Archer Financial Services, Inc.

Energy Brief

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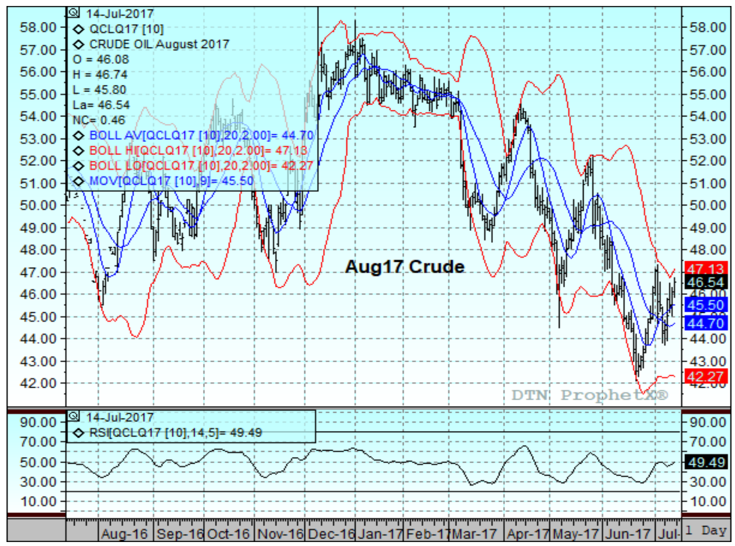
Price Overview



The petroleum complex attracted steady support in response to indications that overseas product stocks were being drawn down, along with reports that a force majeure had been declared on Bonny Light. Background support was provided by reports of a 4.2 magnitude earthquake 20 miles from the NYMEX delivery point in Cushing, Oklahoma. Although no damage was reported, some further inspection of the area will be warranted. In addition, early reports that Chinese crude imports continue to expand, and so far are 13.7 percent above a year ago, suggesting that demand in a key consuming market was continuing to grow in contrast to doubts earlier in the year.

Near term the market will be watching whether the Nigerian problems are prolonged. It seems for now that the production gains witnessed from both Libya and Nigeria are starting to level out and likely getting priced in. Although talk that compliance among OPEC members has fallen to near 75 percent is somewhat disappointing, the higher compliance rates of non-OPEC producers suggests that their commitment to the pact is intact and could well encourage others to move back to targeted levels. In addition the IEA report showed demand growth for the 2nd quarter looks to be stronger than expected at 97.5 mb/d, compared to 96.5 mb/d in the first quarter. This would suggest that demand during the 2nd half could reach 98.8 mb/d as seasonal forces come into play and economic growth expands.

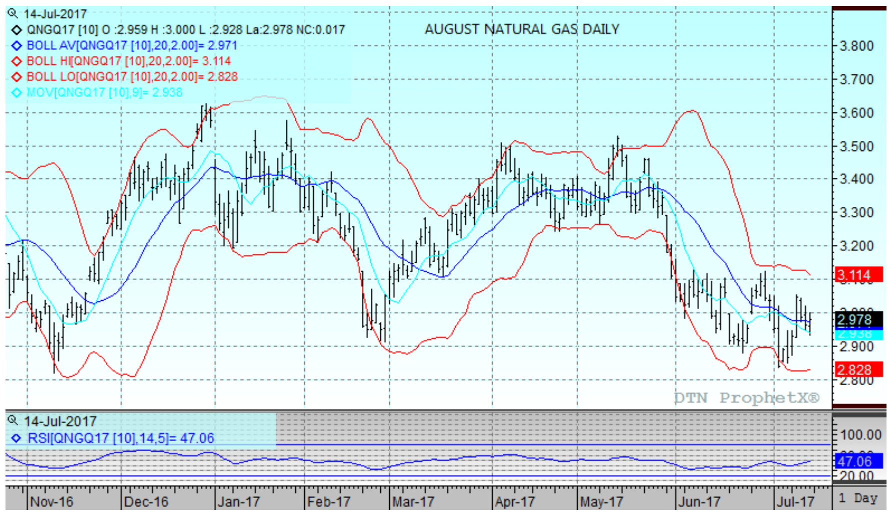
For next week participants will likely focus on the August crude options expiration on Monday, the DOE report Wednesday to see if marked declines in both crude and gasoline inventories continue, and the August crude expiration on Thursday. In addition, the approach of the Monitoring Committee meeting later this month will inject caution into the market as production levels among all participants are hotly discussed.

Overall it looks like support at 44.00 basis August remains stiff. While near term consolidation below 47.50 might persist , demand in the economies of Europe and emerging markets should show a stronger bias and provide background support. In addition, the recent weakness to values has helped restrain new capital investment which might help slow US production increases. The rig count rose modestly by 2 and currently stands at 765.

We still believe that positive seasonal factors are at play and that the market will ultimately respond as production in Libya and Nigeria are percieved to be leveling out. In addition, Saudi export levels are expected to contract as domestic needs in August absorb expected production increases. Subsequently an eventual test of the 50.00 area looks possible provided the support at 44.00 holds in the prompt crude.

Natural Gas

After two days of retrenchment, prices followed through to new lows for the week in overnight trade before finding good buying interest during the day session. Despite a decrease in severity of the expected heat from early week forecasts, there still appears to be enough demand potential with above normal temperatures to maintain support at the 2.90 area basis August. Yesterday's EIA report showed a 57 bcf injection, slightly below expectations for a 59 build, and well below the 5 year average of 72. Early guesses for next week indicate a build of 43 bcf verses 59 on the 5 year. With near term demand reigning in the selling pressure, the strong close today along with a pennant formation on the chart points to the potential for a push up to the 3.15 level as we work through next week's trade.



Charts Courtesy of DTN Prophet X