

Weekly Fundamental Market Report January 22-26, 2018

Market Update

PRODUCTS	1/22/18	1/23/18	1/24/18	1/25/18	1/26/18
WTI Crude Oil	63.66	64.47	65.61	65.51	66.14
Brent Crude Oil	69.87	69.96	70.53	70.42	70.52
Natural Gas	3.54	3.44	3.5	3.45	3.51

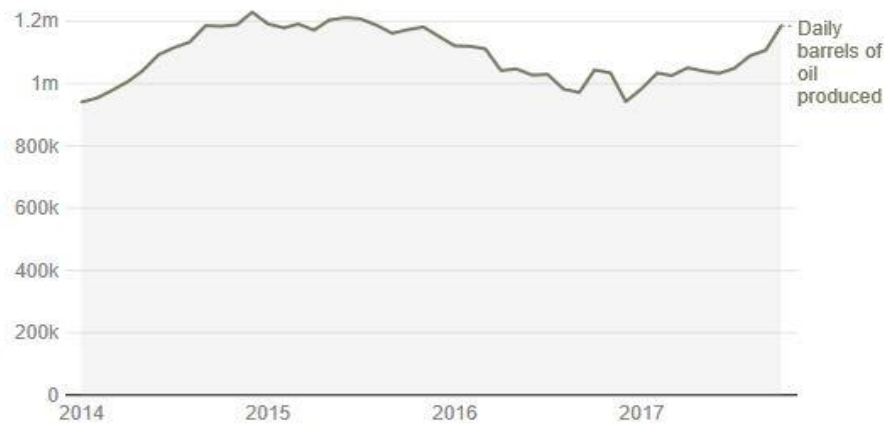
- [CME Group](#)

Headlines

Local North Dakota

- **North Dakota expects to hit oil production record in 2018.** [Star Tribune](#)
 - Oil prices are near a three-year high, and the state's November production levels were the highest since July 2015. North Dakota, the nation's second-largest oil-producing state, pumped out 1.19 million barrels per day in November, the highest monthly output since July 2015. North Dakota's oil production rose nicely again in November, and, with petroleum prices rising, monthly output should set records in 2018, the state's top oil and gas official said Tuesday. "We're pretty optimistic," said Lynn Helms, director of North Dakota's Department of Mineral Resources. "Everything points to more (oil) rigs, more frack crews and more activity in North Dakota. "North Dakota, the nation's second largest oil-producing state, pumped out 1.19 million barrels per day in November, up 1 percent from October and the highest monthly output since July 2015. The state's all-time production high was 1.23 million barrels per day in December 2014. "We are closing in on that 1.2 million (barrel per day) number, which is a pretty important number," Helms said. "Sometime in the first half of this year, we should break the record." November was also a good month for North Dakota's natural gas production. It rose 1.4 percent from October, hitting a record high of 2.1 million MCF per day. (An MCF is a thousand cubic feet of gas.) The U.S. oil industry is expected to post a record year in 2018. Crude oil production is forecast to average 10.3 million barrels per day, surpassing the previous record of 9.6 million barrels per day set in 1970, according to a report last week from the U.S. Energy Information Administration (EIA). Oil prices are currently near a three-year high, with the U.S. benchmark crude price of West Texas Intermediate (WTI) closing just short of \$64 per barrel Tuesday. Prices have risen due to a relatively hot global economy — which has increased oil demand — coupled with supply curtailments by OPEC and Russia. The oil-producing countries agreed in November to extend production limits originally set in November 2016. The supply caps, aimed at reducing global oil inventories, are expected to run through 2018. With higher prices, the current drilling rig count in North Dakota has risen back to its October level of 56, after falling to 52 in December. A rising rig count indicates operators are drilling more new wells. The rig count in North Dakota was 38 one year ago after falling to a low of 27 in May 2016. If oil prices stay over \$55 for the next 90 days, operators are expected to add five to 10 more rigs in the second and third quarters of 2018, Helms wrote in a monthly report released Tuesday. Helms was asked during a webinar for reporters Tuesday whether he thought North Dakota was embarking on a second oil boom or getting a "second wind." The latter, he answered. "We don't envision anything happening here like in 2012 and 2013." Back then, oil prices soared to a range of \$90 to \$100 per barrel. They began to collapse in 2014's fourth quarter, hitting a nadir of around \$30 a barrel in February 2016.

