ADM

Archer Financial Services, Inc.

Energy Brief

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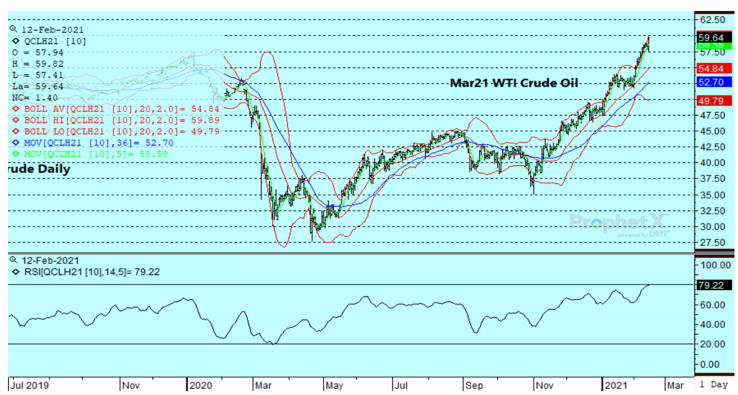
Prepared by Steve Platt and Mike McElroy

877-377-7931

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

Price Overview

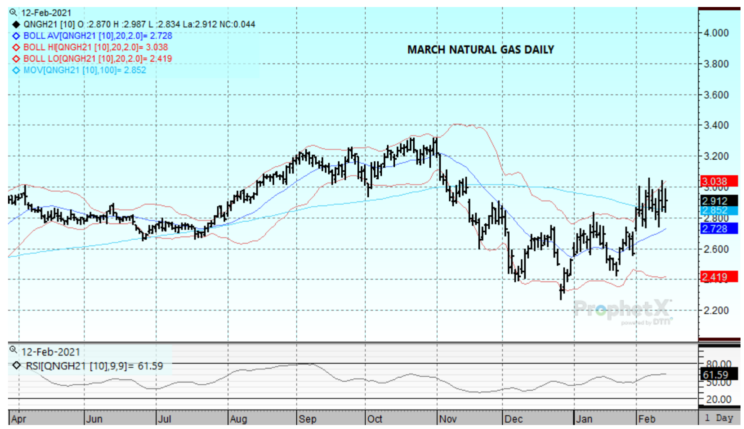


The petroleum complex traded higher with gains of over 2 percent in crude. The strength appeared to be linked to optimism over demand prospects despite downward revisions to forecasts by the IEA and OPEC in their monthly reports yesterday. The steady uptrend in values appeared to be linked to ideas that a coronavirus package totaling 1.9 trillion will be approved by Congress. In addition, a sharp drop in COVID cases along with the reduction in hospitalizations raised hopes that the worst might be behind us given the steady roll-out of vaccines. In the background was the declining level of US inventories which have been larger than expected and appears to be a reflection of the tightening in prompt supplies due to OPEC restraint along with the expansion of economic activity in China and India.

For the most part the reports by the IEA and OPEC yesterday were ignored. Demand for 2021 was expected to recover by 5.4 mb/d to 96.4, as the recovery in oil demand remains slow with demand prospects contingent on the recovery in manufacturing along with the distribution and the administering of vaccines. Although OPEC+ continues to provide support by restraining output, uncertainty over their plans after March remains a key focus of the market. In addition producers outside of OPEC are incentivized to raise output, with expected increases in 2021 of 830 tb/d compared to a decline of 1.2 mb/d in 2020.

Ideas that the market will swiftly move through the surplus as supplies tighten continues to create a positive price environment. The strong stance of Saudi Arabia to maintain prices along with comments by President Biden that Iranian sanctions will not be lifted without assurances that they will comply with the JCPOA agreement in its entirety remain supportive influences and might lead to a test of the 60.00 level and potentially 63-65 where an uncertain demand environment along with an overbought condition should provide resistance.

Natural Gas



Another attempt, another failure. The March contract made a foray above 3.00 yesterday, only to be deterred by the smaller than expected storage draw of 171 bcf. Expectations were in the 180 range, and the market seemed taken by surprise as prices plummeted following the release to end the day 17 cents off the highs. Today's action has been skittish ahead of the long holiday weekend, with regional cash prices spiking drastically as futures firmed into the close. Extreme cold is expected across much of the country through next week, with the South Central and particulary Texas experiencing record cold. The drop in production levels due to freeze-offs has been substantial and looks to intensify in the coming days. Today's output likely ends up near 86 bcf after revisions, which is 5 bcf below week ago levels. This slowdown likely keeps the market from violating the 2.80 level near term, and the possibility for this cold spell to spur prices consistently above 3.00 likely loses steam next week unless current expectations for normalization into the end of the month can turn colder with next weeks forecasts.