ADM

Archer Financial Services, Inc.

Energy Brief

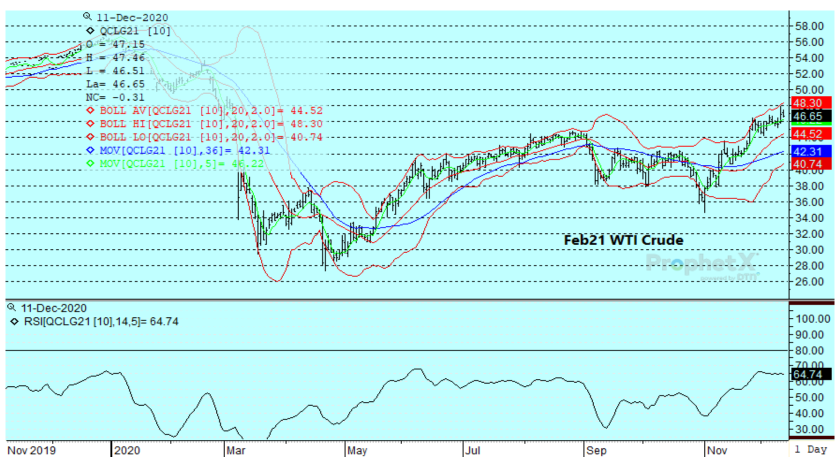
December 11, 2020

Prepared by Steve Platt and Mike McElroy

877-377-7931

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

Price Overview

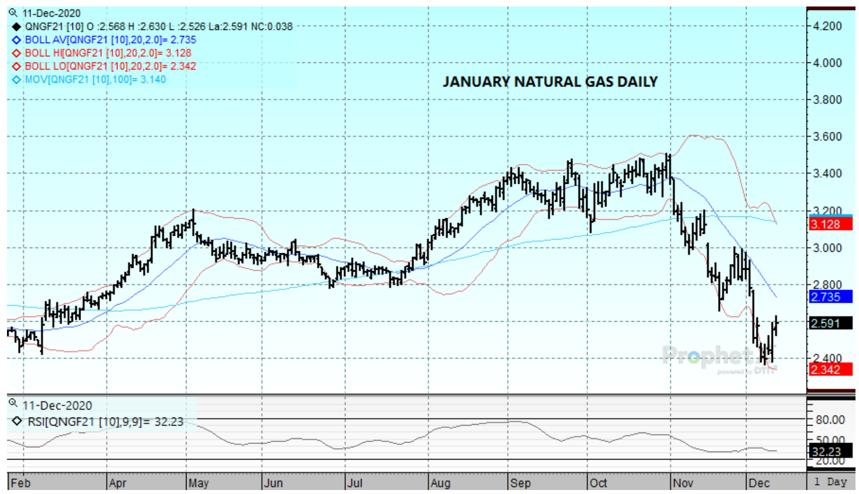


The petroleum complex continues to trade at higher levels as optimism surrounding the COVID vaccine reversing demand declines helped underpin values. Some resistance does appear evident above the 48.00 area basis February, reflecting prospects that OPEC will revisit their production levels in February and move toward the 2 million increase originally envisioned as concerns intensify within the alliance that non-OPEC members will see the higher prices as an opportunity to increase production and take away market share.

The market generally ignored the agreement by the EU to implement new climate change targets. They agreed to cut their net greenhouse gas emissions by at least 55 percent from 1990 levels by 2030, substantially toughening the existing target of 40 percent. The EU emissions market already seeks to put a price on carbon emissions. The price of permits rose to an all time high above 31 Euros a tonne on Friday on expectations that the supply of permits would decrease to force deeper emission cuts. Although cuts in carbon emissions has not been a priority in the US, the discussion and potential legislative action might pick up under the Biden Administration. With both biodiesel and renewable RIN's recently strengthening to their highest levels in over a year and half, more stringent carbon regulations are being already anticipated. What impact it will have on longer term supply/demand trends will be a key consideration for petroleum valuations longer term.

For next week the market will be attentive to the release of the OPEC Monthly Oil Report on Monday and the IEA Monthly Report on Tuesday. They will likely guide deliberation by the OPEC Monitoring Committee on December 16th. We see the potential for OPEC to continue to expand production despite signs that demand remains weak and inventories burdensome. The DOE report will also be watched on Wednesday to see if the sizable increase in crude inventories this week was an aberration.

Natural Gas



The recovery that started Wednesday found good follow through as we ended the week more that 20 cents above Tuesday's lows. The rebound gained strength after the storage report was released yesterday showing a 91 bcf drawdown from stocks. This was well above estimates in the 82 area as prices jumped over 10 cents soon after the release. Continued support was evident today, based mostly on near term weather forecast revisions that pushed weekend consumption estimates higher by over 5 bcf/d. LNG flows and production remain supportive underlying factors, although output has had minor upticks over the last two days. Weather remains the key variable, and will be for the next few months. The market will have difficulty forging much more upside without the emergence of a cooler temperature trend. With 2.60 taken out today on the January contract, the 2.70 level now looks like the next area of resistance, but if we see a return of the downward trend in HDD revisions early next week the 2.50 level will be quickly tested.