Daily North Dakota oil production on pace to beat 2014 record



Source: North Dakota Department of Mineral Resources • Created with Datawrapper

Domestic U.S.

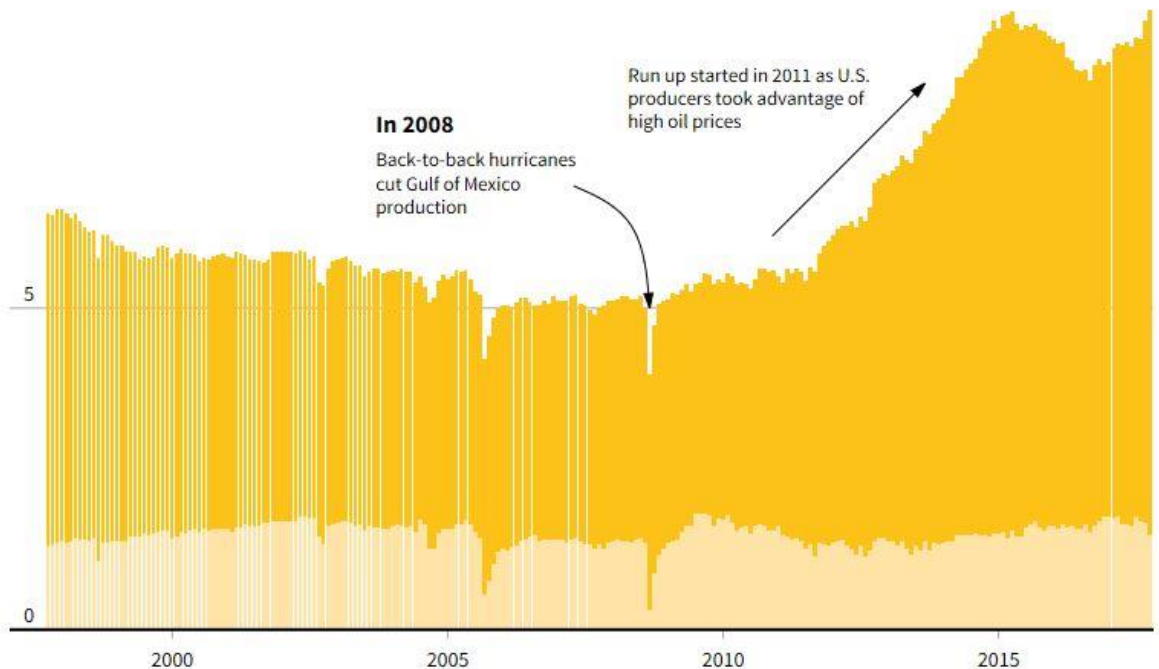
- **Oil jumps as Brent tops \$70, with inventory data on tap. Reuters**
 - Oil rose more than 1 percent on Tuesday, with benchmark Brent crude hitting \$70 a barrel for the first time in a week, boosted by healthy world economic growth prospects and expectations for continued production curbs by OPEC, Russia and their allies. U.S. West Texas Intermediate (WTI) crude futures CLc1 closed up 90 cents to \$64.47 a barrel, for a gain of 1.4 percent. WTI reached its highest since December 2014 on Jan. 16 at \$64.89. Brent crude futures LCOc1 settled up 93 cents, or 1.4 percent, to \$69.96, not far off the three-year high of \$70.37 reached on Jan. 15. Futures pared some gains in post-settlement trading after weekly inventory figures from industry group the American Petroleum Institute showed a surprise 4.8 million-barrel increase in crude oil stocks for last week. If the U.S. Energy Department data on Wednesday also shows an increase in inventories, it would break a nine-week streak of drawdowns that has helped U.S. crude supply decline to its lowest since Feb. 2015. Analysts forecast a 1.6 million-barrel draw in Reuters poll. Still, U.S. crude futures were up 82 cents to \$64.39 a barrel, not far from the day's settlement, as crude had rallied on thin volumes headed into the release. "I really think U.S. crude inventories are about to even out and probably show some modest builds over the next few weeks which would be seasonal as we head into turnarounds," said Andrew Lebow, senior partner at CRG Associates. "Perhaps this will blunt the rally and let some of the excess length out of the market." The International Monetary Fund on Monday revised upward its forecast for world economic growth, which could help demand for petroleum products. It comes as the Organization of the Petroleum Exporting Countries, Russia and other producers continue their supply-cut agreement which began in January 2017 and is due to run until the end of 2018. OPEC's main objective for the cuts is to eliminate a global surplus in oil stocks and rebalance the market. There is some expectation that OPEC will let the agreement expire at the end of 2018, but major producers have not yet suggested that this is in the offing. The sharp plunge in Venezuelan production is offsetting increases from the United States, which is on the cusp of breaking its all-time production record of 10.04 million barrels per day. Venezuela's output fell to a meager 2 million bpd in 2017, far short of expectations for 2.5 million bpd, and the International Energy Agency said it could keep declining in 2018. "Six months ago, there was a lot of consternation about how fast (U.S.) production might grow but that's been offset by Venezuelan volatility," said Tony Scott, managing director of analytics at BTU Analytics in Denver.
- **Oil rallies after record tenth straight fall in U.S. inventories. Reuters**
 - Oil prices rallied on heavy volume on Wednesday, boosted by a record 10th straight weekly decline in U.S. crude inventories, though reduced refining activity and rising production signaled U.S. stocks could rise in coming weeks. U.S. crude inventories fell by 1.1 million barrels last week, short of expectations, but the 10-week streak of declines represents a record, according to U.S. Energy Information Administration (EIA) data going back to 1982. At 411.6 million barrels, stocks are at their lowest since February 2015. The steady draw has triggered record buying by speculators, pushing oil benchmarks to three-year highs. U.S. West Texas Intermediate (WTI) futures settled up \$1.14, or 1.8 percent, to \$65.80. Brent futures gained 57 cents to \$70.53 a barrel. Both benchmarks were at their highest since December 2014. More than 830,000 U.S. crude contracts

