

# Weekly Fundamental Market Report June 11-22, 2018

## Market Update

PRODUCTS	6/11/18	6/12/18	6/13/18	6/14/18	6/15/18	6/18/18	6/19/18	6/20/18	6/21/18	6/22/18
WTI Crude Oil	66.10	66.38	66.63	66.91	65.01	65.85	65.07	66.22	65.54	65.54
Brent Crude Oil	74.58	74.86	75.07	74.77	72.02	75.34	75.08	74.74	73.05	2.95
Natural Gas	3.00	2.98	2.98	2.99	3.02	2.95	2.90	2.96	2.98	75.55

- [CME Group](#)

## Headlines

### Local North Dakota

- **Meridian CEO speaks on Davis Refinery permit, legacy. [Bismarck Tribune](#)**
  - Meridian Energy Group Inc.'s Davis Refinery has been issued a final air quality permit from the North Dakota Department of Health, clearing the way for construction to begin on the refinery, which will be built three miles from the fringes of Theodore Roosevelt National Park. Meridian Energy CEO William Prentice spoke to the lasting legacy that this state-of-the-art facility will hopefully have: being an industry changer that will set a model for cleaning up a notoriously dirty business. "What I would like to have this project remembered for, if I was struck by lightning tomorrow, is that this is the first nail in the coffin of the old industry that everyone hates so much," Prentice said in a phone interview. "That's why I think it's hypocritical to oppose this project from an environmental view. What we need to see is a group of new projects rise up to replace (the) old ... these projects need to be cleaner, they need to be smaller." Prentice doesn't see the oil and gas market going away any time soon. "The market is not going to disappear, it's going to be served from someplace. The current industry in the United States is the cleanest in the world -- if you want to pollute the environment, let's buy all our product from overseas refineries," Prentice said. "If you want to clean this industry up, remake it in the image of the Davis Refinery." Prentice thinks that the cost and hard work that has been put into ensuring this project meets the highest possible standards is often overlooked. Even up to the final hour during the public comment section earlier this year, his team at Meridian, along with the health department, had been studying technical concerns voiced by the public and were adjusting the permit application, including adding even more monitoring systems. Prentice said that the rigorous environmental scrutiny they've endured has only made the project better. "The project has gotten better every step of the way as a result of the process of doing this permit. I think the project is going to reflect the very best that we can do," he said. "Read the permit -- a lot of money went into this, the engineering and preparing ... it's a significant undertaking that's going to benefit the state greatly, and it's not going to hurt the park." There's a lot to do in a short period of time. Acquiring a permit to build from the health department's air quality division was the last condition laid out by Billings County's commissioners, Prentice said, and they have to get something put in the ground soon. Work is expected to begin within the next five to 10 days. "We have to do that in order to get everything that goes into the ground finished by Thanksgiving, which is the informal winter time alarm bell," Prentice said. "At the same time we're having things fabricated and ready to install. "The refinery has been approved for production of a maximum of 55,000 barrels of oil per day, but the total realistic output of the initial construction will produce only around 27,500 per day. This was done to satisfy a request made by department officials, Prentice said, who wanted to ascertain the environmental quality standards would be met even at very high production. Expanding the facility to higher bpd outputs is a possibility, Prentice said, but would be a lot of work and would require additional construction beyond what will be completed in two years.

