

Weekly Fundamental Market Report

October 22-26, 2018

Market Update

PRODUCTS	10/22/18	10/23/18	10/24/18	10/25/18	10/26/18
WTI Crude Oil	69.36	66.43	66.82	67.33	67.59
Brent Crude Oil	79.83	76.44	76.17	76.89	77.62
Natural Gas	3.29	3.21	3.17	3.20	3.19

- [CME Group](#)

Headlines

North Dakota

- **North Dakota Pipeline Company Gauges Interest in Expanding Oil Volume.** [Associated Press](#)
 - The developer of the Dakota Access pipeline is gauging shippers' interest in a possible expansion of the volume of crude oil moved through the pipeline from 500,000 barrels to 570,000 barrels per day, despite ongoing tribal efforts to shut the pipeline down. Texas-based Energy Transfer Partners on Oct. 19 began seeking commitments from shippers to transport additional oil. The pipeline's permit in North Dakota allows it to ship up to 600,000 barrels per day. North Dakota produced nearly 1.3 million barrels of oil per day in August, the most recent month for which data is available. Companies can increase pipeline capacity by adding a chemical to make oil flow more easily, or by adding more pumping power or pumping stations, according to North Dakota Pipeline Authority Director Justin Kringstad. Company spokeswoman Vicki Granado told The Bismarck Tribune that an expansion would require minimal modifications to the actual pipeline system. Dakota Access was subject to prolonged protests during its construction in North Dakota in late 2016 and early 2017 because it crosses beneath the Missouri River, just north of the Standing Rock Sioux Reservation. The tribe draws its water from the river and fears pollution. ETP insists the pipeline is safe. That tribe and three others are fighting in federal court to get the pipeline shut down. The pipeline has been moving North Dakota oil through South Dakota and Iowa to a shipping point in Illinois since June 2017. From there, it goes to the Gulf Coast through the Energy Transfer Crude Oil Pipeline, which ends at Nederland, Texas. With North Dakota's oil production projected to keep climbing, the state will need to add more pipeline capacity, Kringstad said. "Every expansion at this point is going to assist in keeping the market strong in North Dakota," he said. "But long-term, it will take some substantial new investment to continue to keep North Dakota oil connected to new markets."

Domestic

- **Oil rises ahead of Iran sanctions but falls for a third week.** [Reuters](#)
 - Oil prices rose on Friday, supported by expectations that sanctions on Iran would tighten global supplies, but futures posted a weekly drop as a slump in stock markets and concerns about trade wars clouded the fuel demand outlook. Brent crude LCOc1 futures rose 73 cents, or 1 percent, to settle at \$77.62 a barrel. The global benchmark marked a weekly loss of about 2.7 percent and is down about \$10 in three weeks. U.S. West Texas Intermediate (WTI) crude CLc1 futures rose 26 cents, or 0.4 percent, to end at \$67.59 a barrel. It posted a weekly loss of about 2.3 percent. Prices got some support when two sources said on Friday Iraq will stop trucking crude oil from its northern Kirkuk oil field to Iran in November to comply with U.S. sanctions.

Washington has said it wants to reduce Iranian oil sales to zero, although this looks unlikely. Still, many buyers, including Iran's biggest customer, China, appear to be falling in line, forcing Tehran to store unsold oil on tankers. "If you move forward and see people playing by the rules, which I don't believe ever really happens, you'll see supply come off and we could run into an issue later," said Michael McAllister, director of equity research at MUFG Securities. A global collapse in equities has weighed on oil markets. Financial markets have been roiled by the U.S.-China trade war, a rout in emerging market currencies, rising interest rates and economic concerns in Italy. There are also signs of a slowdown in global trade, with container and bulk freight rates dropping. "If global demand contracts more than we think, that doesn't bode well for oil demand. GDP and oil demand are pretty well-correlated," said Stewart Glickman, an energy equity analyst at CFRA Research. The recent market turmoil and forecasts for an increase in supply have caused investors to pull back on bets on higher oil prices. Hedge funds cut their bullish bets on U.S. crude to the most in more than a year, according to U.S. Commodity Futures Trading Commission figures. Saudi Arabia's OPEC governor said on Thursday oil markets could face oversupply. "The market in the fourth quarter could be shifting towards an oversupply situation as evidenced by rising inventories over the past few weeks," Aadeb Al-Aama told Reuters. Saudi Energy Minister Khalid al-Falih said there could be a need for intervention to reduce oil stockpiles. U.S. crude production is soaring, boosted by technological advances. Output this year is forecast to break the annual record in 1970. U.S. energy firms added oil rigs for a third straight week, keeping the rig count at its highest in over three years, General Electric Co's Baker Hughes energy services firm said. Declining productivity in some shale fields has forced companies to drill more to keep output growing.

