ADM
Archer Financial Services, Inc.

Energy Brief

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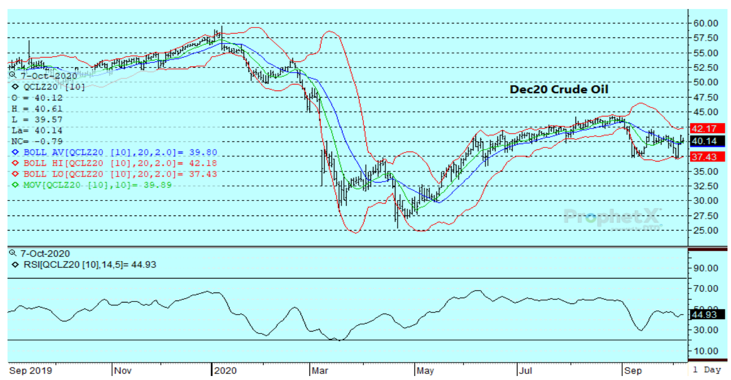
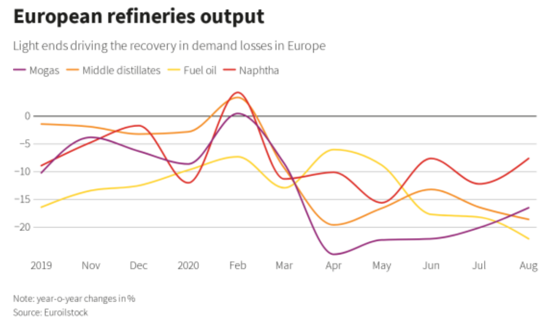
Price Overview

The petroleum complex traded in a weak fashion as the failure to come up with a stimulus agreement along with weak manufacturing data from Germany raised fear that economic activity is beginning to falter following the strength evident during the summer. Although some production shut-ins due to Hurricane Delta impeded activity in the GOM, it was not enough to offset the bearish economic news.



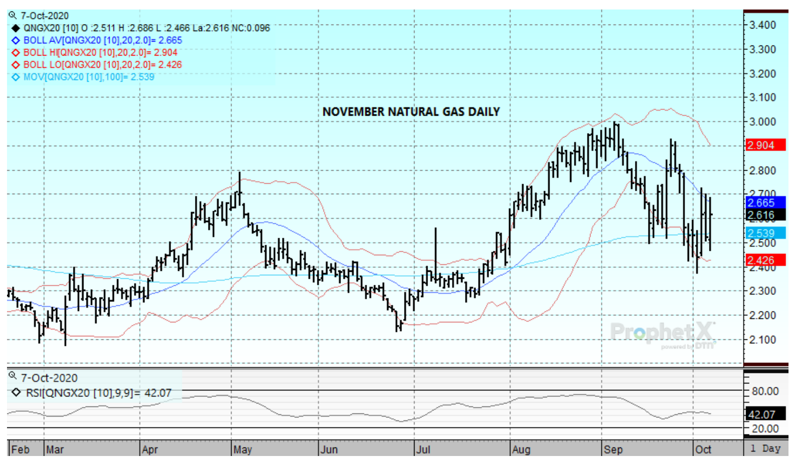
The DOE report showed crude inventories rising modestly by .5 mb. Production was reported higher at 11.0 mb compared to 10.7 mb in the previous week but the shut ins due to Hurricane Delta should reverse the production level downward in next week's report. Import levels increased dramatically, rising to 5.7 mb compared to 5.1 in the previous report while exports declined to 2.7 mb compared to 3.5. Net imports of crude oil subsequently totaled 3.1 mb compared to the 4 week average of 2.8. Crude oil input to refineries totaled 13.9 mb, 11.5 percent below year ago levels. Total crude and product inventories at 1,419 mb were off 2.0 mb and remain elevated to last year's level of 1,284. Stocks of gasoline fell 1.4 mb against expectations for a decline of .5 while distillate stocks were down by 1.0 mb in line with estimates. Total product supplied was 18.3 mb, well below last year's level of 21.4 for a decline of 14.5 percent. Distillate supplied was 3.9 mb compared to 4.0 last year while gasoline supplied totaled 9.0 mb compared to 9.5 last year.

Although prices seem confined to a range depending on the outlook for the global economy and demand along with progress at rebalancing inventories, the market has been taking note of the relationship of crude to products and particularly the cracks. Given the weak margins, refinery operations have notably declined in line with the profitability of individual products. Noteworthy has been the recovery in the ULSD price relative to crude. The crack has advanced from a low of 7.18 on September 24th to a high of 9.55 yesterday on the December Ultra Low Sulphur Diesel before settling back today. With the lighter end of the barrel driving a recovery in demand in Europe, we expect the shifting of refinery production from middle distillates to the lighter end of the barrel such as gasoline and naphtha will continue to underpin the ULSD crack on pullbacks to 8.50 basis December, particularly as demand picks up in the North East for heating oil.



While US policy developments will remain in view, particularly a US stimulus plan, the global supply/demand situation will likely come into clearer focus on October 13th when OPEC will release their monthly Oil Market Report. The appearance that the global economic recovery might be slowing on the potential for a second virus wave as we move into the 4th quarter continues to be a concern as it effects how quickly supply and demand re-balances. Whether OPEC needs to take additional action as we move into the new year will be a major question mark for the market.

Natural Gas



Volatility has ramped up in advance of Hurricane Delta as traders closely watch the storm track and its potential landfall zone. The rally on Monday spurred by Gulf of Mexico production shut-ins gave way to weakness yesterday as the storm track seemed to be moving further West and threatening on shore gas infrastructure, as risk to LNG facilities at Cameron and Sabine Pass increased. Prices were supported today by an uptick in LNG flows to 8.1 bcf/d, up from 7.7 yesterday, and lower production which was indicated at 83.3 bcf/d this morning compared to 84.8 yesterday. Flows to Cameron, which has been down for over a month, increased to .65 bcf today as they look close to being back online and added underlying support. Any additional setbacks at Cameron from the current storm could be troublesome for the November contract as concern would re-focus on EOS storage levels. Weather demand remains lackluster and a background negative once the storm fallout is realized. Look for continued wide ranges as we close out the week, with the 2.70 area still offering resistance and support not significant until we trade down near 2.50.

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