Archer Financial Services, Inc.

Energy Brief

November 7, 2018

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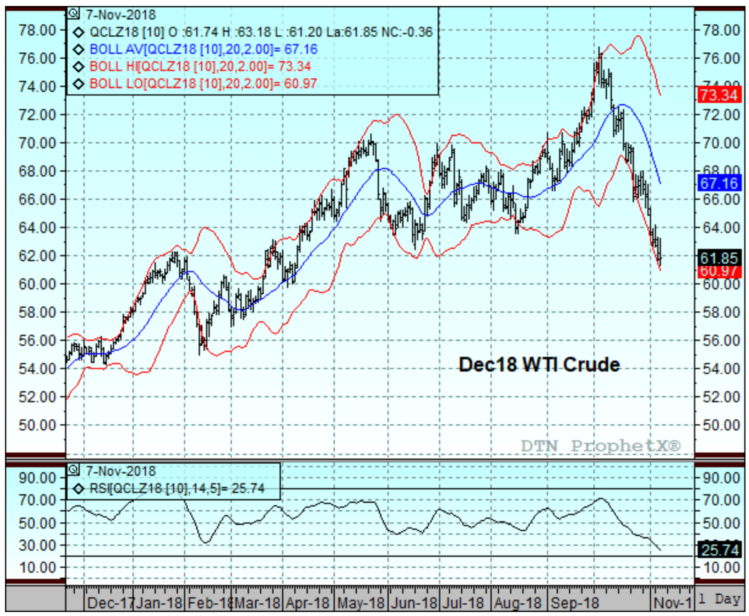
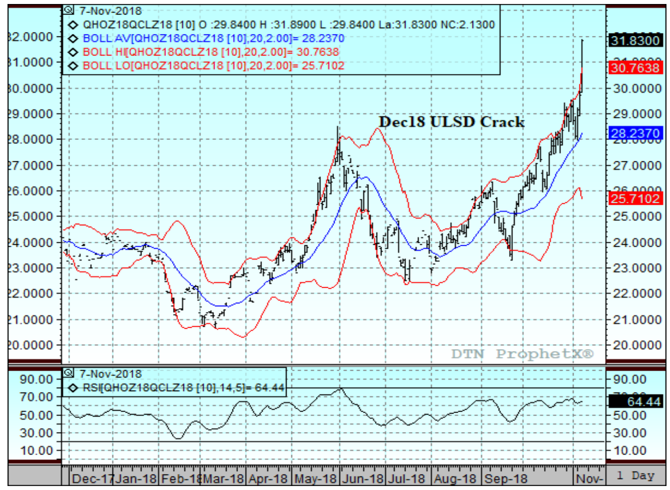
Price Overview



The petroleum complex continued to trade mixed as crude and gasoline weakened but ULSD showed strong gains. Overnight strength to crude was linked to reports that production cuts by OPEC in 2019 could not be ruled out, helping touch off short covering ahead of the DOE report. Following the report, selling in crude emerged on a further build in US inventory levels of 5.8 mb along with record high production levels in the US and a further inflow of 2.4 mb into Cushing stocks. Gasoline weakened in line with crude on the build in inventory levels of 1.9 mb while distillate strengthened both on a flat price and spread basis on the draw in inventory levels of 3.5 mb. Refinery utilization strengthened to 90 percent from 89.4 percent in the prior week. Total product supplied reached 20.4 mb compared to 19.9 for the prior year. Year to date demand has increased by 2.6 percent overall.

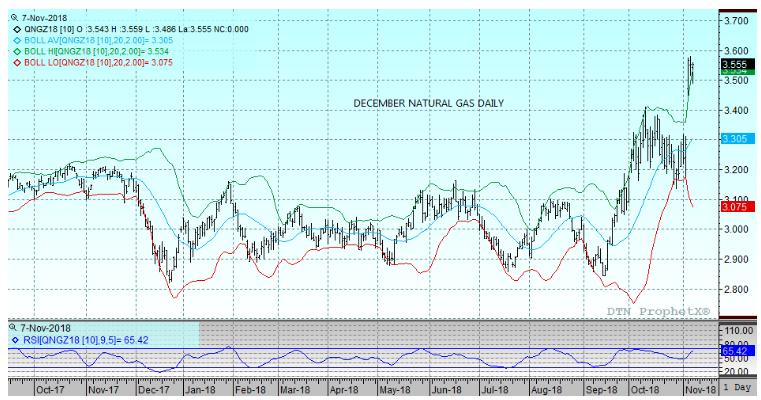
The re-imposition of sanctions by the US on Iran's oil industry appears to have been taken in stride as the US granted waivers to some countries, allowing the import of Iranian oil over the next 180 days. The sanctions, which have taken as much as 1 mb/d off the market already, have been offset by increased output from other producers. From our perspective the appearance that supply availability is improving at a time when demand might be softening looks to be largely priced in. Instead, ideas producers might be more willing to cut output given the completion of US mid-term elections should provide some latitude to Russia and Saudi Arabia to throttle back production in order to underpin values. Reports that Saudi Arabia and Russia are in bilateral talks regarding output in 2019 suggests they are prepared to act if prices weaken further. This should provide more substantive support to values.

On a further setback we are recommending a buy of the January 65.00 WTI crude call at 1.05 with an objective of 3.00-4.00. On a flat price basis, the potential exists for a recovery rally up toward the 68.30 area basis December provided today's lows at 62.52 hold up.



The ULSD crack continues to show a strong upward trend as the production of diesel lags behind that of gasoline given the preponderance of lighter grades in the US crude slate. With the elimination of bunker fuel next year, fear continues to build over possible tightness in diesel. The ongong decline in inventroy levels did not help today and led to the explosion on the upside of the December ULSD crack.

Natural Gas



Prices traded sideways to slightly lower for most of the session before ending the day unchanged at 3.555 basis December. A minor downward revision to demand estimates into the second half of the month brought out some selling interest, although the weakness was unimpressive as gains from the spike higher move on Monday have been maintained despite a lack of major fundamental backing. Look for prices to work lower near term to test the 3.50 area as the market reassesses the kneejerk move higher. Estimates for tomorrow's EIA report are pointing to a 54 bcf injection which is above the 5 year average at 48.