

Weekly Fundamental Market Report

July 30-August 3, 2018

Market Update

PRODUCTS	7/30/18	7/31/18	8/1/18	8/2/18	8/3/18
WTI Crude Oil	71.19	68.76	67.66	68.96	68.49
Brent Crude Oil	74.99	74.25	74.25	73.45	73.21
Natural Gas	2.75	2.80	2.76	2.82	2.85

- [CME Group](#)

Headlines

Domestic

- **Oil posts worst monthly decline in 2 years, sinking 7.3% to end July at \$68.76. CNBC**
 - Oil prices fell on Tuesday, pushing crude benchmarks to their largest monthly decline in two years as OPEC's output appeared to reach a 2018 high in July. U.S. West Texas Intermediate crude futures (WTI) ended Tuesday's session down \$1.37, or 2 percent, at \$68.76 a barrel, after rising more than 2 percent in the previous session. September Brent crude futures fell 73 cents, or 1 percent, to \$74.24 a barrel by 1:29 p.m. ET after rising nearly 1 percent on Monday. The September contract expires later on Tuesday and the more-active October contract was down \$1.33 at \$74.22. For the month, WTI futures declined 7.3 percent, while Brent futures were set to drop 6.5 percent. Both benchmarks posted the biggest monthly decline since July 2016. A survey showed OPEC's output hit a 2018 high in July, reigniting concern about supply swamping demand. The Reuters survey released on Monday suggests that OPEC increased production in July by 70,000 barrels per day (bpd) to 32.64 million bpd, a high for the year. Meanwhile, Russian energy minister Alexander Novak said last week that Russia's output will hit a new 30-year high of 11.02 million bpd IN 2018. "On the supply side, the latest news from Russia shows they increased production by around 300,000 bpd ... as well as an increase in production in the OPEC survey," Saxo Bank senior manager Ole Hansen said "The global balance (between supply and demand) has softened and has been less tight in July, hence the sell-off we've seen." OPEC has pledged to offset the loss of Iranian supply as upcoming U.S. sanctions have already started to cut exports from OPEC's third-largest producer. U.S. President Donald Trump appeared to soften his approach to Iran, saying on Monday he would be willing to meet with President Hassan Rouhani without any preconditions. Just a week ago Trump threatened on Twitter to unleash severe consequences on Iran. Iranian officials rejected the proposal, urging Trump to first make up for withdrawing from the multilateral nuclear deal that the U.S. had been a part of. The developments fed into the oil selloff, said Phil Flynn, analyst at Price Futures Group in Chicago. "I think we went from getting ready to price in a total loss of Iranian exports to maybe, just maybe, we won't lose any exports, depending on whether or not the Iranians take Donald Trump up on his offer," Flynn said. The United States has indicated that it wants Iranian exports cut to zero under the sanctions it pledged to reintroduce in May and that would go fully into effect in November. Oil prices are likely to hold fairly steady this year and next as increased output from OPEC and the U.S. meets growing demand led by Asia and helps to offset supply disruptions from Iran and elsewhere, a Reuters poll showed on Tuesday. Weekly U.S. inventory data is scheduled for release beginning on Tuesday with the American Petroleum Institute (API), an industry group, followed by the U.S. Department of Energy's Energy Information Administration (EIA) on Wednesday. Six analysts polled ahead of these reports estimated, on average, that crude stocks fell by about 3.2 million barrels in the week ended July 27.

