Archer Financial Services, Inc.

Energy Brief

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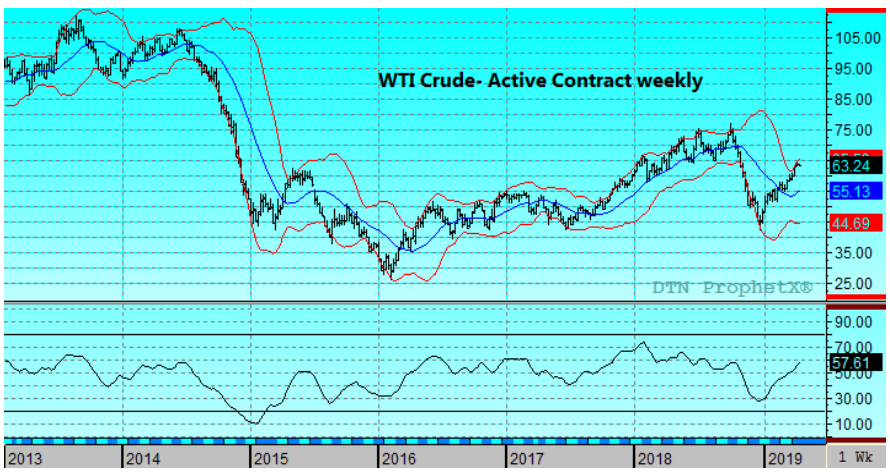
Price Overview



The petroleum complex stalled on ideas that recent increases in US rig counts could foreshadow continued growth in production levels. In addition ideas that Russia is looking at options for withdrawing from the OPEC pact weighted on values. Nevertheless the market appeared to give ground grudgingly on fears that crude oil supplies will inevitably tighten in response to the Iranian sanctions and the withdrawal of waivers along with the steady collapse of the Venezuelan oil industry. Despite the supply side concerns, the market continues to neglect any demand side issues that could be linked to weaker economic activity or potential substitution by alternative sources of energy.

The current adjustment process could ultimately lead to changes in the opposite direction as both demand and supply respond to price. This will have more of an influence as time wears on and higher prices have a chance to impact demand. How it plays out remains to be seen, but the impact of higher prices, particularly those artificially induced by policy and political events, all to often have a result which is the opposite of what you might expect.

In the near term, we are content to sit on the sidelines in crude and look for a top to develop near current levels on the prospect that the supply disruptions will begin to reverse as we move into the 2nd half of the year. Any appearance that a resolution of the US/China trade dispute is about to take place could be used by world producers as an excuse to revive production levels and more aggressively fight for market share which would have the potential to undercut values.

Natural Gas

Prices traded under pressure on forecasts for warmer temperatures and a large build in inventories this week. Early expectations point to a build of 80 bcf compared to 34 a year ago and a 21 bcf build for the 5 year average. The large injection will push stocks down to 25 percent below the five year average from around 30 percent currently. Large gas production levels appear to be limiting any reaction to the return to service of the Cheniere LNG loading terminal. The weak tone has taken us into our recommended buy area of 2.73-2.75 basis August and we would look for better support to emerge given the appearance that weather conditions have been priced in. Risk on the long August position should be placed at 2.65.