changed hands, far exceeding the daily average of 618,000 contracts over the last 10 months. Also supporting oil prices was a 0.7 percent drop in the U.S. dollar after Treasury Secretary Steven Mnuchin's comments that a weaker currency was positive for American trade. A weaker dollar makes greenback-denominated commodities less expensive for investors using other currencies. U.S. crude production rose to 9.9 million barrels per day last week, nearing the all-time record of 10.04 million bpd set in 1970, the EIA data showed. Stockpiles continued to decline at the storage hub of Cushing, Oklahoma, falling to 39.2 million barrels, lowest since January 2015. Reduced flows from the Keystone pipeline from Canada helped drain supply there, along with further outflows from the new Diamond Pipeline. The draw in inventories helped to narrow Brent's premium over U.S. crude to \$4.91. In late December, that spread touched \$7 a barrel, which spurred U.S. exports and reduced imports. "The draws in Cushing are driving that, because Cushing is draining like a cheap canoe," said Phil Flynn, analyst at Price Futures Group in Chicago. Declining inventories spurred more buying in the front-month crude contract. The spread between the March and April contract widened to 26 cents, highest in three years. This reflected expectations that companies will continue to sell barrels at the current higher price. Speaking at the World Economic Forum in Davos, Switzerland, Khalid al-Falih, Saudi Arabia's energy minister, said he is not concerned about the threat of U.S. production, citing declining output from Venezuela and Mexico. U.S. refining capacity use declined by 2.1 percentage points as maintenance season began, though gasoline and diesel demand still exceeded year-ago levels, the EIA said. Money managers hold more bullish positions in crude futures and options than at any time on record, and some investors now appear to be seeking protection against a possible fall in prices. Trading data shows open interest has climbed since the middle of last week for Brent put options for selling at \$70, \$69 and \$68 a barrel. Sukrit Vijayakar of energy consultancy Trifecta attributed rising sell options to large long positions built in previous months. "We still have ... nine long barrels for every short barrel, so a reversal should be interesting to watch," he said.

TOTAL U.S. PRODUCTION

■ Offshore ■ Onshore

10 million barrels per day



Source: U.S. Energy Information Administration

By Han Huang | REUTERS GRAPHICS

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	19-Jan-18	936	-3	939	242	704
	26-Jan-18	947	11	936	235	712
North Dakota	19-Jan-18	44	-1	45	10	34
	26-Jan-18	44	0	44	8	36
Canada	19-Jan-18	325	49	276	-17	342
	26-Jan-18	338	13	325	-7	345
International	Dec-17	954	12	942	25	929