- **Oil rallies on expectation inventories will drop. Reuters**
 - Oil prices strengthened Thursday, with U.S. crude gaining nearly 2 percent after traders saw an industry report suggesting domestic crude stockpiles would soon decline again after a surprise rise in the latest week. Traders said prices rallied early when industry information provider Genscape reported that crude inventories at the Cushing, Oklahoma, delivery hub for U.S. crude, dropped 1.1 million barrels since Friday, July 27. On Wednesday, prices sank when the U.S. government reported that in the prior week, total U.S. inventories rose 3.8 million barrels, while supplies at Cushing fell 1.3 million barrels. “There’s an expectation that the build from this week will be gone next week,” said Phil Flynn, an analyst at Price Futures Group in Chicago. He also noted U.S. monthly production figures fell in May. Brent crude futures LCOc1 settled up \$1.06, or 1.5 percent at \$73.45 a barrel. U.S. crude CLc1 rose \$1.30, or 1.9 percent, to \$68.96 a barrel. Before the Genscape report sparked a rally, futures fell early on concerns about oversupply. Saudi Arabia, Russia, Kuwait and the United Arab Emirates have increased production to help to compensate for an anticipated shortfall in Iranian crude supplies once U.S. sanctions take effect. The Organization of the Petroleum Exporting Countries and partners including Russia had cut output to rebalance supply and demand. “Oil is holding up reasonably well ... A lot of this is the risk premium priced in for Iran and when do we start seeing an impact on supply there,” ING commodities strategist Warren Patterson said. “At the moment, there is a mismatch in timing, where there is increasing OPEC supply and yet we’re not seeing a significant reduction in Iranian supply,” Patterson said. U.S. officials told Reuters on Wednesday that they believe Iran is preparing to carry out a major exercise in the Gulf, apparently moving up the timing due to heightened tensions. U.S. President Donald Trump’s decision to pull out of an international nuclear deal and reimpose sanctions on Iran has angered Tehran. “There are a lot of escalation points that could occur very quickly and that worries me,” Jonathan Barratt, chief investment officer at Ayers Alliance in Sydney, said. Worries about the possible loss of Iranian supply are being somewhat offset by concerns that global trade tensions could slow economic growth and crimp energy demand. Trump has turned up pressure on China for trade concessions by proposing a higher 25 percent tariff on \$200 billion of Chinese imports. China has said it will retaliate. “It is almost certain that China will impose additional duties on oil and refined products imported from the U.S. if the Trump administration implements additional tariffs on the next tranche of Chinese goods. This could severely dent the competitiveness of U.S. oil and derivatives in the Chinese market,” said Abhishek Kumar, senior energy analyst at Interfax Energy.

