

Market Update

PRODUCTS	3/12/18	3/13/18	3/14/18	3/15/18	3/16/18
WTI Crude Oil	61.36	60.71	60.96	61.19	62.34
Brent Crude Oil	64.95	64.94	64.89	65.12	66.21
Natural Gas	2.78	2.79	2.73	2.68	2.69

- [CME Group](#)

Headlines

Local North Dakota

- **N.D. oil production holds steady in January.** [Dickinson Press](#)
 - North Dakota oil production held steady in January despite harsh winter weather, producing an average of more than 1.17 million barrels per day. The drop of about 7,000 barrels a day since December was significantly less than regulators expected in January, a month that had extreme winds, subzero temperatures and power outages in the Bakken. "We really expected a much bigger production drop than we saw," Director of Mineral Resources Lynn Helms said Tuesday as his agency released the preliminary numbers. That sets North Dakota up to potentially break the oil production record of 1.2 million barrels a day in May or June, Helms said. "I still think by mid-year, we'll be producing more oil than we've ever produced in North Dakota," Helms said. Regulators have seen an uptick in applications for drilling permits, indicating that the oil industry is planning to increase activity this spring and summer. The state has 59 drilling rigs operating. Helms said that's about a 74 percent reduction in rig count from the peak of North Dakota drilling activity, but he added that today's drilling rigs are at least twice as efficient. Some companies are voluntarily restricting oil production in order to meet gas capture targets, but the amount of oil being restricted is unclear, he said. The state produced more than 2 billion cubic feet per day of natural gas in January, less than a 1 percent decrease since December. Companies flared 310 million cubic feet per day of natural gas in January, or about 15 percent of gas produced statewide. The figures show an increase in flaring since December but fall within the gas capture targets set by the North Dakota Industrial Commission. A majority of the gas that was flared came from wells that are connected to pipelines, but the pipelines have insufficient capacity, said Justin Kringstad, director of the North Dakota Pipeline Authority. North Dakota saw an increase in rail transportation of crude oil in January, up 5 percent to 14 percent. Kringstad attributed the increase to a shift in market pricing. Seventy-four percent of crude oil was transported by pipeline in January, he said.

Domestic U.S.

- **Oil prices set for weekly drop as concerns about rising supply weigh.** [Reuters](#)
 - Oil prices were set for a weekly drop despite a slight gain in both benchmarks on Friday, on concerns that rising global supply could undermine efforts by OPEC and other producers to tighten the market. West Texas Intermediate (WTI) oil futures for April delivery rose 14 cents to \$61.33 a barrel by 1145 GMT, after settling up 23 cents on Thursday. WTI was set to fall 1.3 percent this week, reversing the previous week's 1.3 percent gain. Brent crude futures trading in London climbed 6 cents to \$65.18 a barrel, after settling up 23 cents. Brent was down 0.5 percent for the week. Reports this week refocused investor attention on the potential for rising supply to overwhelm expected gains in crude demand for 2018. On Thursday, the International Energy Agency (IEA) said global oil supply increased in February by 700,000 barrels per day (bpd) from a year ago to 97.9 million bpd. The IEA also said supply from producers outside of the Organization of the Petroleum Exporting Countries (OPEC), led by the United States, would grow by 1.8 million bpd this year from an increase of 760,000 bpd last year. The supply increase is more than the IEA's expected demand growth forecast for this year of 1.5 million bpd. The agency also said commercial oil inventories in industrialized nations climbed in January for the first time in seven months. "Part of the stock build is seasonal, but some investors did not expect it to happen in an era of production cuts, which suggests the OPEC cuts may not be enough," Olivier Jakob of Petromatrix consultancy in Zug said. OPEC and other producers began cutting supply in January 2017 to erase

a global crude glut that had built up since 2014. On Wednesday, the U.S. government reported that crude stockpiles there increased by a more-than-expected 5 million barrels, rising for a third straight week. “Looking forward to next week, the Saudi crown prince (Mohammed bin Salman) will be in Washington with the potential for more strong rhetoric against Iran that could add support and volatility,” Jakob of Petromatrix added. Political risk linked to Tehran increased after Rex Tillerson was sacked as U.S. secretary of state in favor of an Iran and North Korea hawk, and the crown prince said Riyadh would develop nuclear weapons if Iran - its arch-rival - did so.

