

Market Update

PRODUCTS	12/3/18	12/4/18	12/5/18	12/6/18	12/7/18
WTI Crude Oil	52.98	53.21	52.64	51.54	52.76
Brent Crude Oil	60.17	61.22	61.40	57.83	61.71
Natural Gas	4.40	4.40	4.69	4.44	4.51

- [CME Group](#)

Headlines

North Dakota

- **Bakken crude strengthens as Canada seeks output cut. Reuters**
 - The Bakken crude differentials firmed on Monday to the strongest level in a month, moving alongside rising Canadian prices after Alberta officials mandated oil-production cuts over the weekend, traders said. Bakken crude for delivery on the Enbridge Inc pipeline at Clearbrook, Minnesota, traded at a \$5 per barrel discount to the calendar month average of U.S. crude futures, traders said. That is the strongest since Oct. 24 and up from a \$9.40 discount on Friday. Crude from North Dakota's Bakken shale, the country's third-largest shale oil field, traded at a record \$20 discount to U.S. crude last month. Record-breaking oil production has overwhelmed pipelines out of the Bakken and kept prices well below benchmark futures. Bakken crude's rally followed Canadian crude, after Alberta Premier Rachel Notley said Canada would cut crude production by 8.7 percent, or 325,000 barrels per day, in an effort to stop producing more crude than can be carried to market by pipeline and rail. Western Canadian Select (WCS) traded in the low \$20 range below U.S. crude futures on Monday, down from Friday's settle of \$32 below the West Texas Intermediate benchmark, according to Shorcan Energy brokers.
- **EPA seeks input from North Dakota oil, coal industries.**
 - The regional director of the Environmental Protection Agency told North Dakota oil and coal leaders on Tuesday he wants to learn more about their industries in an effort to improve regulations. Doug Benevento, who leads the Denver-based EPA office that oversees North Dakota, invited input from industry during two roundtable discussions held in Bismarck. Benevento, appointed to his position in 2017, emphasized his prior experience working on energy and environmental issues for Xcel Energy and leading the Colorado Department of Public Health and Environment. "That experience has taught me that the worst decisions regulators make is when they don't understand the decisions they're making," Benevento said. The meetings were part of the Trump administration's Smart Sectors program, a national effort that encourages collaborating with regulated industries. The North Dakota Department of Health and the Department of Mineral Resources also participated. For certain environmental programs, the EPA delegates oversight to state regulators, such as the Department of Health's enforcement of the Clean Water Act. Roger Kelley, of Continental Resources, asks a question on Tuesday during a meeting with the Environmental Protection Agency and the North Dakota Petroleum Council in Bismarck. Benevento said his view of that relationship is not to micromanage the state agencies, but make certain they're meeting the minimum federal requirements. "Our job is to protect human health and the environment, and we take that seriously," Benevento said. "But we want to do that in a manner that isn't overreaching and complies with the law." Dave Glatt, chief of the Environmental Health Section for the Department of Health, said the state has a great working relationship with the EPA now, but he's concerned about what happens under the next administration. "Our challenge

today is to take positive advantage of the time we have today to look at how do we keep that pendulum from coming back too severely,” Glatt said. Representatives from North Dakota’s lignite industry said they’d like to have certainty and clarity with regulations. Jason Bohrer, executive director of the Lignite Energy Council, said the EPA should consider the expertise of states when developing rules. For example, the EPA’s Clean Power Plan failed to consider the unique properties of lignite, Bohrer said. Industry participants praised the EPA for holding the meetings and encouraged them to find a way to continue the practice with future administrations. “This is a unique opportunity for us, something we’ve rarely been afforded,” said Ron Ness, president of the North Dakota Petroleum Council. The meetings were open to the public, but the EPA didn’t announce them publicly until the day before. Members of the Dakota Resource Council attended the oil industry meeting and pressed Benevento for a justification for proposed changes to oil and natural gas air pollution standards. Organizer Nicole Donaghy, who also works with the Fort Berthold Protectors of Water and Earth Rights, said the changes would have a tremendous effect for people living on the reservation. Benevento said he couldn’t comment on proposed rule changes while a public comment period is ongoing. He encouraged the Dakota Resource Council to submit their comments in writing.