- [Baker Hughes](#)

o WTI & Bakken Spot Price

January 2018 Daily Spot Prices					
	Mon	Tue	Wed	Thu	Fri
Bakken (FH)					
2018 January-1 to January-5	-	53.07	53.07	56.63	56.63
2018 January-8 to January-12	56.19	56.19	57.67	57.67	58.16
2018 January-15 to January-19	-	58.02	58.02	58.02	58.02
2018 January-22 to January-26	57.79	58.08	58.34	58.34	58.44
WTI					
2018 January-1 to January-5	-	60.37	61.61	61.98	61.49
2018 January-8 to January-12	61.73	62.92	63.6	63.81	64.22
2018 January-15 to January-19	-	63.82	63.92	63.96	63.38
2018 January-22 to January-26	63.66				
Differentials					
2018 January-1 to January-5	-	7.3	8.54	5.35	4.86
2018 January-8 to January-12	5.54	6.73	5.93	6.14	6.2
2018 January-15 to January-19	-	5.8	5.9	5.94	5.36
2018 January-22 to January-26	5.87				

- [Flint Hills Resource](#)
- [EIA](#)

o **Weekly Petroleum Status Report**

Stocks (Million Barrels)			
	Four Weeks Ending		
	1/19/2018	1/12/2018	1/20/2017
Crude Oil (Excluding SPR)	411.6	412.7	488.3
Motor Gasoline	244.0	240.9	253.2
Distillate Fuel Oil	139.8	139.2	169.1
All Other Oils	407.6	413.2	431.5
Crude Oil in SPR	664.5	664.2	695.1
Total	1,867.5	1,870.2	2,037.3

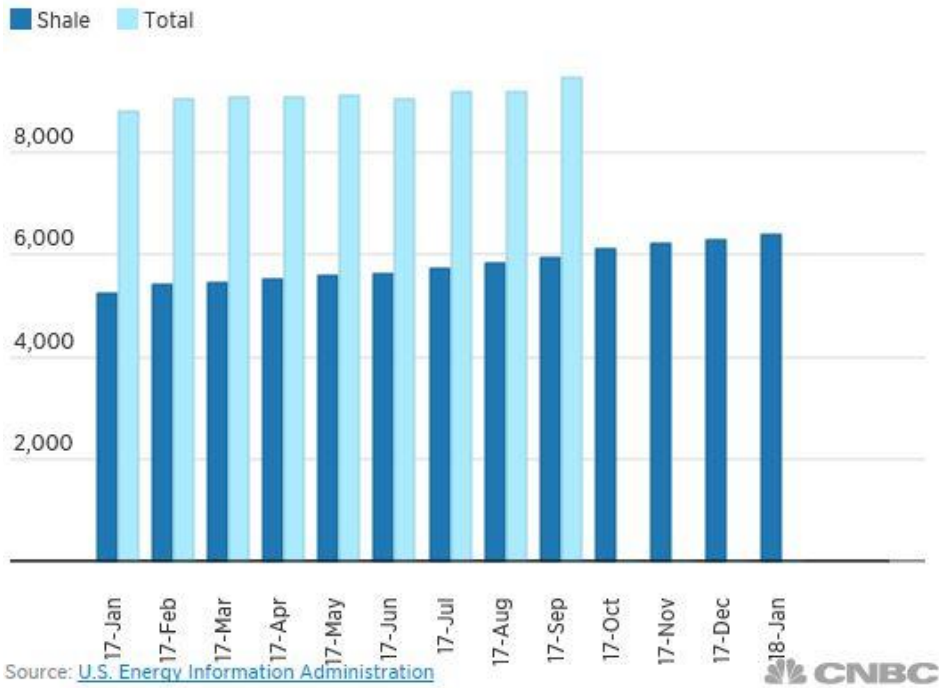
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	1/19/2018	1/12/2018	1/20/2017
Motor Gasoline	8,707	8,904	8,261
Distillate Fuel Oil	3,957	4,077	3,433
All Other Products	7,843	7,561	7,275
Total	20,508	20,543	18,968

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	1/19/2018	1/12/2018	1/20/2017
Crude Oil Input to Refineries	17,072	17,301	16,578
Refinery Capacity Utilization	94	95.2	91.1
Motor Gasoline Production	9,569	9,791	9,228
Distillate Fuel Oil Production	5,196	5,359	4,985

Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	1/19/2018	1/12/2018	1/20/2017
Crude Oil	6,616	6,655	7,427
Petroleum Products	-2,966	-3,184	-2,671
Total	3,650	3,471	4,756

- [EIA](#)