○ **U.S. energy pipeline developers to seek exemptions to steel tariff. Reuters**

- U.S. energy pipeline developers say they intend to pursue exemptions to the Trump Administration’s proposed steel tariffs, as concerns grow for those companies and from key exporters to the United States like South Korea. “We have a number of pipeline projects that would be impacted significantly by this cost increase,” said Adam Bedard, chief executive of Arb Midstream, an energy transportation and marketing company. If exemptions become available, “we’d certainly try and qualify for it.” He was referring to the U.S. Commerce Department’s effort to devise a procedure for companies to apply to avoid paying a 25 percent tariff on imported steel or 10 percent on imported aluminum. Commerce has 10 days to come up with the procedure to apply for exemptions from the steel and aluminum tariff declaration issued last week. There is a national security exemption for U.S. companies to buy steel items that domestic manufacturers do not produce in the volumes or quality required. The president also said exemptions would be available to certain countries. Imports account for 77 percent of the steel used in U.S. pipelines, according to a 2017 study conducted for the pipeline industry. Some manufacturers already have customers waiting two years for pipeline to construct lines to carry shale oil and gas from West Texas fields to U.S. Gulf Coast export hubs. Energy trade associations fought for a way around the tariff. They argued that U.S. manufacturers either do not offer key metal grades or diameters or have long production times that would impede development of shale oil and gas pipelines. NAmerico Partners LP, which is proposing a multibillion dollar pipeline to move natural gas from west Texas to the U.S. Gulf Coast, estimates the steel tariff would raise the cost to its customers by between 2 percent and 4 percent. “We will do everything we are capable of to limit the impact to our shippers,” said Jeff Welch, the company’s managing partner. NAmerico has not yet made the final decision to begin construction of the 468-mile (753 kilometer) pipeline, he said. Even with exemptions, tariffs could still raise costs and slow down projects, said Nicolas Adrian McTyre, an Austin, Texas attorney and former trial attorney for the Federal Energy Regulatory Commission. “You are looking at a new regulatory hurdle potentially and there are a lot of unknowns to that process currently.” One of the primary providers of steel for pipeline companies is South Korea. Manufacturers there have said they are considering sending exports to other parts of the world due to difficulties with shipping to the United States, even before the tariffs go into effect. John Stoodly, a spokesman for the U.S. Association of Oil Pipe Lines, said at least one-member firm, which he did not name, tried to buy steel from South Korea in recent days, but was rebuffed due to tariff uncertainty. “Foreign pipe sellers are hesitant to sell pipe,” he said. Executives at steel companies in South Korea say the move is nudging them toward non-U.S. markets. Seah Steel (003030.KS), whose sales to the United States account for 20 percent of total revenue, is exploring other markets, a company official said. Trump’s tariff “will inevitably impact our exports and make it necessary for us to find a new channel for exports,” the Seah official said. He declined to be named due to the sensitivity of the matter. Seah acquired two U.S. plants in 2016 to reduce any tariff burden, according to the company, but still has to rely on its Korean manufacturing lines for U.S. sales. The U.S. Commerce Department said in April 2017 that it had found that Korean steel producers had been unfairly dumping OCTG in the U.S. market. Imports of oil country tubular goods (OCTG) from South Korea - which includes drill pipes, casing and tubings - were valued at about \$1.1 billion for the mid-2014 to mid-2015 period it examined. That accounted for nearly 25 percent of all OCTG U.S. imports, ahead of all other countries, Commerce said at the time. Commerce responded by raising duties as high as 24.9 percent from a previous range of about 4 percent to 6.5 percent. “The best case is to get exempted but there’s nothing else we can say,” said Park Hoon, CEO of Husteel, on the sidelines of a meeting between Korean government officials and industry executives to discuss the tariffs. He said nearly 80 percent of the company’s business relies on U.S. sales, and the company also is looking to other export markets.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	9-Mar-18	984	3	981	216	768
	16-Mar-18	990	6	984	201	789
North Dakota	9-Mar-18	50	3	47	10	37
	16-Mar-18	53	3	50	11	42
Canada	9-Mar-18	273	-29	302	-42	315
	16-Mar-18	219	-54	273	-57	276
International	Feb-18	979	19	960	38	941

- [Baker Hughes](#)

o WTI & Bakken Spot Price

March 2018 Daily Spot Prices					
	Mon	Tue	Wed	Thu	Fri
Bakken (FH)					
2018 February-27 to March-2	58.33	58.33	58.33	58.33	55.5
2018 March-5 to March-9	56.83	56.83	56.83	54.83	54.85
2018 March-12 to March-16	55.54	55.54	55.82	55.82	55.82
WTI					
2018 February-27 to March-2	63.81	62.94	61.43	60.98	61.19
2018 March-5 to March-9	62.49	62.54	61.09	60.13	62.02
2018 March-12 to March-16	61.35				
Differentials					
2018 February-27 to March-2	5.48	4.61	3.1	2.65	5.69
2018 March-5 to March-9	5.66	7	5.27	4.31	6.2
2018 March-12 to March-16	5.81				