- **Strong economic outlook forecast for North Dakota in 2019 followed by slower pace of growth. [Bismarck Tribune](#)**
 - An economic recession projected to occur during North Dakota’s next two-year budget cycle is expected to be both good and bad news for the state, an economist said Wednesday. Dan White, of Moody’s Analytics, presented an economic outlook to legislators as they begin to consider Gov. Doug Burgum’s budget proposal for 2019-21. The forecast calls for strong expectations in 2019 followed by a slower pace of growth similar to the rate of inflation for 2020 and 2021, said White, director of government consulting and public finance research. A national recession is expected to occur by the end of 2020, which would cause the demand for oil and agriculture commodities to decrease, he said. He added that economists believe the recession will be relatively mild. “We are not predicting the next Great Recession,” White said. “We do not see a huge imbalance anywhere in the credit markets.” The upside for North Dakota is that a weaker U.S. labor market will make it easier for the state to attract and retain workers. White called North Dakota’s workforce shortages “one of the major speed limits on growth” for the state. A national recession would lead to an increase in workers seeking opportunities in North Dakota, offsetting the impact of the weakness in commodity prices, White said. The budget forecast notes that the “trade drama” between U.S. and China complicates the outlook for agriculture, with North Dakota relying on agricultural trade with China especially for soybeans. The forecast assumes the U.S. has a “reasonably graceful solution” to the trade war before the 2020 election cycle. The report notes that any escalation or extension of the trade war could lead to farmers having a more difficult time than projected in the forecast. The biennium runs from July 1, 2019, to June 30, 2021. Burgum’s budget proposal is based on the assumption that the state will produce between 1.3 million and 1.35 million barrels of oil per day during the biennium, figures the governor’s office said were intentionally conservative. North Dakota produced nearly 1.36 million barrels of oil per day in September. Lt. Gov. Brent Sanford, during an editorial board meeting with the Bismarck Tribune, noted that challenges with capturing natural gas could limit the pace of oil production growth during the biennium until infrastructure catches up. The budget proposal assumes an oil price of \$55 West Texas Intermediate the first year of the biennium and \$59 in the second year of the biennium, with a \$9 discount subtracted for North Dakota crude.

Domestic

- **OPEC, Russia agree to slash oil output despite Trump pressure. [Reuters](#)**
 - OPEC and its Russia-led allies agreed on Friday to slash oil production by more than the market had expected despite pressure from U.S. President Donald Trump to reduce the price of crude. The producer club will curb output from January by 0.8 million barrels per day versus October levels while non-OPEC allies contribute an additional 0.4 million bpd of cuts, in a move to be reviewed at a meeting in April. Oil prices jumped about 5 percent to more than \$63 a barrel as the combined cut of 1.2 million bpd was larger than the minimum 1 million bpd that the market had expected. Analyst View: OPEC, allied exporters to cut crude output by 1.2 million bpd. Saudi Arabia, de facto leader of the Organization of the Petroleum Exporting Countries, has

faced demands from Trump to help the global economy by refraining from paring supplies. An output curtailment also would provide support to Iran by increasing the price of oil amid attempts by Washington to squeeze the economy of OPEC's third-largest producer. Asked whether the decision to cut could sour Riyadh's relations with Washington, Saudi Energy Minister Khalid al-Falih told reporters the kingdom was ready to pump more should a major supply outage occur. "We will not squeeze consumers beyond what they can afford," he said, adding that given the United States had recently become the biggest oil-producing nation, its energy companies were "breathing a sigh of relief". Further complicating Riyadh's decisions this week was the crisis around the killing of journalist Jamal Khashoggi at the Saudi consulate in Istanbul in October. Trump has backed Saudi Crown Prince Mohammed bin Salman despite calls from many U.S. politicians to impose stiff sanctions on the kingdom. Falih refrained from answering a question on whether the OPEC decision might prompt Washington to withdraw support, but said Saudi-U.S. relations were based on shared values.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	30-Nov-18	1076	-3	1079	147	929
	7-Dec-18	1075	-1	1076	144	931
North Dakota	30-Nov-18	52	0	52	6	46
	7-Dec-18	52	0	52	5	47
Canada	30-Nov-18	199	-5	204	-23	222
	7-Dec-18	186	-13	199	-33	219
International	Nov-18	991	-26	1017	49	942

- Baker Hughes

o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	11/30/2018	11/23/2018	12/1/2017
Crude Oil (Excluding SPR)	443.2	450.5	448.1
Motor Gasoline	226.3	224.6	220.9
Distillate Fuel Oil	125.6	121.8	129.4
All Other Oils	450.9	457.4	451.2
Crude Oil in SPR	649.6	650.6	662.7
Total	1,895.4	1,904.8	1,912.3