- **Oil slumps 5 percent as global equities tumble, Saudi supply assurances. Reuters**
 - Oil prices plunged about 5 percent on Tuesday to two-month lows as a sell-off in global equity markets raised worries about demand growth and after Saudi Arabia said it could supply more crude quickly if needed, easing concerns ahead of U.S. sanctions on Iran. Brent crude futures LCOc1 fell 4.3 percent, or \$3.39, to settle at \$76.44 a barrel after plunging 5 percent to \$75.88, the lowest since Sept. 7. U.S. crude CLc1 ended the session at \$66.43 a barrel, down \$2.93, after falling 5.2 percent to a session low of \$65.74, the lowest level since Aug. 20. If U.S. crude drops below \$65, a psychologically important figure, that could trigger further technical selling, traders said. Both contracts notched the biggest percentage drop since July. In post-settlement trade, prices extended losses as data from the American Petroleum Institute (API) showed a large increase in U.S. crude inventories. "The severity of the drop is pretty striking, but in today's trading world we have these kinds of days a little more often. Now we have to wait and see if this continues to spiral out of control," said Gene McGillian, vice president of market research for Tradition Energy in Stamford, Connecticut. Oil followed Wall Street's early sell-off, founded on worries over profit growth and concern about Italy's budget that have sent investors scrambling out of stocks of late. MSCI's gauge of stocks across the globe at one point shed more than 2 percent and hit its lowest point since September 2017. "Concerns about what's going on in the stock markets and the worries about economic growth has spilled over into the oil markets," McGillian said, adding that investors will be watching closely to see if the increase in Saudi Arabia's output materializes quickly. Saudi Energy Minister Khalid al-Falih told a conference in Riyadh the oil market was in a "good place" and he hoped oil producers would sign a deal in December to extend cooperation to monitor and stabilize the market. "We will decide if there are any disruptions from supply, especially with the Iran sanctions looming," Falih said. "Then we will continue with the mindset we have now, which is to meet any demand that materializes to ensure customers are satisfied." Falih said he would not rule out the possibility that Saudi Arabia would produce between 1 million and 2 million barrels per day (bpd) more than current levels in future. U.S. sanctions on Iranian oil begin on Nov. 4 and Washington has said it wants to stop all of Tehran's fuel exports, but other oil producers are pumping more to fill any supply gaps. The oil market has been concerned that Saudi Arabia might cut crude supply in retaliation for potential sanctions over the killing of journalist Jamal Khashoggi. Falih said on Monday there was no intention of doing that. Economist Intelligence Unit energy analyst Peter Kiernan said it would be self-defeating for Saudi Arabia to cut oil supply, as it would risk losing market share to other exporters while losing its reputation as a stable player in the market. UBS analysts expect oil demand growth to slow to 1.2 million bpd in 2019, on higher oil prices and weaker economic growth, slightly above the long-term average, adding that demand is forecast to be flat in OECD countries, with China and India continuing to drive growth. Meanwhile, Russia's

