Energy Brief

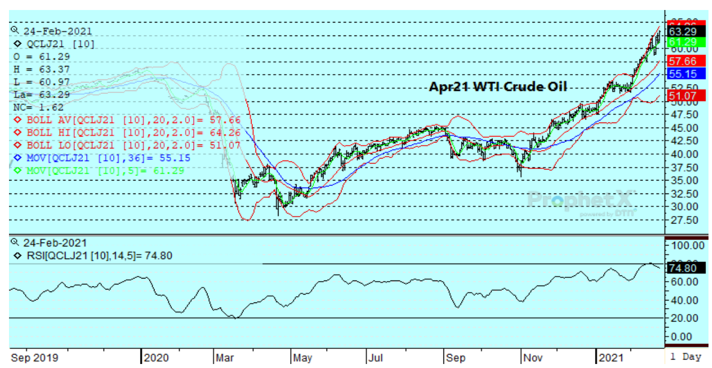
February 24, 2021

Prepared by Steve Platt and Mike McElroy

877-377-7931

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

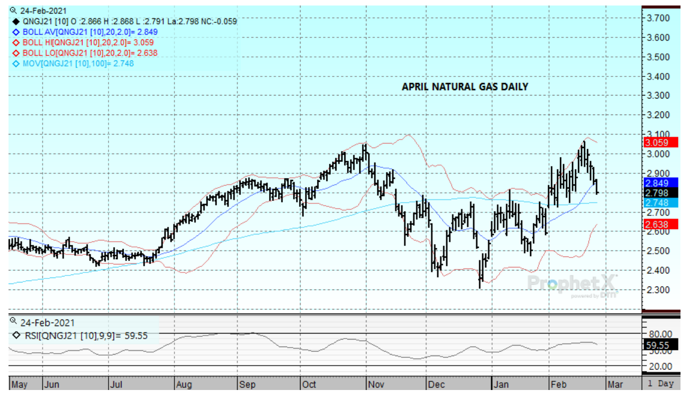
Price Overview



The petroleum complex saw early weakness in response to the API report that showed a rise in inventory levels of 1 mb compared to expectations for a decline of 5.2 mb. Although the DOE report confirmed that crude stocks increase by 1.1 mb/d, the marked drop in US domestic production of 1.1 mb/d to 9.3 and the decline of 5.5 mb/d in distillate and 5.0 in propane helped underpin the market and lead to a strong recovery that took values to new 13 month highs. The build in crude inventories likely reflected the sharp fall in refinery utilization which droppet to 68.6 percent compared to 83.1 the prior week. In addition the closure of the Houston Ship Channel likely impeded export levels, helping limit the draw-down in inventories. We suspect that in the weeks ahead a more normal pattern to production and utilization should be apparent which should help stabilize inventory levels and the market's focus might shift to trends in disappearance. The wintry conditions appeared to affect demand as total products supplied fell to 18.7 mb/d from 20.7 mb/d in the prior week. Gasoline product supplied fell to 7.2 mb/d compared to 8.4 while distillate product supplied fell to 3.9 mb/d compared to 4.5 while propane supplied fell to 1.0 mb/d from 1.9.

The steady move higher in both crude and products will likely provide the basis for increased production both inside and outside of OPEC. The movement into the 63-65 area should encourage a larger than expected recovery in US shale production as some producers speed up development of new wells to avoid any tax changes that might be seen next year, and to prepare for potential pent up demand from the domestic economy as vaccines are rolled out. Major question marks remain as to how much OPEC+ producers will be willing to raise production in April, and the possible easing of sanctions on Iran.

Natural Gas



Prices have continued to pull back as the April contract lost over 6 cents today to settle at 2.795 ahead of becoming the front month tomorrow. The weakness has been spurred by a continual downgrading of HDD expectations into the first week of March along with a rapid recovery of production following the extreme weather events last week. Early nominations came in this morning at 89.3 bcf/d, which was above levels seen leading up to the weather issues. LNG feedgas levels have also recovered, although not completely, as they were indicate at 10.2 bcf today which is still about .5 bcf below two weeks ago. Estimates for tomorrow's weekly storage report point to a draw of 333 bcf, which is well above the average for this time of year at 120. Due to all the issues that plagued the market last week, the potential for this number to be substantially out of line from estimates is high. With the poor close today the market will likely need something in excess of 350 to shock the system enough to stage a recovery. With the recent warming trends, the remaining weeks of the withdrawl season have seen expectations turn markedly lower and concern over end of season stock levels have eased. The 2.70 level likely gets tested on a low end number tomorrow, and with the overextension of the selloff an upside surprise could lead to a fairly quick retest of the 2.90-2.95 area.