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

o **Weekly Petroleum Status Report**

Stocks (Million Barrels)			
	Four Weeks Ending		
	3/9/2018	3/2/2018	3/10/2017
Crude Oil (Excluding SPR)	430.9	425.9	528.2
Motor Gasoline	244.8	251.0	246.3
Distillate Fuel Oil	133.1	137.0	157.3
All Other Oils	389.3	388.2	407.3
Crude Oil in SPR	665.5	665.5	694.0
Total	1,863.5	1,868.0	2,033.0

Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	3/9/2018	3/2/2018	3/10/2017
Motor Gasoline	9,195	9,049	8,968
Distillate Fuel Oil	3,976	4,038	4,151
All Other Products	7,261	7,183	6,686
Total	20,432	20,270	19,805

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	3/9/2018	3/2/2018	3/10/2017
Crude Oil Input to Refineries	16,004	15,953	15,475
Refinery Capacity Utilization	88.5	88.4	85.3
Motor Gasoline Production	9,925	9,753	9,567
Distillate Fuel Oil Production	4,508	4,591	4,671

Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	3/9/2018	3/2/2018	3/10/2017
Crude Oil	5,854	5,971	6,721
Petroleum Products	-2,670	-2,630	-2,657
Total	3,185	3,341	4,065

- [EIA](#)

