



## Energy Brief

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Prepared by Steve Platt and Mike McElroy

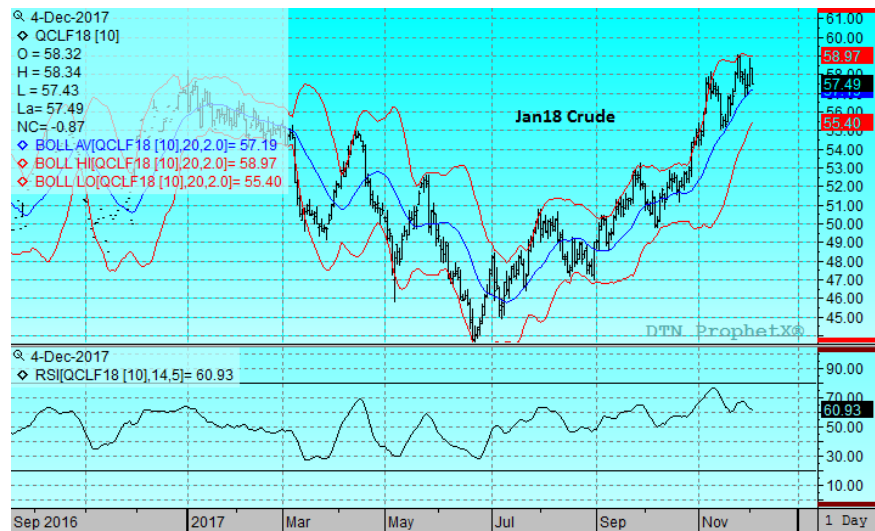
877-377-7931

[Stephen.Platt@archerfinancials.com](mailto:Stephen.Platt@archerfinancials.com)

[Mike.McElroy@archerfinancials.com](mailto:Mike.McElroy@archerfinancials.com)

### Price Overview

The Petroleum complex traded weak, reflecting nervousness over increases in US rig counts and fears that US production levels will continue to expand due to the higher prices precipitated by the production curbs carried out by OPEC and non-OPEC producers who are participating in the agreement. In addition some doubts are being



raised as to whether Iraq will honor the agreement given the rising production levels at Southern ports and in Kurdistan as the political situation stabilizes. Another negative consideration was that no action was taken by OPEC with respect to either Nigerian or Libyan production and their exemption from the agreement. Offsetting some of the nervousness was the demand side, where increases in global economic growth continue to be apparent.

Although participants have taken comfort in the progress that has been made over the course of the past year with inventories dropping and the market tightening as reflected by the movement into backwardation, reports that Asian refiners are showing increased interest in shipments from the Gulf of Mexico and the Caribbean could undercut commitment levels if the market share of some participants starts to erode. The failure to respond to reports that OPEC output fell in November by 300 tb/d to 32.48 with compliance at 112 percent suggests that any cracks in the agreement could undercut values.

Today's action might be the first sign that the upside has been exhausted. Given the large net spec large trader long position, which totaled 398,006 on NYMEX for WTI crude, an increase of 6,332 in the net long position; the market appears vulnerable to any disappointment. Given the

sizable backwardation of the nearbys to the back months, producers have a strong incentive to push production ahead rather than delay output. Currently the IEA forecasts a modest rebuilding in inventories as we move into the first quarter as non-OPEC and US production expands. In the background remains the DOE report Wednesday which is expected to show a crude draw of 3.5 mb, while distillate inventories are expected to increase by .5 mb and gasoline inventories are expected up 1.1 mb.

We still believe that the bullish news is priced in. It also seems possible that recent declines in US crude stocks will not persist, and we should begin to see some rebuilding in inventory levels in the weeks ahead. In the background are fears that global supplies could overtake demand again next year, leading to a rebuilding in inventories during the first quarter. On the downside, support exists near the 54.00 area basis January crude with resistance at 59.00.

## Natural Gas

The natural gas market continued to trade in a volatile fashion, falling almost 10 cents/mmbtu. The weakness reflected doubts that heating demand will match expectations and production will remain at record levels. We remain surprised by the markets weakness and believe that if consumption reaches as high as 114.8 bcf/d in mid



December prices should strengthen. The higher usage due to the lower temperatures combined with rising exports and commercial usage should support values. Given that total US stocks are 2.9 percent below the five year average for this time of year, some fears might build over the low stocks to usage ratio, which should support values back up toward the 3.25 level basis February provided support near 3.00 in the January holds up. Estimates for this week's EIA point to a draw of 17 bcf.

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