## Domestic U.S.

- **Oil up over 2 percent as OPEC raises output modestly. Reuters**
  - Oil prices rose sharply on Friday as OPEC agreed a modest increase in output to compensate for losses in production at a time of rising global demand. Benchmark Brent crude LCOc1 jumped \$2.29 a barrel, or 3.1 percent, to a high of \$75.34 before slipping to around \$74.60 by 1345 GMT. U.S. light crude CLc1 was \$1.90 higher at \$67.44. The Organization of the Petroleum Exporting Countries, meeting in Vienna, agreed on Friday to boost output from July after its de facto leader Saudi Arabia persuaded arch-rival Iran to cooperate in efforts to reduce the crude price and avoid a supply shortage. The group agreed OPEC and its allies led by Russia should increase production by about 1 million barrels per day (bpd), or 1 percent of global supply, OPEC sources said. The real increase will be smaller because several countries that recently underproduced oil will struggle to return to full quotas, while other producers may not be able to fill the gap. The deal looked to be broadly in line with expectations. Analysts had expected OPEC to announce a real increase in production of 500,000 to 600,000 barrels per day (bpd), which would help ease tightness in the oil market without creating a glut. “The effective increase in output can easily be absorbed by the market,” Harry Tchilinguirian, head of oil strategy at French bank BNP Paribas, told the Reuters Global Oil Forum. Oil prices have been on a roller-coaster ride over the last few years, with the international marker, Brent, trading above \$100 a barrel for several years until 2014, dropping to almost \$26 in 2016 and then recovering to over \$80 last month. The most recent price rally followed an OPEC decision to restrict supply in an effort to drain global inventories. The group started withholding supply in 2017 and this year, amid strong demand, the market tightened significantly, triggering calls by consumers for higher supply. Falling production in Venezuela and Libya, as well as the risk of lower output from Iran as a result of U.S. sanctions, have all increased market worries of a supply shortage. Another big uncertainty for oil is the escalating dispute between the United States and its trading partners, which could hit U.S. crude oil exports to China. Asian shares hit a six-month low on Friday as tariffs and the U.S.-China trade battle start taking their toll. If a 25 percent duty on U.S. crude imports is implemented by Beijing, American oil would become uncompetitive in China, forcing it to seek buyers elsewhere. Chinese buyers are already starting to scale back orders, with a drop-in supply expected from September.
  
- **Oil rises ahead of OPEC, China tariffs loom over U.S. prices. Reuters**
  - Oil prices rose on Monday in volatile trade as market participants lowered their expectations for how much OPEC might increase production and investors assessed the impact of a trade dispute between the United States and China. U.S. crude oil CLc1 rose 79 cents a barrel to settle at \$65.85. The contract traded at a two-month low of \$63.59 early in the session. Brent crude LCOc1 jumped \$1.90 to \$75.34 a barrel. U.S. crude’s discount to Brent WTCLc1-LCOc1 widened to as much as \$9.75 a barrel, after narrowing on Friday. China imposed import duties on U.S. products on Friday, and suggested that crude oil tariffs were planned. That could leave growing volumes of U.S. crude from shale without a buyer, traders said. While the volumes would ultimately get shipped elsewhere, absent China the price could be depressed, traders said. Meanwhile, the Organization of the Petroleum Exporting Countries (OPEC) and allied oil producers including Russia meet on June 22 in Vienna. Russia and OPEC kingpin Saudi Arabia are pushing for higher output. In May, Brent hit a 3-1/2-year high above \$80 a barrel, but has since slid on reports of the potential production increases. “Volatility is going to be pretty high this week,” said Bob Yawner, director of energy futures at Mizuho in New York. Indications from OPEC members and other large producers on the scale of potential output increases are likely to drive the market, he said. Russia and Saudi Arabia have put forward a proposal to increase production from OPEC and non-OPEC countries by 1.5 million barrels per day, Ecuador’s oil minister said on Monday. But OPEC’s second- and third-largest producers, Iraq and Iran, have said they would oppose steep output increases as it would breach previous agreements to keep production cuts in place until the end of the year. The market traded higher on expectations that the production increases could be less than the full 1.5 million bpd, at 300,000 to 600,000 bpd, said Gene McGillian, director of market research at Tradition Energy in Stamford. Supply disruptions in Venezuela and Libya also supported the market, he said.

