



Archer Financial Services, Inc.

Energy Brief

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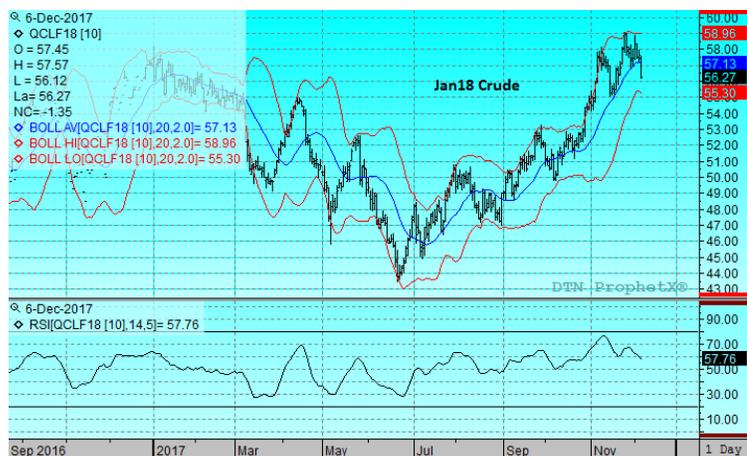
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Price Overview

The Petroleum complex continued to trade weak as a large build in US gasoline inventories offset the drawdown in crude oil. Signs that product demand has weakened appeared to fan the bearish sentiment. In addition the reopening of the Keystone pipeline yesterday tended to soften the impact of the larger than expected drawdown in crude inventories. In the background are fears that the sizable spec net long position will work against a firmer price structure on the potential for long liquidation.



The EIA report showed commercial crude inventories fell by 5.6 mb. Ongoing drawdowns in SPR stocks totaling 2.4 mb put the total draw at 8.1 mb. Cushing stocks continue to decline and stood at 55.6 mb compared to 58.3 mb in the previous week. In products, gasoline stocks showed an increase of 6.8 mb with disappearance still running modestly behind last year at 8.9 mb/d compared to 9.0 mb/d last year. Distillate stocks rose by 1.7 mb/d while disappearance was 3.7 mb/d, basically unchanged.



We still feel prices are vulnerable to the downside. The rate of disappearance for both gasoline and now distillate looks to be falling short of last year despite the economy remaining strong. On a global basis, non-OPEC production and especially the US will continue to expand given the more favorable price outlook. Doubts are also being

raised as to whether Iraq will honor the agreement given the rising production levels at its Southern ports and in Kurdistan as the political situation stabilizes.

Today's action in ULSD suggests a breakdown as recent support at 1.88 basis February gave way. Unless demand shows signs of picking up, February could test the 1.78-1.80 level. Today's action might be a sign that the upside has been exhausted. The February ULSD crack might also work down on a contra-seasonal basis and retest the 20.00 area before finding support.



We still feel that for the most part the bullish news is priced in. On the downside, support exists near the 54.00 area basis January crude and resistance rests at 59.00.

Natural Gas

The natural gas market failed to sustain early gains that had been based on colder temperatures coming later this month. Instead scattered selling emerged in the afternoon, reflecting nervousness ahead of the small withdrawal expected to be reported by the EIA tomorrow.

Expectations point to a draw of only 17 bcf compared to 43 bcf a year ago and a five year average of 69. Given that total US stocks are 2.9 percent below the five year average for this time of year, some concern should surface over the low stocks to usage ratio. If we can hold our recent lows prices should begin to work higher as temperatures begin to cool into the middle of the month. Look for a bounce to the 3.25 level basis the January contract.



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