



Archer Financial Services, Inc.

Energy Brief

February 17, 2021

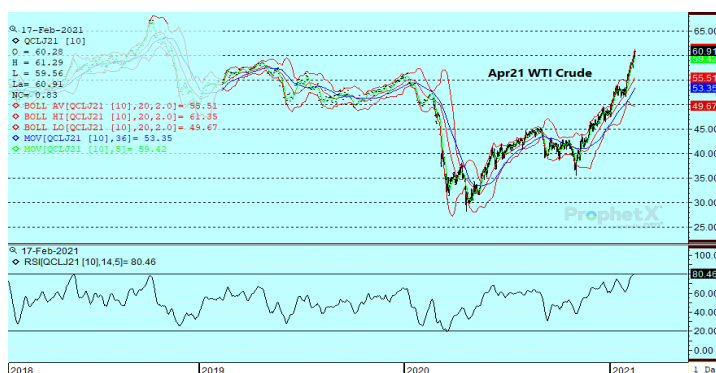
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Price Overview

The petroleum complex again traded higher, reaching up to 61.29 before attracting profit taking. Recent cold throughout major portions of the Gulf Coast has crippled infrastructure both upstream and downstream. In Texas, between 500-1.2 mb/d of crude production along with 4 million barrels of refining capacity was shut in due to cold weather conditions. The lower production along with higher demand due to the abnormally cold weather has put the focus on the US supply/demand situation. The constrained US output levels are unlikely to dramatically affect the DOE report slated for release tomorrow, Nevertheless the recent steady decline in stock levels will magnify the importance of next week's report given the weather disruptions. The report, which has been delayed until tomorrow due to the holiday, is expected to show crude inventories declining by 2.2 mb, distillates falling by 1.8, and gasoline increasing 1.4 mb. Refinery utilization is expected to be off .2 at 82.8 percent.

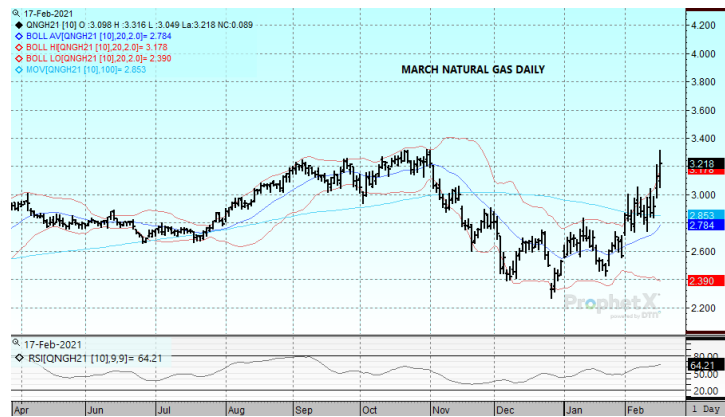


While the international situation has been pushed into the background, it is still a key variable in the price outlook. A missile attack against Iraq has allegedly been traced to the Iranians. Whether the US will take action remains to be seen given the uncertainty associated with the allegations. In addition, India has urged an easing of output curbs, indicating that the increase in prices is beginning to stall their recovery. With prices now at levels that could potentially encourage investment, OPEC+ will need to make hard choices when determining output levels as we move past March. The appearance that the global recovery is proceeding as vaccines are rolled out might be a fitting enticement for members to begin ramping up production to counter

increases by non-members. The Saudis still seem to be in the driver seat, with comments by their oil minister stressing caution and warning against complacency. A continuation of current curbs past March will be a key determinant as to whether prices can advance to the next area of resistance near the 63-65 level basis April.

Natural Gas

The extreme cold event that started this weekend has wreaked havoc on natural gas infrastructure and the power grid, particularly in Texas. Currently 2.7 million households are without power there as nearly half of the states generating capacity was offline due in most part to freeze-offs, where temperatures get so low that the wellheads actually freeze due to the water present in the pipes. The drop in overall lower 48 production has



been substantial, with early nominations today indicated near 72 bcf/d from the 90 area a week ago. LNG flows have also been stifled by multiple similar issues as supplies are diverted from export to urgent local needs. Feedgas flows were indicated at 6.2 bcf this morning, although they are likely much lower than that after revisions due to reporting issues. The question now becomes how quickly things can return to some semblance of normal. Weather will remain cold this week, and this morning's revisions, although overlooked due to the current crisis, were cooler in the 15 day outlook. With the current chaos in the physical market prices likely remain well bid at least through the end of the week. The March contract, which expires in 6 days, was finally able to settle through the 3 dollar level the last two sessions and likely holds above there through expiration as infrastructure issues get hammered out. The April contract also managed to settle through the 3.00 mark, and could attempt to break through the November highs near 3.05 near term with massive storage draws likely over the next few weeks.

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