oil production is currently 150,000 bpd higher than the October 2016 level, the baseline for the global oil production deal, TASS news agency quoted Energy Minister Alexander Novak as saying. South Korea's crude imports from Iran fell to zero in September, data from state-run Korea National Oil Corp showed. However, U.S. crude oil production has climbed by almost a third since mid-2016, and the rising output could help to offset the loss of exports from Iran. U.S. crude inventories were expected to have risen for the fifth straight week last week, according to a Reuters poll ahead of weekly data from the Energy Information Administration (EIA) report on Wednesday morning. Data from API showed crude inventories rose 9.9 million barrels last week to 418.4 million, compared with analysts' expectations for an increase of 3.7 million barrels.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	19-Oct-18	1067	4	1663	154	913
	26-Oct-18	1068	1	1067	159	909
North Dakota	19-Oct-18	52	0	52	1	51
	26-Oct-18	54	2	52	5	49
Canada	19-Oct-18	191	-4	195	-11	202
	26-Oct-18	200	9	191	9	191
International	Sep-18	1004	-4	1008	73	931

- Baker Hughes

o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	10/19/2018	10/12/2018	10/20/2017
Crude Oil (Excluding SPR)	422.8	416.4	457.3
Motor Gasoline	229.3	234.2	216.9
Distillate Fuel Oil	130.4	132.6	129.2
All Other Oils	472.5	479.7	468.4
Crude Oil in SPR	656.5	657.6	671.4
Total	1,911.5	1,920.6	1,943.2

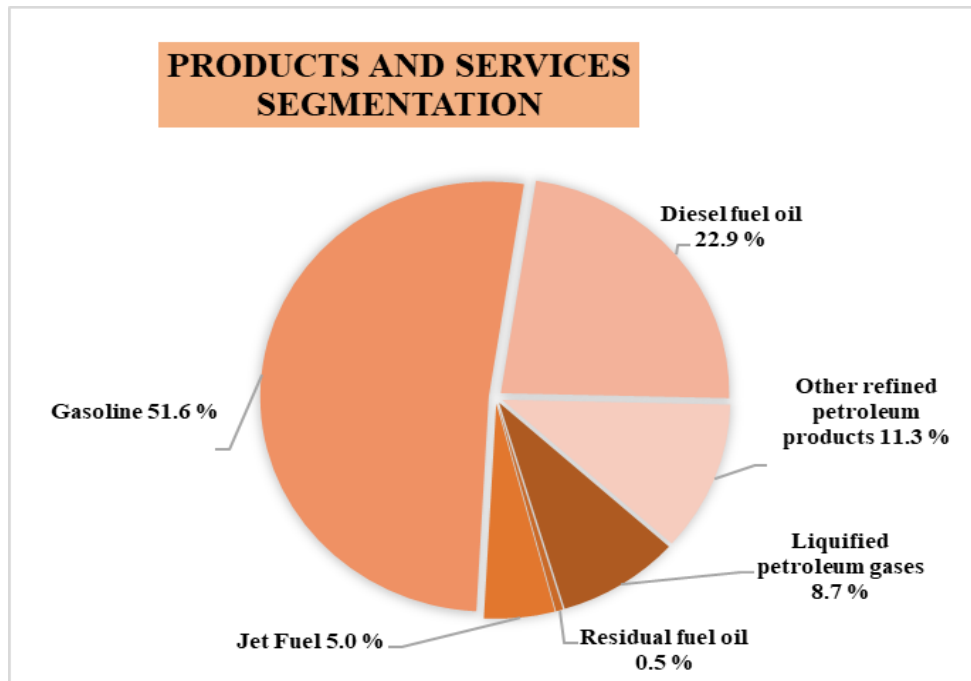
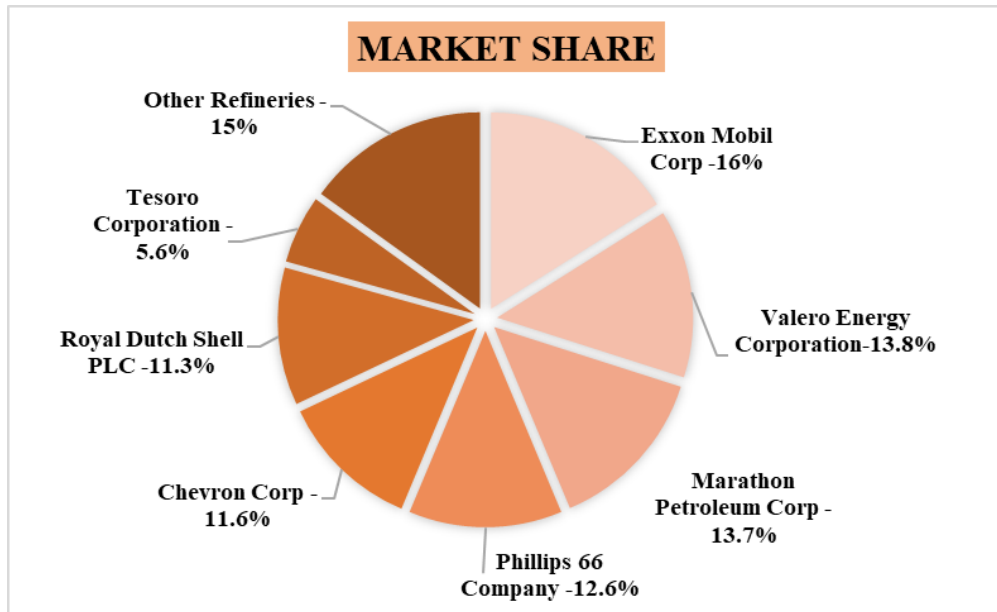
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/19/2018	10/12/2018	10/20/2017
Motor Gasoline	9,172	9,087	9,293
Distillate Fuel Oil	4,076	4,148	3,808
All Other Products	7,114	6,754	6,544
Total	20,362	19,989	19,646