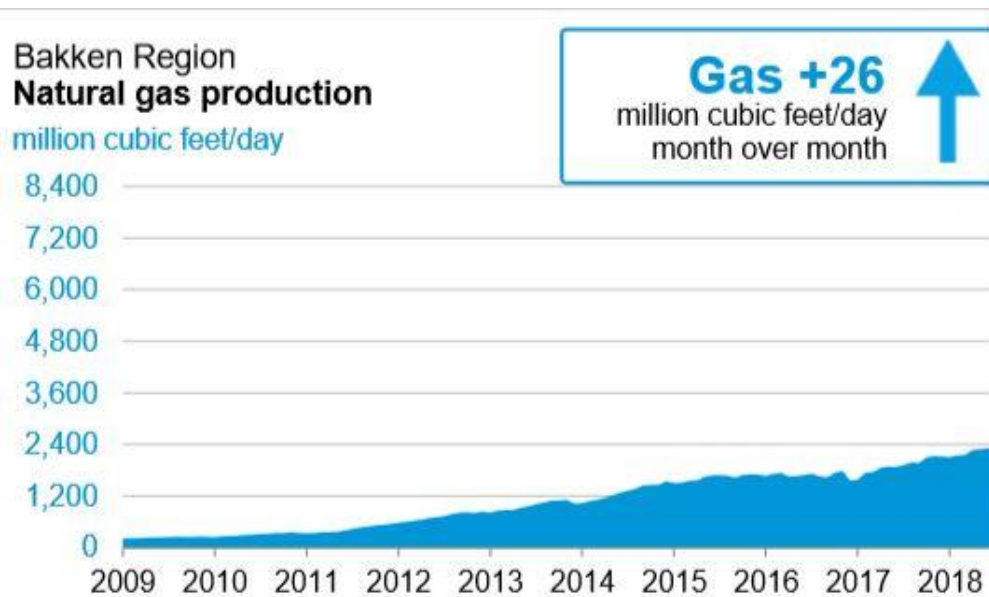
Oil and Gas Analysis

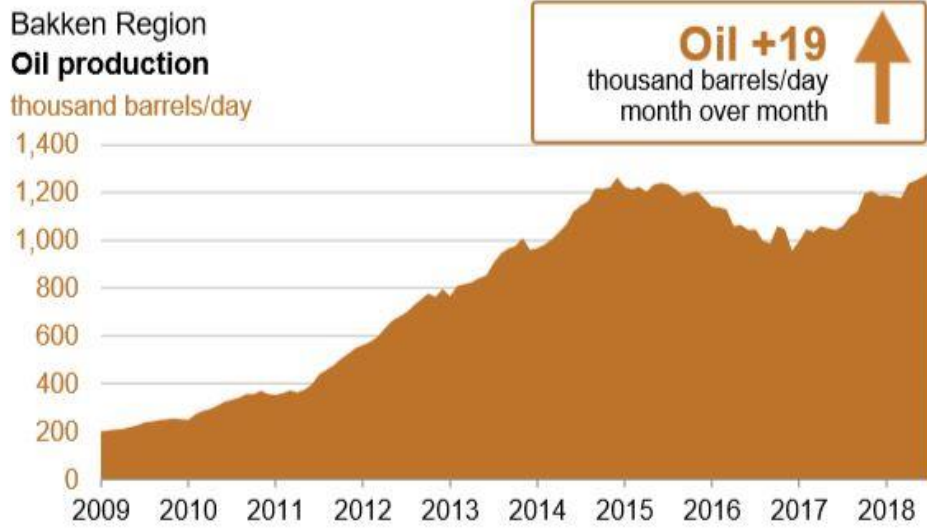
o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	27-Jul-18	1048	2	1046	90	958
	3-Aug-18	1044	-4	1048	90	954
North Dakota	27-Jul-18	57	1	56	3	54
	3-Aug-18	56	-1	57	3	53
Canada	27-Jul-18	223	12	211	3	220
	3-Aug-18	223	0	223	6	217
International	Jun-18	959	-8	967	-1	960

