Archer Financial Services, Inc.

Energy Brief

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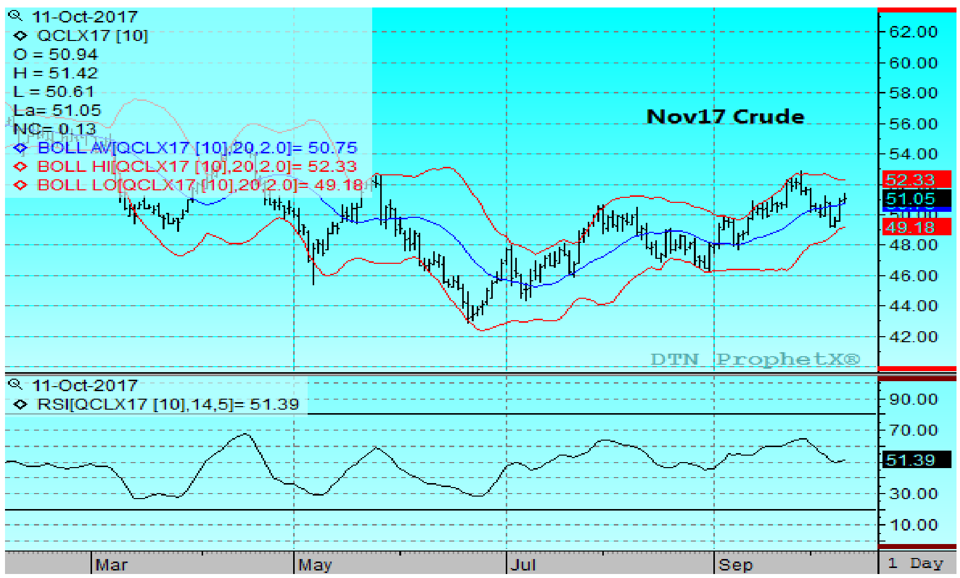
Price Overview



The petroleum complex failed to follow through decisively on early strength linked to reports that the Saudis had cut supplies to Asian buyers for November, and on revisions upward in demand forecasts by the IMF due to stronger global economic activity. Instead, profit taking emerged on ideas that a potentially higher price structure in 2018 will likely encourage additional production, helping erode compliance levels for the current agreement and limit the probability of its extension. In the background remained forecasts that US production will continue to expand in 2018 and reach over 10 mb from 9.5 mb/d currently.

Following the release of the OPEC monthly report in which they raised the demand forecast by 230 tbd for OPEC oil in 2018, participants will be awaiting the International Energy Agency Oil Monthly Report tomorrow and the scope of revisions to the forecast for demand and the impact on prevailing inventory levels in OECD countries. Of additional interest will be the EIA inventory report, with expectations pointing to crude stocks declining of 1.8 mb, distillate stocks by 2.4 and gasoline stocks declining by 1 mb.

The market still looks vulnerable to any developing concern that the pact will not be extended or that exempted members such as Libya and Nigeria are expanding output. These concerns could come to a head at the OPEC meeting in late November. We suspect that the market might consolidate in the interim between 48-52 basis prompt crude.

Natural Gas

Natural gas values attracted support on ideas that inventory levels, due to higher demand for LNG exports, will be strained as we move through the winter particularly if temperatures move below normal. For the current week, gas exports are running at 8.5 bcf/d, an increase of 67 percent from a year earlier. For tomorrow, the EIA report is expected to show a build 78 bcf compared to 79 bcf in the previous year and 87 for the five year average. Today's recovery from yesterday's lows suggests that a bottom is in and a more consolidative trading pattern might evolve once again between the 2.90 area and 3.10 basis November. With the days getting shorter, weather is likely to be a non-event for the next few weeks.