Energy Brief

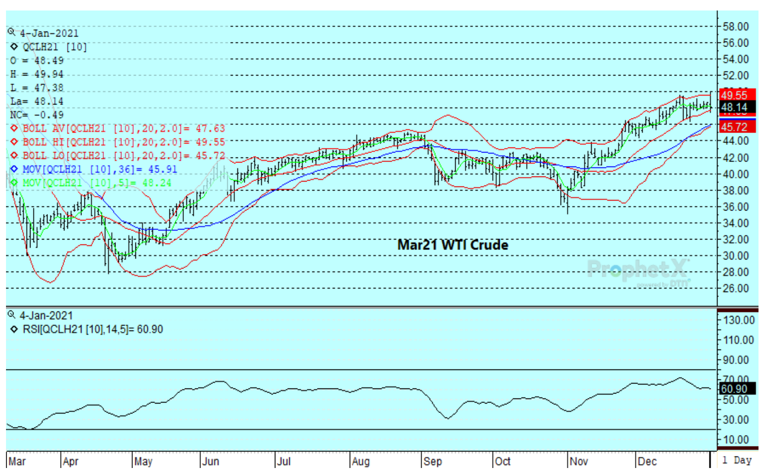
January 4, 2021

Prepared by Steve Platt and Mike McElroy

877-377-7931

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

Price Overview



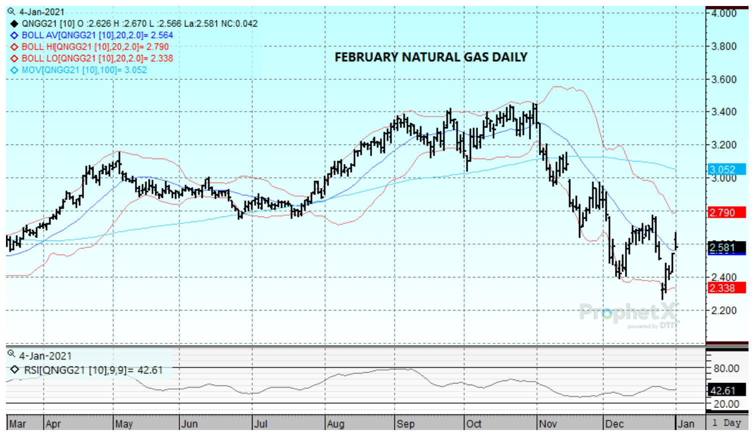
The new year started on a volatile note for the petroleum complex. Overnight reports that OPEC+ was favoring holding production at current levels along with rising tension in the Persian Gulf led to new highs for the move at 49.94 basis February. The brief penetration of the previous highs was followed by concerted selling pressure in the morning despite a weaker dollar and strong upside movement in precious metals.

The sharp move to the downside appeared to reflect underlying fundamentals and sensitivity to Russia and Kazakhstan desires for a higher quota in February. Although Iraq, Nigeria, and the UAE favored holding output steady, questions remain over their non-compliance with the previous agreement along with whether they have followed through on their pledges to lower output in line with their earlier overproduction. In addition, demand recovery continues to be questioned amid faltering roll-outs of the vaccine and fears that a slow global immunization rate might extend the recovery timetable for international travel, suggesting the demand recovery in 2021 might be overestimated. How quickly stocks are drawn down remains a key consideration as the possible lifting of Iranian sanctions and national movements away from hydrocarbons and toward renewable resources remain distinct longer term challenges to the outlook in 2021. Although today's deliberations by OPEC might forestall a downdraft in prices by keeping production unchanged, we still feel the high near 51.00 should contain the market on the upside.

Any move to raise output levels even modestly will likely undercut values and could lead to a dip toward the 45.50-46.00 level and potentially 44.00 basis March WTI.

The DOE report Wednesday is expected to show crude stocks down 1.5 mb, distillates up 2.8 and gasoline up 1.6, with refinery utilization increasing .4 percent.

Natural Gas



Prices have rallied over 20 cents since our last report, with the chart gap filled at the 2.51 area and another created on the upside with the overnight reopen. Last weeks storage report came in at a 114 bcf drawdown, below expectations for 125. The unimpressive number was unable to pressure prices as temperatures began to signal cooling and brought back buying interest prior to year end. Weather models confirmed the trend to start off the new year, with agreement on substantial increases in HDD expectations in today's early revisions. The market spiked up to an intraday high at 2.67 before pulling back to end the session 4 cents higher at 2.581. Despite the cooling revisions, the trend is more toward normalization rather than below normal temperatures, and with production continuing to surprise and hold steady near 92 bcf/d, the market was unable to hold the early weather gains. Near term it looks likely that prices will trade below the 2.55 area and fill the gap created overnight. With LNG showing no signs of easing from its current levels, any extension of the cooling trend could lead to a test of the 2.70 level on the February contract.