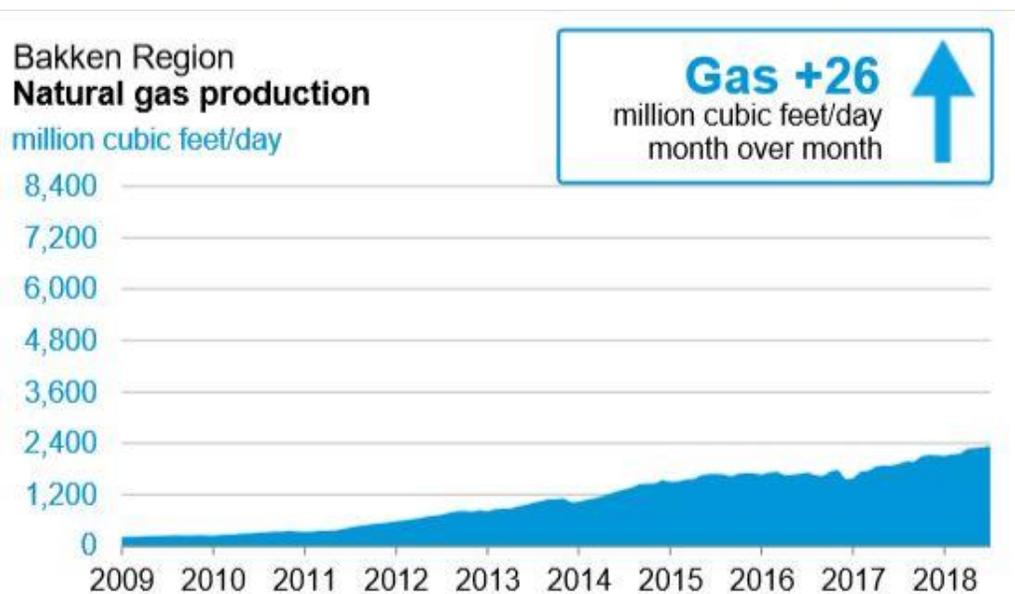
# Oil and Gas Analysis

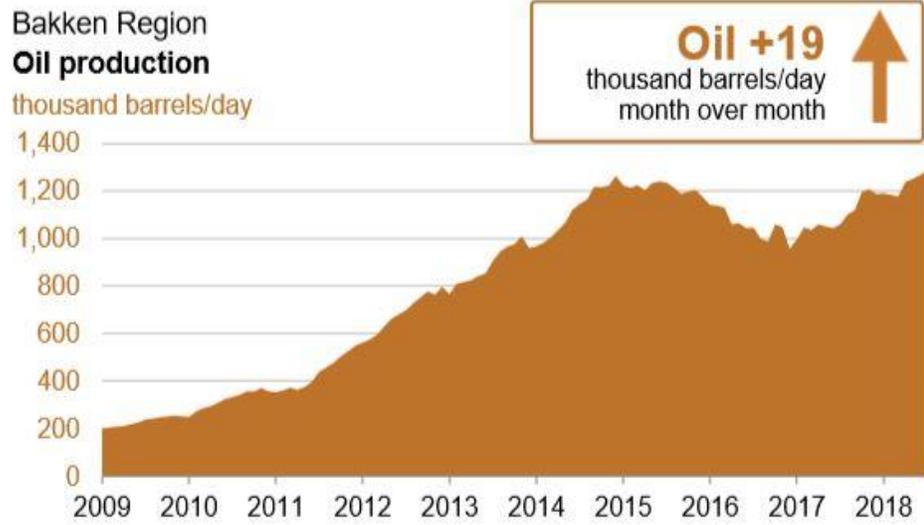
## o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	15-Jun-18	1059	-3	1062	126	933
	22-Jun-18	1052	-7	1059	111	941
North Dakota	15-Jun-18	57	3	54	8	49
	22-Jun-18	56	-1	57	4	52
Canada	15-Jun-18	139	27	112	-20	159
	22-Jun-18	160	21	139	-10	170
International	May-18	967	-11	978	10	957

