Archer Financial Services, Inc.

Energy Brief

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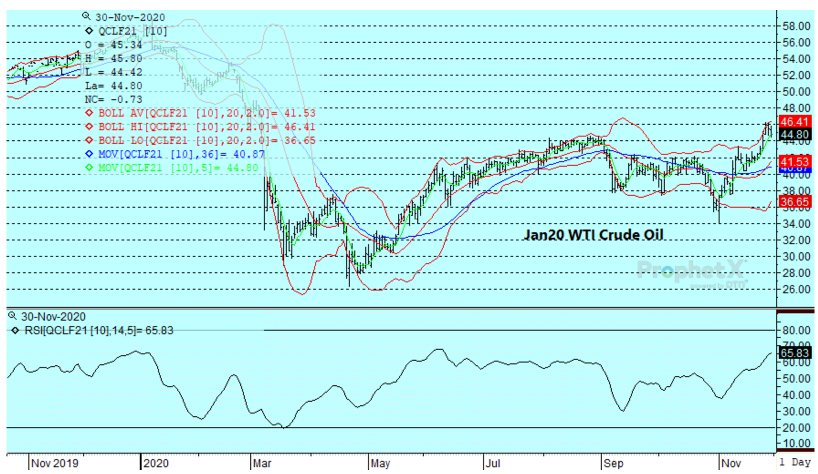
Price Overview



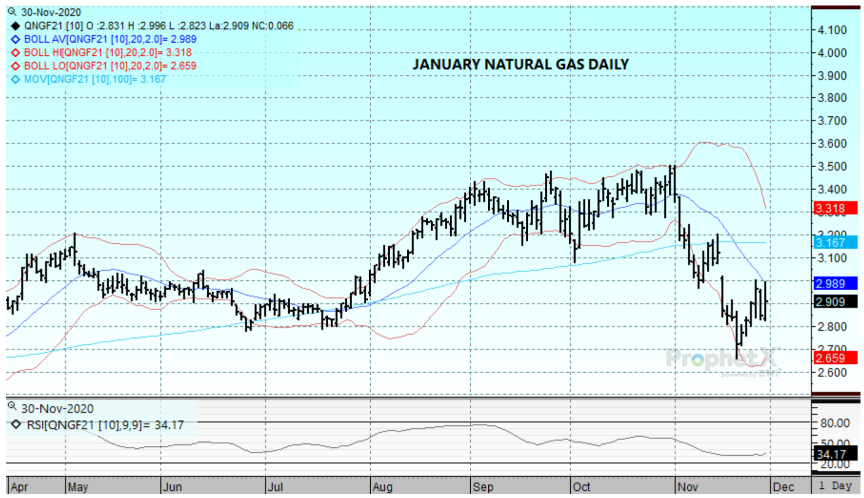
Despite the heating up of geopolitical risk in the Middle East following the assassination of a leading Iranian nuclear scientist and the meeting by OPEC members today, the market traded on the defensive. Ministers appeared to reach a consensus on the need to extend existing oil production cuts for three months, but uncertainty regarding the position of participants outside the group, such as Russia, remained in the background. A full meeting of OPEC+ is scheduled for tomorrow, when the rolling over of current output cuts will be discussed. Russia appears to want small incremental increases in output in the first quarter. The recent increase in prices has taken values back up to acceptable levels by which members see a way to soften the impact that price weakness has had on national budgets in many countries particularly Russia, Iraq and Nigeria. On the other hand there remains a fear that prices much higher than current levels will merely encourage US producers to expand production in shale areas. The delicate balance between the two forces will likely be an overriding consideration at the full conference tomorrow.

In November OPEC production totaled 25.31 mb compared to 24.56 mb in October. OPEC compliance with output cuts was 102 percent. Although the UAE appeared to show some compensatory cuts for overproduction in prior months, Iraq still has shown little inclination to make up for overproduction, although they did appear to comply with the current requirements at 3.8 mb. For those members exempt from current cuts due to political considerations, Iran and Venezuela rose marginally from October while Libyan production rose from .43 in October to 1.1 mb/d in November.

With small oil producers in Russia seeking some expansion of output and larger companies clamoring for some easing of cuts, they might attempt to find some middle ground between the 5.7 mb planned output curb and the rollover of the 7.7 mb currently in effect. Such a move might lead to some weakness but overall the market could return to established trading ranges of 38.50-43.00 it had moved out of last week, with a close eye on events in Yemen and Iran.

Natural Gas

Prices have settled into a range over the last week as the January contract has traded between 2.80-3.00. LNG remains the main factor supporting the market, with terminals running near current capacity above 10 bcf/d. Cold temperatures in Europe have helped support overseas LNG prices as US exports look to remain elevated for the foreseeable future. The missing link remains weather, as we exit a November that came in well below normal in terms of heating demand. With temperatures beginning to trend toward normal, the withdrawl season may finally get underway in the next few weeks. A near term jump in HDD expectations supported the market early today, but a return of above normal temperatures in the back end of the two week forecasts kept the rally in check. Prices tested the 3.00 area again before pulling back to settle higher by 4 cents at 2.882. With production showing signs of leveling off, coming in under 92 bcf/d for a week now, we continue to see potential on the upside with any change in weather pattern. If the 3.00 level can be penetrated the market likely fills the chart gap rather quickly to a test of the 3.10 area. Any pullback on poor demand finds initial support near 2.80.



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