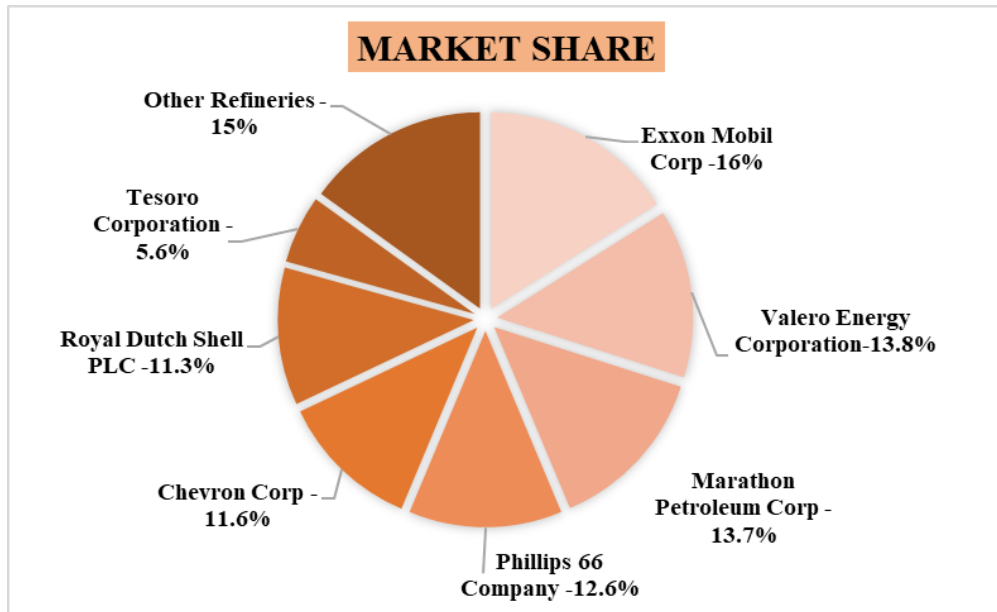
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	11/30/2018	11/23/2018	12/1/2017
Motor Gasoline	9,111	9,166	9,097
Distillate Fuel Oil	4,127	4,198	3,926
All Other Products	7,929	7,767	6,642
Total	21,167	21,131	19,664

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	11/30/2018	11/23/2018	12/1/2017
Crude Oil Input to Refineries	17,082	16,812	16,919
Refinery Capacity Utilization	93.5	92.1	92.2
Motor Gasoline Production	9,982	9,994	10,066
Distillate Fuel Oil Production	5,309	5,157	5,313

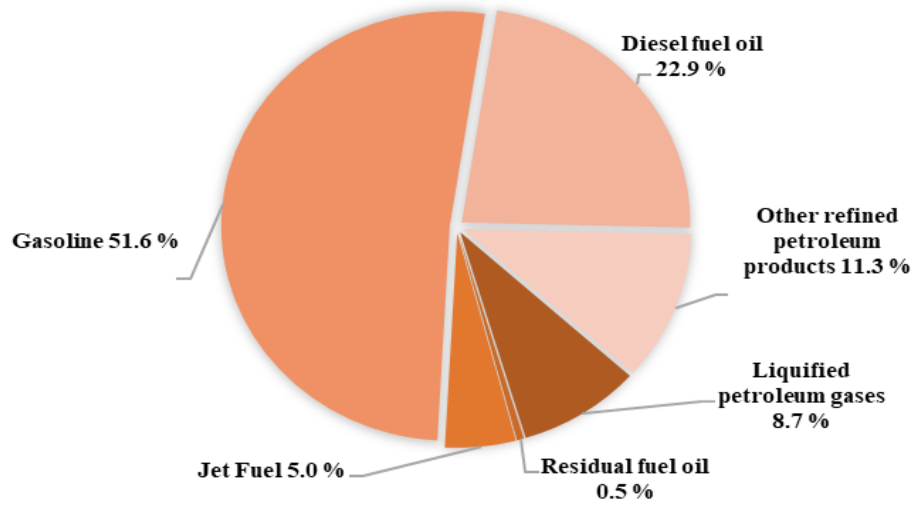
Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	11/30/2018	11/23/2018	12/1/2017
Crude Oil	5,181	5,460	6,203
Petroleum Products	-3,675	-3,375	-3,412
Total	1,506	2,085	2,791

- [EIA](#)

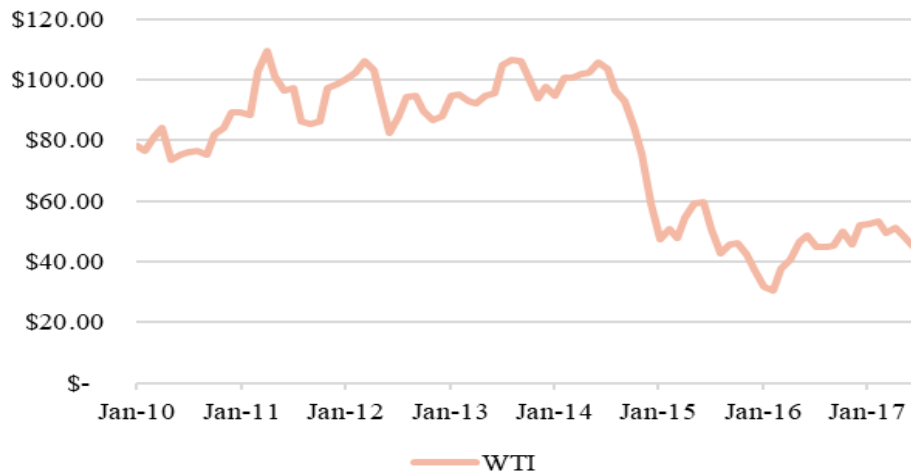
- **US Petroleum Refining at a Glance**



PRODUCTS AND SERVICES SEGMENTATION



WTI Monthly Spot Pricing



- [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-behavioryuuui>