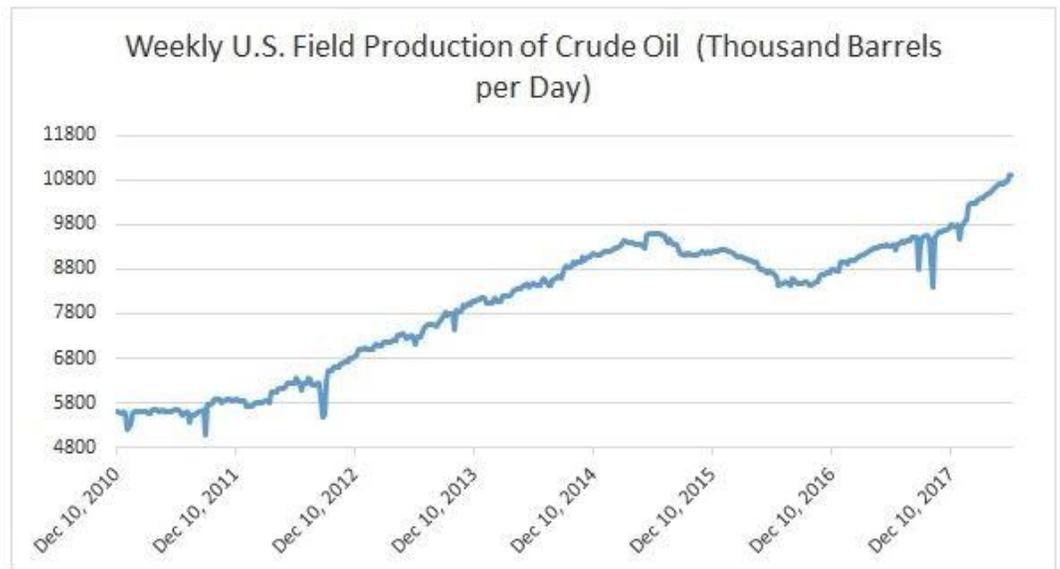
- Baker Hughes

## o Bakken Productivity Report





o **US Field Weekly Production**



o **Weekly Petroleum Status Report**

<b>Stocks (Million Barrels)</b>			
	<b>Four Weeks Ending</b>		
	<b>6/15/2018</b>	<b>6/8/2018</b>	<b>6/16/2017</b>
Crude Oil (Excluding SPR)	426.5	432.4	509.1
Motor Gasoline	240.0	236.8	241.9
Distillate Fuel Oil	117.4	114.7	152.5
All Other Oils	424.2	424.1	447.9
Crude Oil in SPR	660.0	660.2	683.8
<b>Total</b>	<b>1,868.2</b>	<b>1,868.1</b>	<b>2,035.2</b>

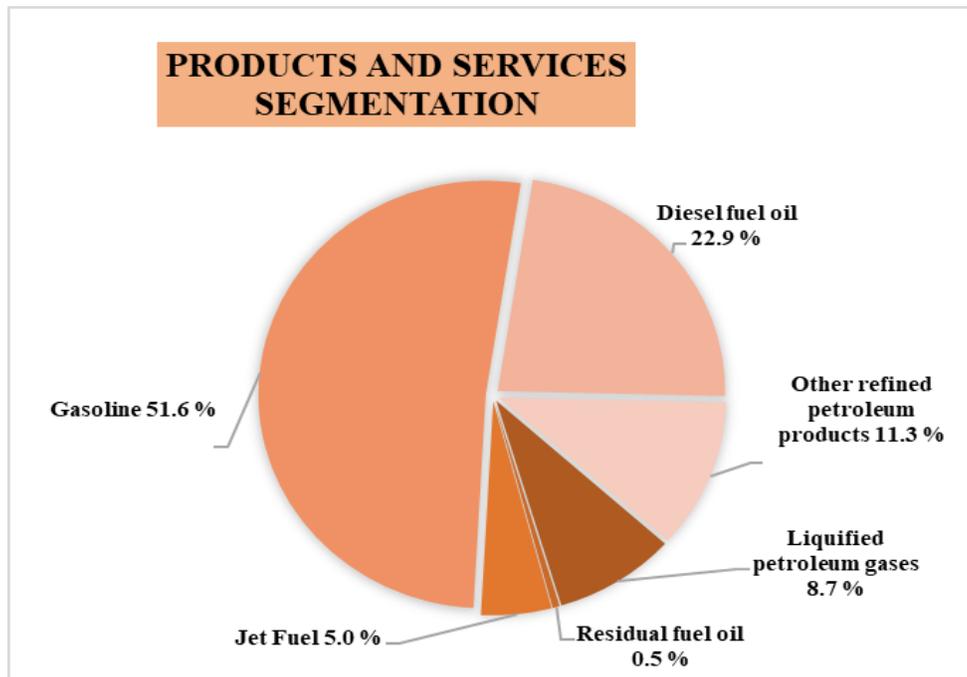
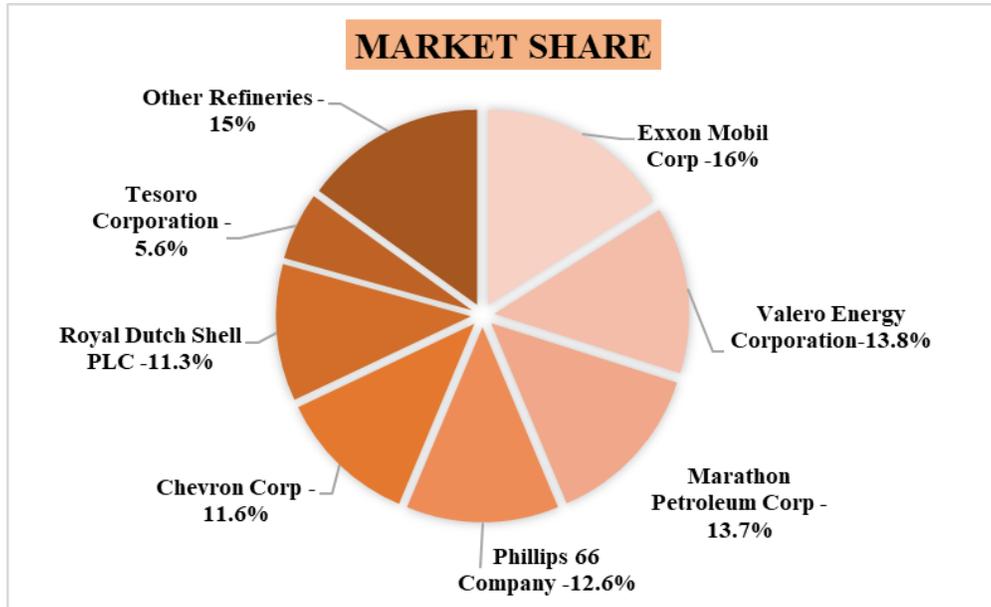
<b>Products Supplied (Thousand Barrels per Day)</b>			
	<b>Four Weeks Ending</b>		
	<b>6/15/2018</b>	<b>6/8/2018</b>	<b>6/16/2017</b>
Motor Gasoline	9,468	9,558	9,556
Distillate Fuel Oil	4,013	3,966	3,933
All Other Products	6,863	6,926	6,681
<b>Total</b>	<b>20,343</b>	<b>20,449</b>	<b>20,170</b>