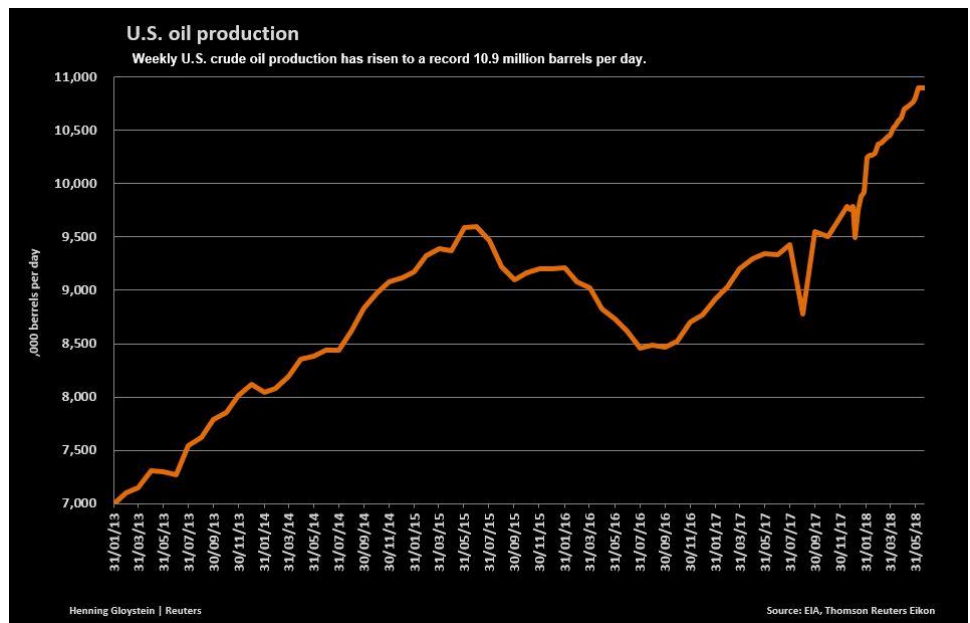
- Baker Hughes

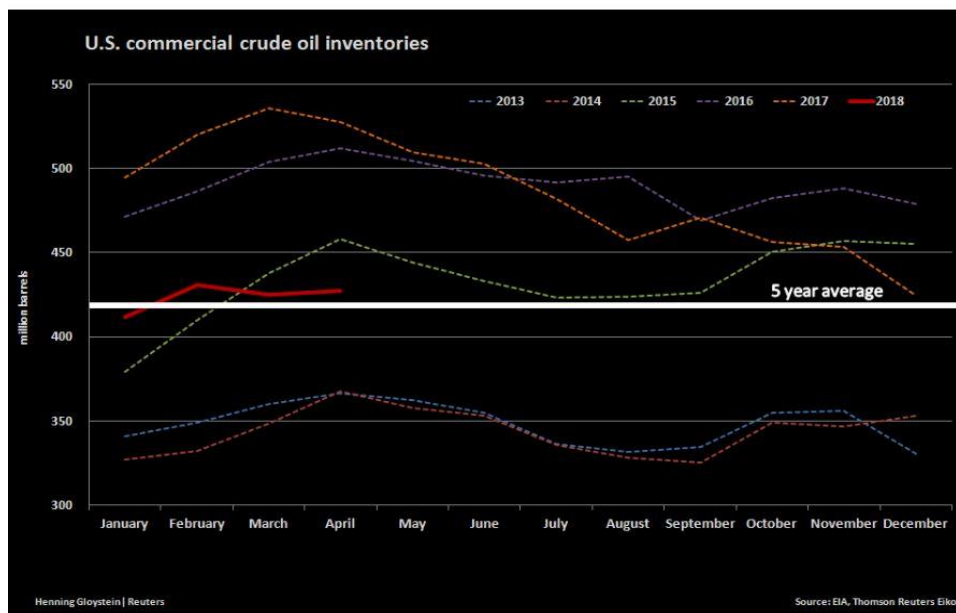
o Bakken Productivity Report





o US Production





o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	7/27/2018	7/20/2018	7/28/2017
Crude Oil (Excluding SPR)	408.7	404.9	481.9
Motor Gasoline	231.0	233.5	227.7
Distillate Fuel Oil	124.2	121.2	149.4
All Other Oils	442.7	436.4	457.4
Crude Oil in SPR	660.0	660.0	678.9
Total	1,866.6	1,856.0	1,995.3

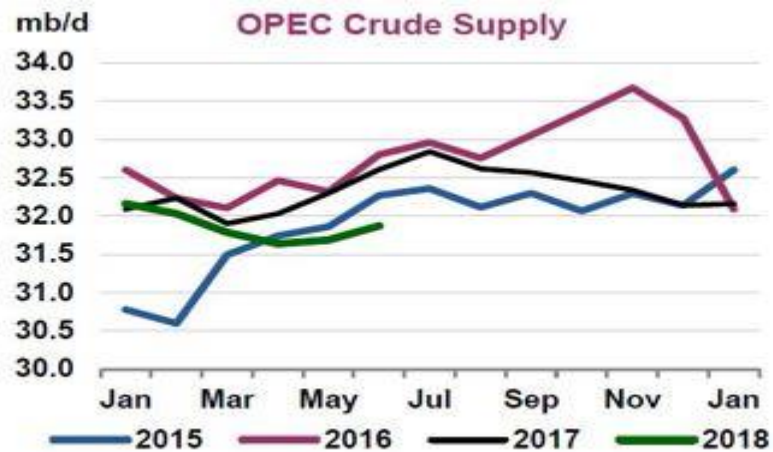
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	7/27/2018	7/20/2018	7/28/2017
Motor Gasoline	9,677	9,675	9,760
Distillate Fuel Oil	3,931	4,060	4,177
All Other Products	7,262	7,311	6,817
Total	20,870	21,046	20,754

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	7/27/2018	7/20/2018	7/28/2017
Crude Oil Input to Refineries	17,414	17,457	17,264
Refinery Capacity Utilization	95.2	95.5	94.6
Motor Gasoline Production	10,432	10,389	10,313
Distillate Fuel Oil Production	5,233	5,309	5,164

