya moves to lift the months long blockade of oil facilities. It appears that supply pressures will begin to build and whether OPEC can cut production in line with prevailing demand trends remains a key consideration. The OPEC Price Monitoring Committee meets on September 17th and will need to consider what steps might be appropriate and whether they have the willpower to adjust supply to not only balance, but also draw down excess inventories. Although some shutting in of Gulf of Mexico oil platforms might provide support in the near term from Tropical Storm Sally, the longer term trends in underlying supply and demand remain of utmost concern and a strong headwind to values in the 40-41 area basis December WTI.

Natural Gas



The market started the week on a positive note as the October traded as much as 12 cents higher intraday before ending the session up 4 cents at 2.31. The early strength was sparked by strong LNG loadings over the weekend, with Sunday at 7.3 bcf/d and this mornings early nominations at 7.0, which compare to Friday's 6.2 bcf. These increases have occurred while Cameron remains offline, with 0 flows reported again today. Additional support was provided by Tropical Storm Sally as some Gulf production has been shut in as a precaution in advance of the storm. Early nominations are indicated at 86.1 bcf/d compared to Friday at 87.5. Despite the positive signs, the market remains concerned with the burdensome storage situation as weather demand continues to fade into the shoulder season. Overhead selling developed on the lack of intensity of the storm along with concerns that if Cameron's situation stretches into the end of the month additional supplies could be pushed into storage. The 2.40 level held resistance today, and likely remains staunch unless signs begin to emerge that Cameron is coming online, the sooner the better. With the market slipping as day wore on, the 200 day moving average just under 2.20 is a likely target of further retrenchment.