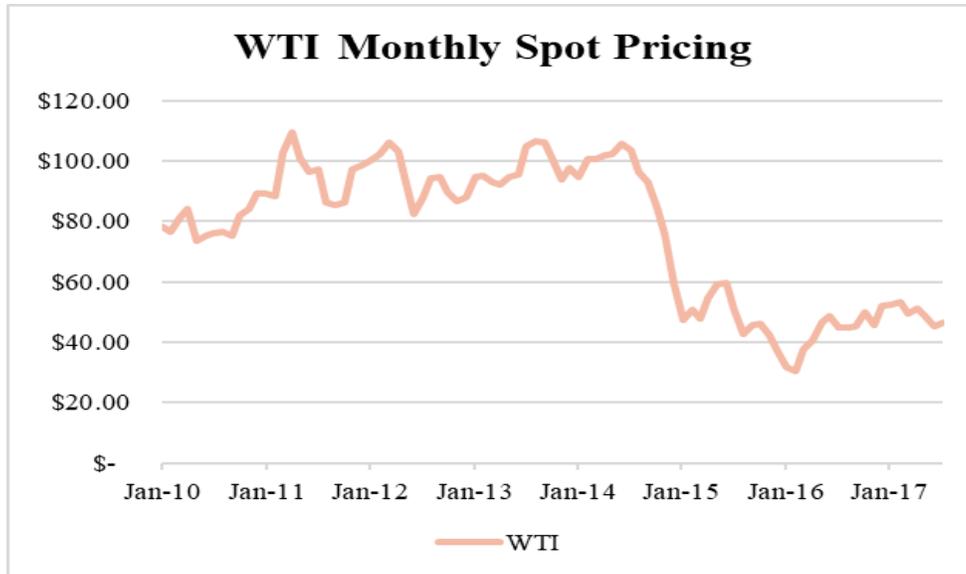
<b>Refinery Activity (Thousand Barrels per Day)</b>			
	<b>Four Weeks Ending</b>		
	<b>6/15/2018</b>	<b>6/8/2018</b>	<b>6/16/2017</b>
Crude Oil Input to Refineries	17,433	17,164	17,286
Refinery Capacity Utilization	95.4	94.2	94.3
Motor Gasoline Production	10,160	10,149	10,092
Distillate Fuel Oil Production	5,300	5,167	5,225

<b>Net Imports (Thousand Barrels per Day)</b>			
	<b>6/15/2018</b>	<b>6/8/2018</b>	<b>6/16/2017</b>
Crude Oil	6,005	6,141	7,282
Petroleum Products	-2,709	-2,446	-2,433
<b>Total</b>	<b>3,297</b>	<b>3,696</b>	<b>4,849</b>

- [EIA](#)

- **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>