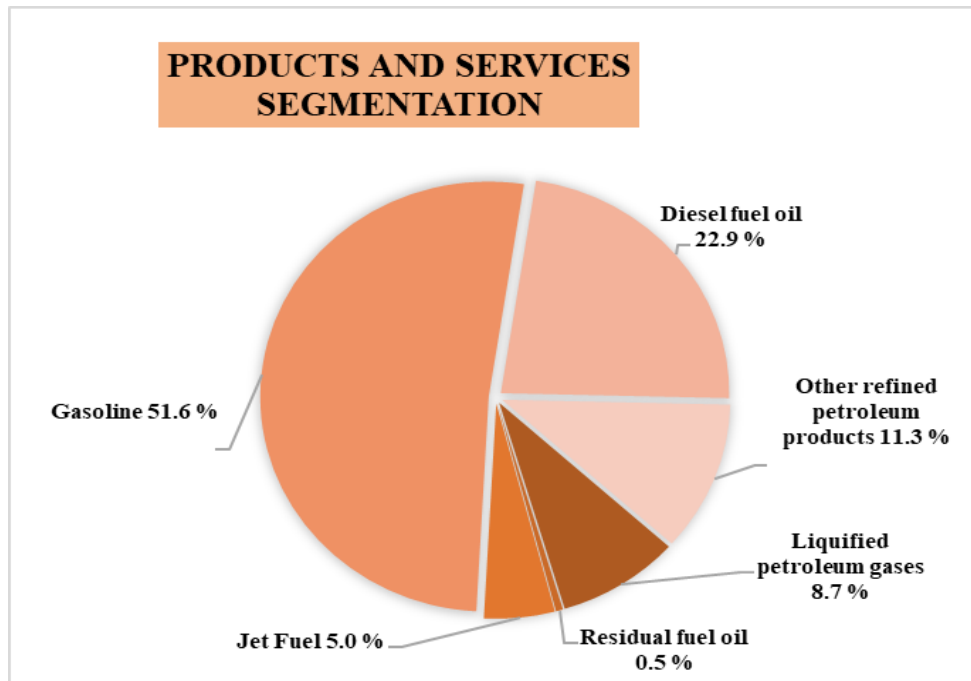
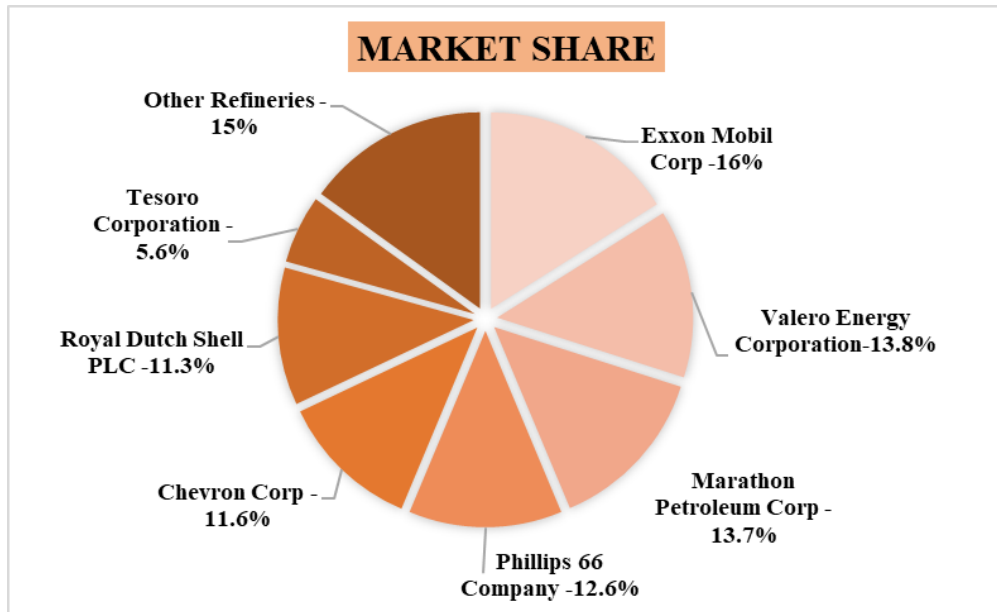
Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	7/27/2018	7/20/2018	7/28/2017
Crude Oil	6,134	6,204	7,131
Petroleum Products	-3,009	-3,029	-2,675
Total	3,125	3,175	4,456

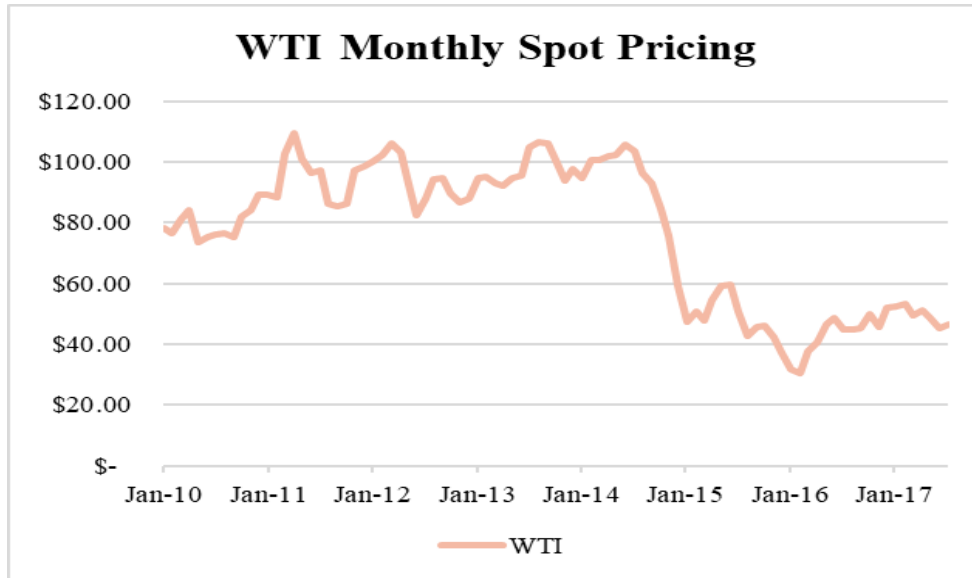
- [EIA](#)

- **OPEC Crude Supply**



- **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>