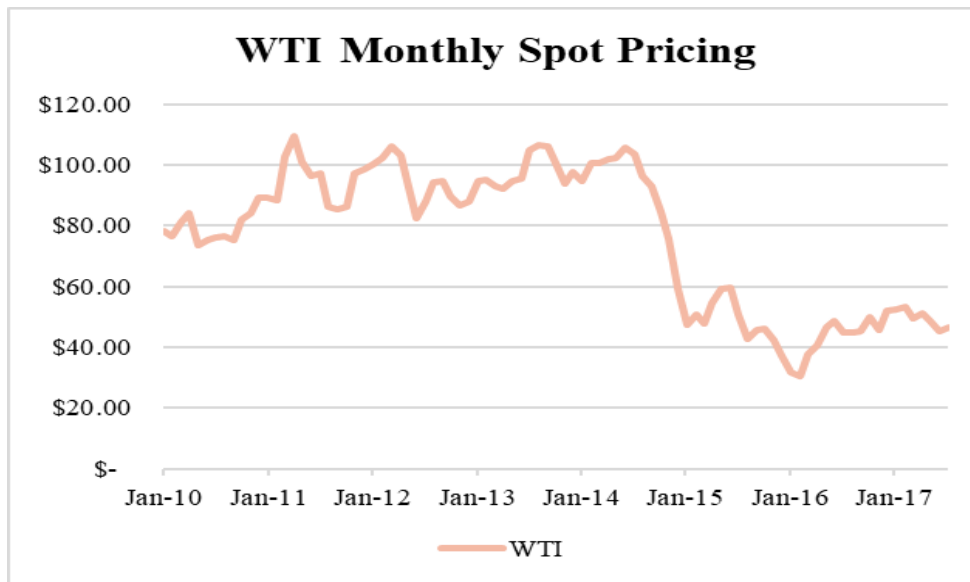
Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/19/2018	10/12/2018	10/20/2017
Crude Oil Input to Refineries	16,354	16,415	15,938
Refinery Capacity Utilization	89.3	89.6	87.4
Motor Gasoline Production	10,030	9,981	9,890
Distillate Fuel Oil Production	4,958	4,967	4,868

Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/19/2018	10/12/2018	10/20/2017
Crude Oil	5,599	5,515	5,865
Petroleum Products	-3,244	-3,062	-2,957
Total	2,355	2,452	2,908

- [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>