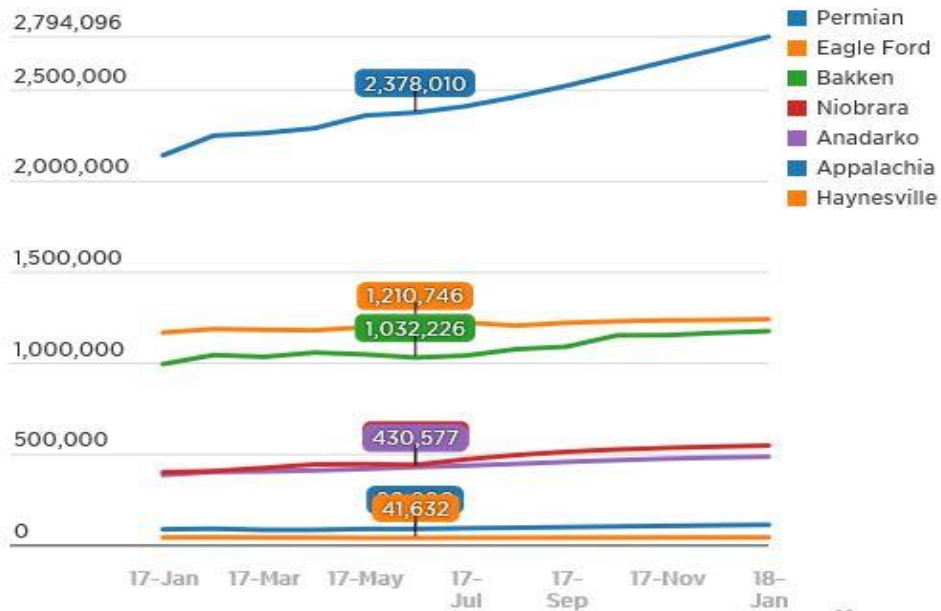
o US Oil Production



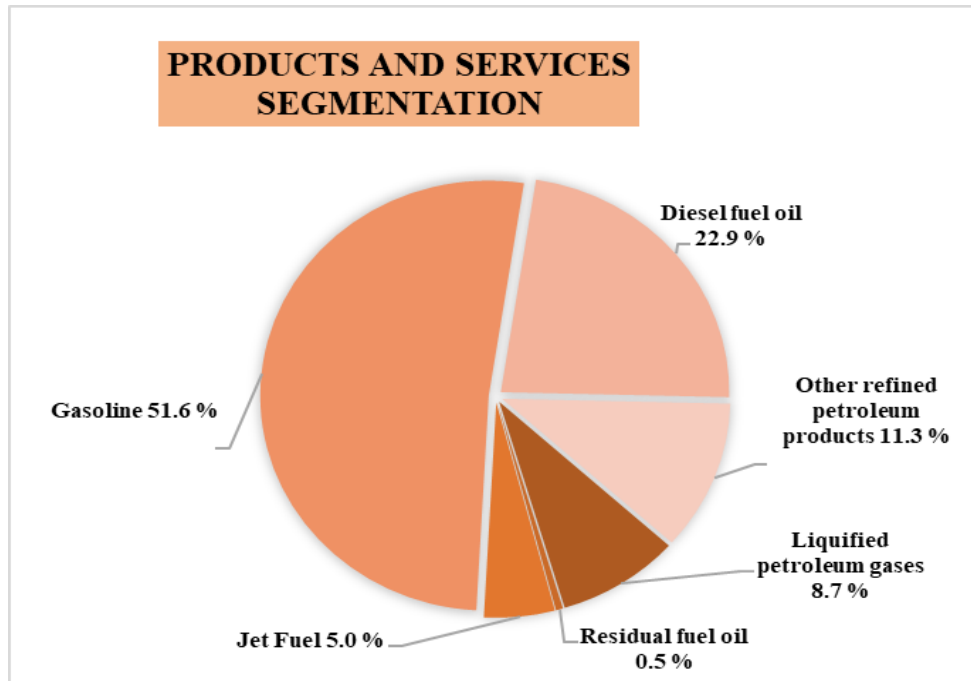
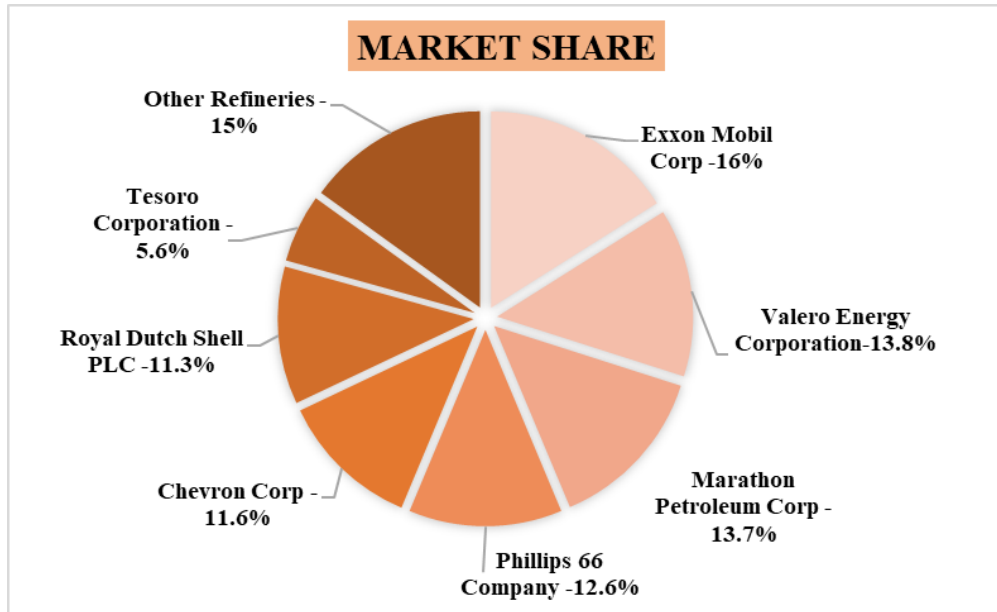
o Americas Shale Basins

