Archer Financial Services, Inc.

**Energy Brief**

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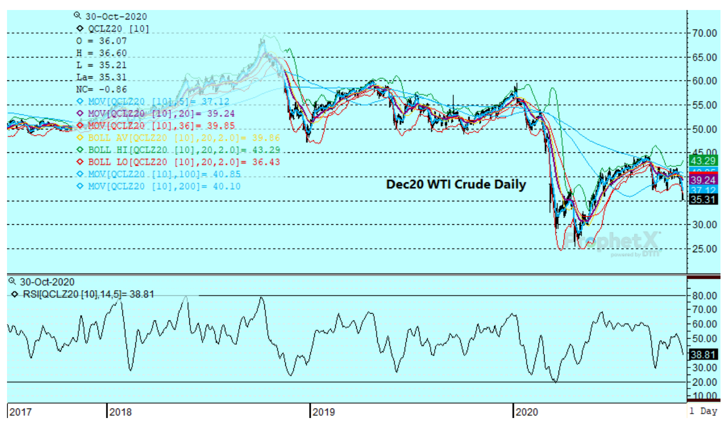
Prepared by Steve Platt and Mike McElroy

877-377-7931

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

## Price Overview




The petroleum complex traded sharply lower overnight but recovered back to record modest gains as Asian economic data helped soften selling interest emanating from the ongoing rise in COVID cases in Europe and the US and the associated threat of lockdowns. The supportive news was linked to economic reports from China and Japan. In China, factory activity in October accelerated at the fastest pace in nearly a decade as domestic demand surged. The Caixin Manufacturing Purchasing Index rose to 53.6, the sixth consecutive month of growth and the highest since January, 2011. The strength was attributed to pent up demand, stimulus driven infrastructure spending and resilient exports. Current forecasts indicate that China's economy will grow by 2 percent in 2020, but some slowing in export levels has been seen due to the pickup in viral infections in Europe and the US. The news out of Japan was not as impressive, as manufacturing, while still contracting, was better than expected with the PMI at 48.7 percent compared to 47.7 in the prior month. The first increase in export orders in nearly two years driven by improved demand in the Asia-Pacific region helped spur the increase.

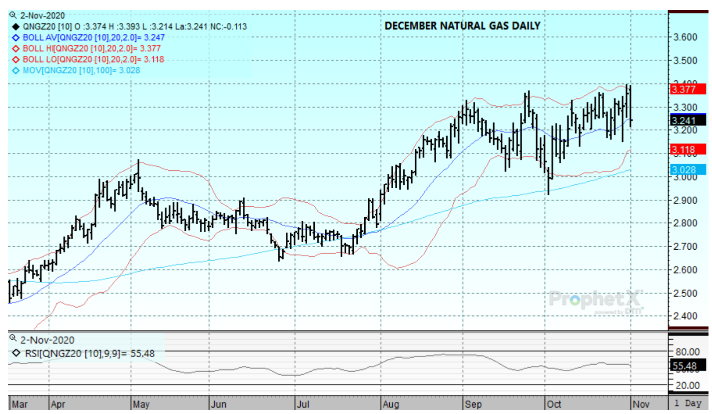
Today's recovery from a low at 33.64 basis December was not that surprising given the oversold condition of the market and pressure on OPEC to limit production levels as we move into 2021. A weaker price structure much below the 35.00 area might forestall any discussion of how the current cuts are allocated. Nevertheless headwinds linked to expanding production from Libya and the failure of Iraq to compensate for overproduction earlier in the year could pose issues if compliance levels fall from the current level of 101 percent in October and concerns increase over rising lock-downs.

Although the likelihood remains that OPEC+ will keep current production cuts of 7.7 mb/d in force into early 2021, suggestions that the allocation of cuts will need to be revisited could still be cause for concern.  Given current levels of sustainable production capacity, such as that for the UAE, and deteriorating economic conditions in areas such as Iraq and the FSU, discussion on how the adjustments will be distributed might raise questions regarding overall commitment to current production cuts past the first quarter.

Although both China and India are showing a strong recovery in demand, the rising infection rates in other areas have raised concern that the improvements might stall if the pandemic forces a return to lock downs.  Any hint that travel might be curtailed for the approaching festivals in India or with the Chinese New Year could dramatically affect sentiment.

Another event to watch will be tomorrow's US elections.  The strong possibility that Democrats will have control of both houses of Congress and the executive branch could present considerable policy changes.  From restraints to drilling on federal lands, lifting of sanctions on the Iranians, and increased investment in competing renewable resources, pronounced shifts in price relationships on the forward curve are likely.  For now the recovery back above the 35.00 level creates support there, with the election creating uncertainty over US policy toward drilling possibly leading to a recovery in WTI crude to near the 37.50-38.00 area where good resistance should emerge.

**Natural Gas**




Despite trading through the 3.37 level after the settlement on Friday and again on the overnight open, the market could not generate any follow through as fundamental negatives ignited selling.  Production bounced back with a vengence over the weekend to surpass 89 bcf/d, and coupled with forecasts this morning that dramatically decreased HDD expectations over the next two weeks, concerted selling pushed the December to a close at 3.244, 11 cents lower on the day.  LNG feedgas continued to impress, surpassing 10 bcf/d over the weekend, but it was not enought to offset the expected decrease in consumption of as much as 1.8 bcf/d due to the mild weather expected this week.  Background concerns regarding the resurgence of COVID-19 added selling pressure.   The 3.20 area emerges as support again.  It has been revisited and violated multiple times recently, but the market has only managed to settle below that level two times in the last three weeks.  Another test below there offers a buying opportunity as the upcoming warmup runs its course and we head into the winter demand season.