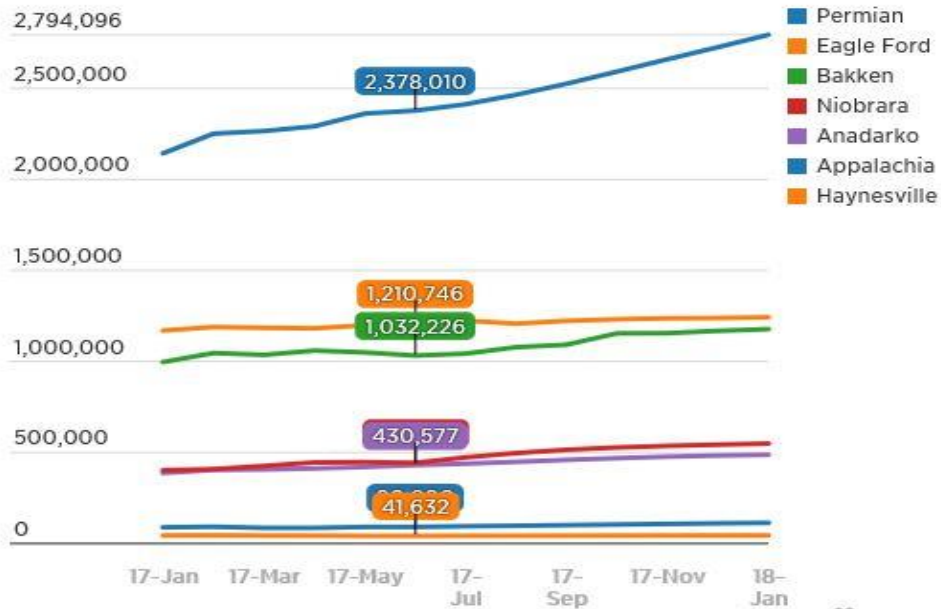
o US Oil Production



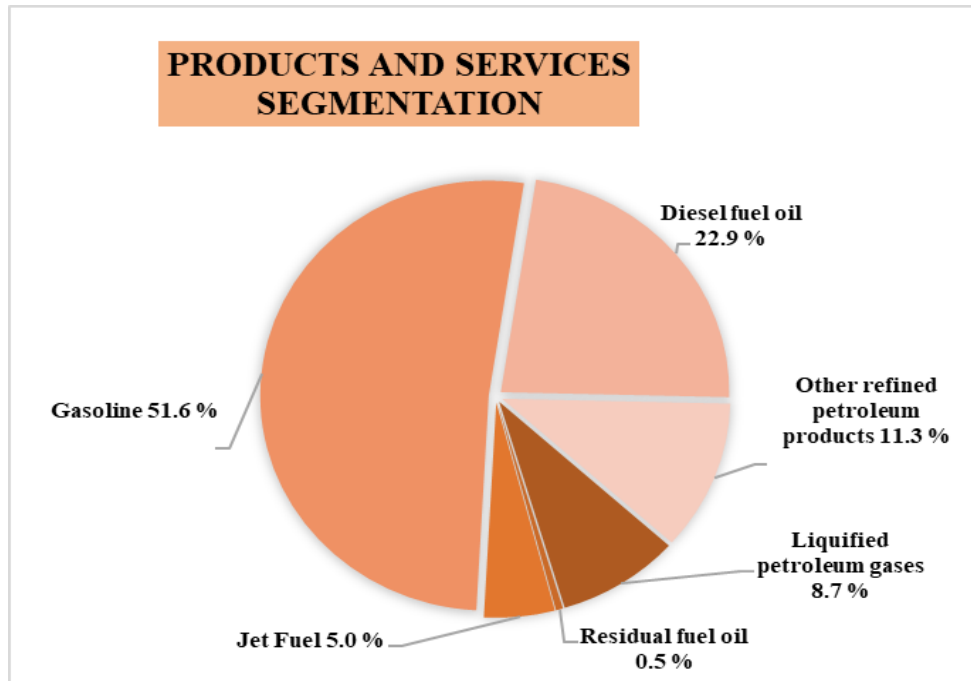
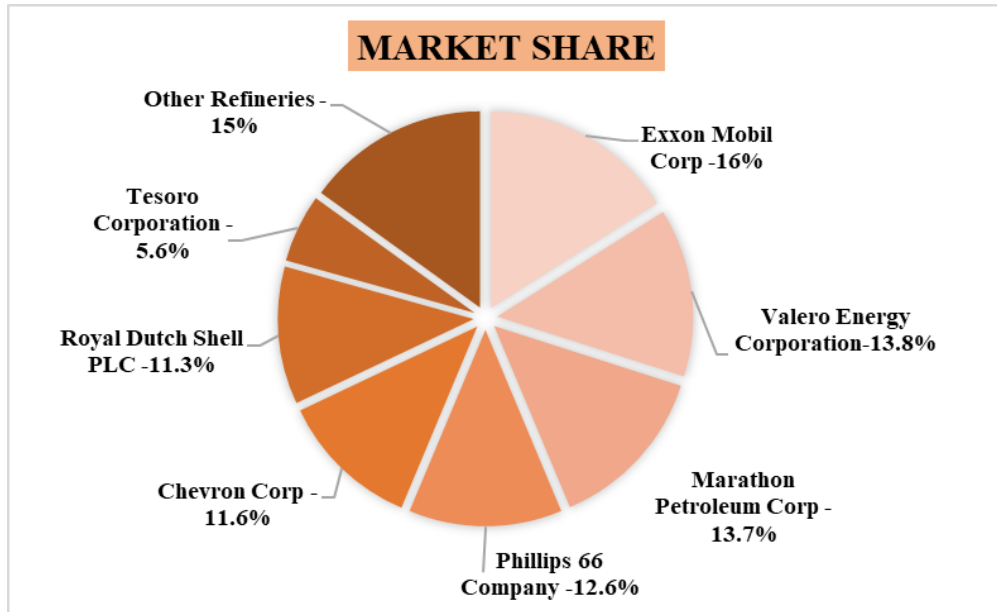
o Americas Shale Basins

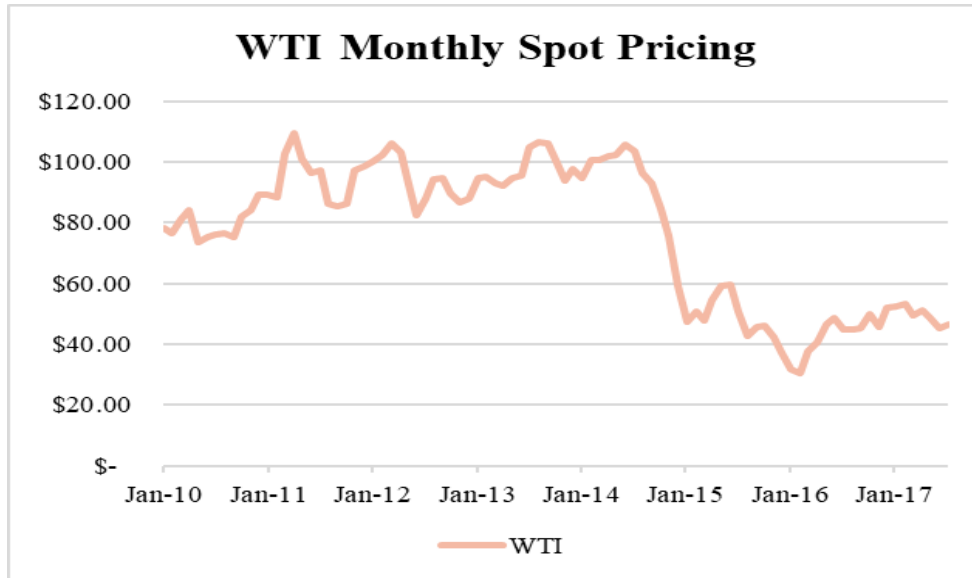
America's shale basins

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>