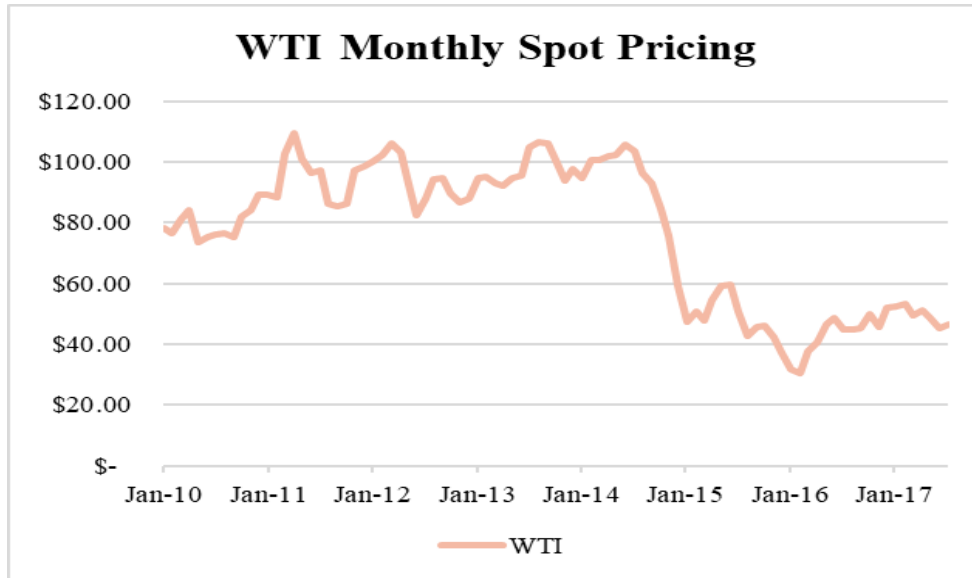
America's shale basins

Oil production by basin. More recent data are subject to revision.



o US Petroleum Refining at a Glance





- [EIA](#)

o Key External Drivers

- o **World price of crude oil**
 - <http://markets.businessinsider.com/commodities/oil-price?type=wti>
- o **Demand from gasoline and petroleum bulk stations**
 - <https://www.reuters.com/article/us-usa-natgas-kemp/u-s-natural-gas-prices-rise-as-winter-stocks-look-tight-kemp-idUSKCN1BU1RK>
- o **GDP of mainland China**
 - <https://tradingeconomics.com/china/gdp>
- o **Trade-weighted index**
 - <https://www.investing.com/news/economy-news/top-5-things-to-know-in-the-market-on-friday-541066>
- o **Total vehicle miles**
 - <https://www.advisorperspectives.com/dshort/updates/2017/08/31/vehicle-miles-traveled-another-look-at-our-evolving-behavior>