Archer Financial Services, Inc.

Energy Brief

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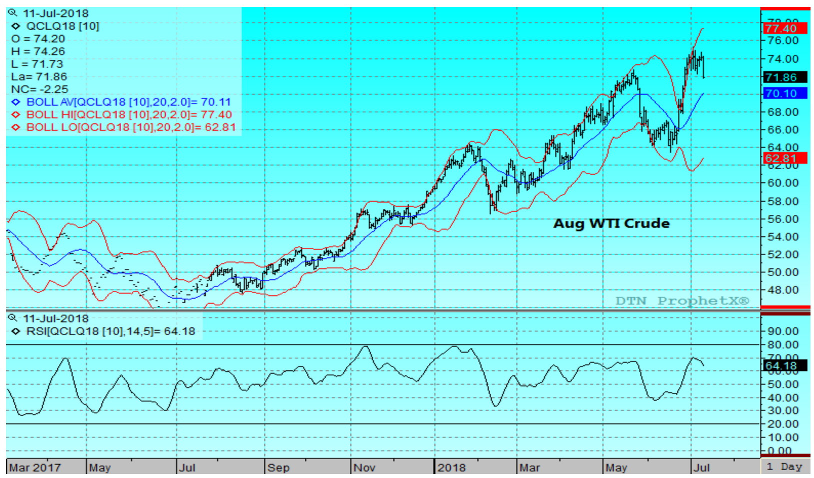
Price Overview



Despite a sizable drawdown in US crude oil inventories, the energy complex came under concerted selling pressure reflecting fears that further tariffs on Chinese goods by the US would lead to weaker economic growth globally and in turn lower energy demand. The negative tone was also encouraged by news that the Libyan National Oil Company had lifted their force majeure at all Libyan ports. In addition, reports that the US Secretary of State had indicated the US would consider requests for some countries to be exempt from Iranian sanctions on oil exports that go in effect in November prompted ideas that in light of increasing production from the Saudis and Russia, crude supply availability would stabilize and ultimately improve. The pressure on values was particularly pronounced in Brent in response to the improvement in supply availability from Libya and the potential that the expansion of the tariff war would likely have a larger impact on European economic growth. Forecasts from OPEC that world oil demand growth will decline in 2019 and

that demand for OPEC oil might fall by as much as 760 tb/d also provided a bearish backdrop for values.

The EIA report was to a large extent overshadowed, with buying initially in response to the large decline in crude inventories of 12.6 mb/d, the largest decline since September 2016. Cushing stocks also fell by 2.1 mb to 25.7 mb. The buying was quickly absorbed on ideas that the return of Libyan barrels to the European market would likely lead to lower export demand from the US for products and particularly distillate. In products, inventory levels fell by .7 mb in gasoline while distillates rose by 4.1.

The failure to respond to the DOE inventory report is certainly more suggestive of a bearish bias. The potential that the Saudis and Russians will continue to raise production levels remains in the background along with weaker demand prospects. Although Venezuela is likely to maintain a low production rate, the easing in the availability of supplies in Libya and Canada will be key considerations on whether a significant top is in place near the 75.00 area basis prompt crude. In addition, the potential exists that China will be more inclined to purchase Iranian crude given the favorable Iranian differentials to other crude origins, particularly from the US, which could lead to a test of the 69.00 area basis August.

Natural Gas

The market attracted better support as shortcovering developed in advance of tomorrow's EIA report. A low injection of 48 bcf is expected, compared to 59 a year ago and 77 for the five year average. With temperatures expected to remain above normal into late July, the low stock levels relative to historical norm remains a concern and should allow values to recover back up toward the 2.90 level in August where concerns over high production should pose resistance.