Archer Financial Services, Inc.

Energy Brief

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Price Overview

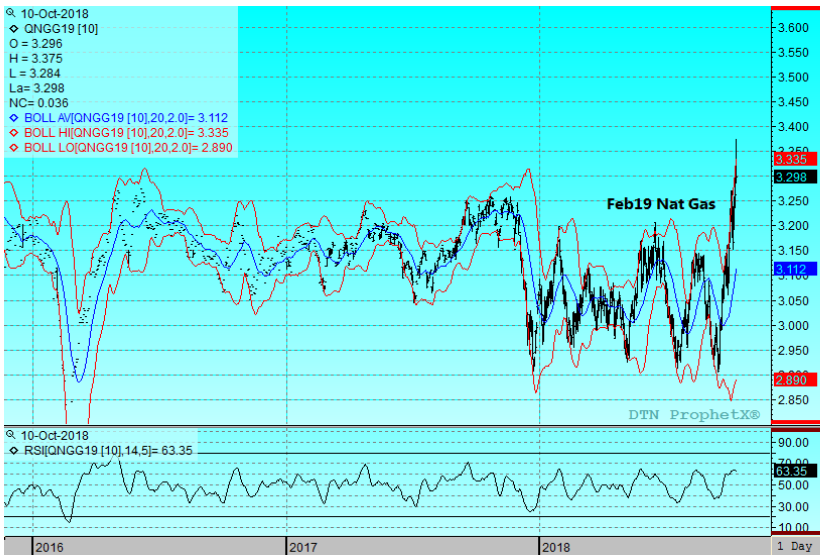
The petroleum complex came under concerted selling pressure today reflecting ideas that the weakness to equity values might be a sign of deeper problems in the U.S. economy. In addition, reports that Saudi Arabia is willing to supply extra cargoes to India to make up for shortfalls once sanctions are imposed by the U.S. on November 4th helped ease concerns over possible tightness. The weakness was even more surprising given the approach of Hurricane Michael and the shutting in of up to 670 tb/d of crude oil production in the Gulf of Mexico following the buying yesterday in anticipation of the storm.

The markets focus this evening will likely be on the API and then tomorrows delayed DOE report at 10:00 CT. Expectations are for an increase in crude inventories of 2.6 mb while distillate stocks are forecast to have declined by 1.9 mb and gasoline is seen off marginally by .2 mb. Talk that crude stocks at Cushing rose again by as much as 800 tb might also be attracting long liquidation ahead of the report.

The market is becoming increasingly uncertain ahead of the imposition of Iranian sanctions on November 4th. Whether other producers can fill the void in Iranian export levels remains to be seen but Russia and Saudi Arabia seem to be intent on trying. It also provides a strong incentive for other producers to try and expand production to gain market share. The higher prices will undoubtedly curb growth in demand, which could be exacerbated if China's economy suffers from the tariff war with the US. In the background remains the possibility that the Chinese will find ways to get around the US sanctions and increase imports of Iranian crude once the sanctions are implemented. This makes renewables more attractive to substitute for petroleum products as evident by the announcement that the U.S. will allow the use of up to 15 percent ethanol in gasoline year round. For now it appears that the bulk of bullish news is priced in.

Overall we see current price levels as too high due to concerns regarding the possible tightness in global energy supplies as we approach the end of the year, and we believe adjustments will be made in the supply demand metric that might yield an ample supply situation. A more reasonable range for crude values would be in the mid to high 60 area for WTI, which would put Brent in the 75-80 range given current differentials. We are long the Dec 72.00 crude put near 1.05 risking a break to the .65 area with potential of 2.50 or better.

Natural Gas



The market continues to respond to forecasts for cooler temperatures the next two weeks at a time when output is being impacted by Hurricane Michael in the Gulf of Mexico. Expectations are that as much as 1.2 bcf might be lost due to shut in production. The tight stock situation continues to be apparent in the spreads with January gaining on the February contract dramatically over the past two weeks. Although Hurricane Michael is not expected to inflict any longer term damage, a tighter supply situation than what has been expected merely raises concern over the low stocks currently in evidence and raises the risk premium associated with a harsher than normal winter in the Midwest and Northeast. An 86 bcf build is expected in tomorrow's EIA report compared to a 5 year average of 90 and last year's injection of 81 bcf. The market still seems to be in an uptrend and a move to the 3.40-3.45 area basis February cannot be ruled out in the near term.