Archer Financial Services, Inc.

Energy Brief

May 16, 2018

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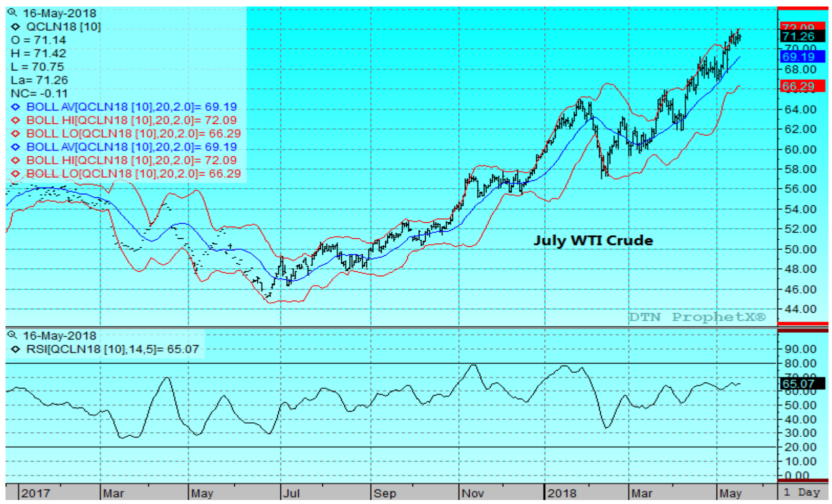
Price Overview

The petroleum complex traded in a rather featureless fashion as strong buying interest dried up and a cautious tone developed in response to the IEA report along with the DOE report. The International Energy Agency basically confirmed that inventory levels are now down near five year averages in OECD areas. Dollar strength also accounted for some selling as bullish news was lacking and participants continued to evaluate the stronger dollar and eventual impact of the US re-imposing sanctions on Iran. On the negative side, some concern



over demand prospects have surfaced. The IEA reported in their monthly forecast report that demand was likely to suffer from the higher prices. Supporting the forecast were the elimination of subsidies in some developing countries along with the appearance the Chinese economy might be slowing following the strong pace earlier this year. Key highlights of the IEA report were:

- Global oil demand growth for 2018 has been revised slightly downwards from 1.5 mb/d to 1.4 mb/d. While recent data confirms strong growth in Q1 and the start of Q2, we expect a slowdown in the second half of the year largely attributable to higher oil prices. World oil demand is expected to average 99.2 mb/d in 2018.

- Demand for OPEC crude will average 32.25 mb/d compared to output of 32.12 in April.

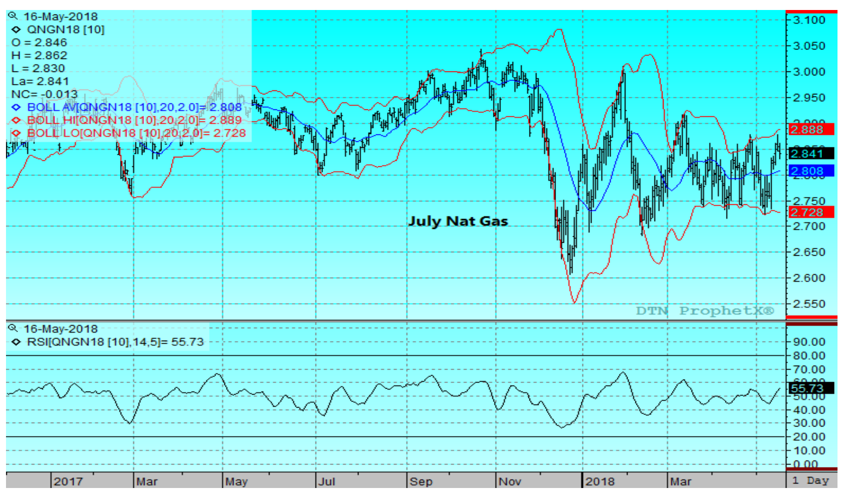
- Venezuelan production has fallen to its lowest level in years while Mexican production due to natural declines was down 8 percent from last year, falling by 175 tb/d.

- US output is at record highs and has helped push non-OPEC output up by over 2.1 mb/d to 59.4 million bpd while declines were noted in Brazil and the North Sea.

The DOE report showed crude inventories fell 2.9 mb/d. Crude oil exports at 2.6 mb/d remain strong compared to 1.1 mb/d a year ago. Domestic crude oil production totaled 10.7 mb compared to 9.3 mb/d a year ago. Other production including natural gas liquids continues to expand and currently stands at 6.3 mb/d compared to 5.9 mb/d a year ago. Refinery utilization totaled 91.1 percent against 93.4 percent a year ago. In products, the report showed sharp declines in gasoline inventories of 3.8 mb exceeding expectations for a 1.4 mb/d drop. Distillate inventories declined by .1 mb. Exports of distillate cooled off, likely in response to the higher prices which have outpaced both gasoline and crude, falling to 9.9 mb/d compared to 1.4 mb in the prior week.

For the most part the market is still cautious amid signs of developing tension in the Mideast. Nevertheless, the prospect the higher prices might erode compliance with the Vienna agreement remains in the background as a potential negative along with dollar strength. In addition, reports prompt cargoes are being discounted suggests both demand is flagging and US export levels are taking market share from other producers.

Natural Gas



Prices traded under pressure on profit taking in advance of the EIA report. Heat in the southern sections of the US has helped support demand but moderate weather in the Northeast has kept demand overall moderate. Expectations for the EIA report are for an inventory build of 108 bcf compared to 64 bcf a year ago and 87 on the five year average. The large stock increase should help moderate the decline in inventories from the five year average to around 24.5 percent. We still anticipate further strength to values on ideas that stocks relative to demand remain low and tightness could develop if weather turns hot during the key summer months. Longer term forecasts by the NWS will be updated on May 17^{th}. Any indication that demand might be higher than currently expected due to warmer forecasts could provide the basis for another leg to the upside.