

Weekly Fundamental Market Report

October 1-5, 2018

Market Update

PRODUCTS	10/1/18	10/2/18	10/3/18	10/4/18	10/5/18
WTI Crude Oil	75.37	75.25	76.41	74.33	74.34
Brent Crude Oil	84.94	84.92	86.29	84.58	84.16
Natural Gas	3.13	3.18	3.10	3.17	3.14

- [CME Group](#)

Headlines

North Dakota

- **Judge's ruling may remove roadblock to oil refinery. [Bismarck Tribune](#)**
 - Continental A North Dakota judge has finalized his recent conclusion that state regulators don't have a say in the site of an \$800 million oil refinery being developed near Theodore Roosevelt National Park, potentially clearing a major roadblock for the project. An attorney for one of the environmental groups challenging the project says the judge's recommendation could set a bad precedent by effectively allowing developers to police themselves. Administrative Law Judge Patrick Ward in a nonbinding recommendation last month said the Davis Refinery being developed by Meridian Energy Group won't have a large enough capacity to fall under the jurisdiction of the Public Service Commission. The Environmental Law and Policy Center and Dakota Resource Council disputed that, noting that the project's permit from the Health Department allows construction of a facility big enough to warrant PSC review under state law. Ward in a decision dated Wednesday said that doesn't matter. "The fact that the (Health Department) issued a permit for Meridian to build a refinery up to 55,000 (barrels per day) does not mean they need to construct one of that size," Ward said. "The proposed 49,500 bpd facility sworn to in the affidavit from the chief executive officer of Meridian is beneath PSC jurisdiction." Under state law, oil refineries with a capacity of 50,000 or more barrels require a site permit, a process that involves public hearings and can take half a year or longer to complete. Meridian initially told the media, investors and government officials that the refinery would have a capacity of 55,000 barrels, but the company later lowered the figure to 49,500. It has denied trying to skirt state law. The two environmental groups that filed a complaint with the PSC maintain the Health Department permit indicates the project might end up being larger than the company maintains. They want permission to obtain more information from Meridian, so they can explore the veracity of the company's stated plans for a 49,500-barrel refinery. Ward in his decision recommended that not be allowed, and he again urged the PSC to dismiss the groups' complaint. The commission could act as early as its next regular meeting, scheduled for Wednesday. During an informal discussion of the matter last month, one commissioner indicated she likely would vote to heed the judge's advice, while the other two PSC members held off on indicating their position. Dakota Resource Council attorney JJ England said that if the PSC follows the recommendation, it "may have the effect of restricting the jurisdiction of executive agencies in North Dakota." "The judge's recommendation all but asks the PSC to waive its power to review the safety and location of this major oil refinery so long as the company swears that it does not need a permit," he said Thursday in a statement to The Associated Press. "In other words, it allows companies to police themselves. "Meridian began site work this summer for the refinery 3 miles (5 kilometers) from the park. Opponents fear pollution will mar the park's scenery and erode the air quality at the state's top tourist attraction. Meridian disputes that, and supporters believe the plant will

boost the area's economy. The company hopes to begin operating the refinery in 2020, though the project faces a legal challenge of its state air quality permit. Meridian also still needs state water and wastewater permits, and it will need to prove once the refinery is built that it meets air quality standards.

Domestic

- **Oil prices mark weekly gain ahead of Iran sanctions. Reuters**
 - Crude futures steadied on Friday after climbing to four-year highs earlier this week, and both Brent and U.S. crude marked weekly gains ahead of U.S. sanctions on Iranian oil exports. U.S. West Texas Intermediate (WTI) crude CLc1 futures rose 1 cent to settle at \$74.34 a barrel. Oil markets could witness modest surplus into early 2019: Global benchmark Brent crude LCOc1 futures for December delivery fell 42 cents to settle at \$84.16 a barrel. On Wednesday, Brent hit its highest price since late 2014, at \$86.74. “They’re taking a pause after yesterday’s sell-off,” said Andrew Lipow, president of Lipow Oil Associates. WTI’s weekly gain was about 1.3 percent; Brent’s was around 1.4 percent. Price gains this week were limited by Saudi Arabia and Russia’s saying they would raise output to at least partly make up for expected disruptions from Iran, OPEC’s No. 3 producer, due to the U.S. sanctions that take effect on Nov. 4. Oil prices are up 15-20 since mid-August, at their highest levels since late 2014. Washington wants governments and companies around the world to stop buying Iranian oil to pressure Tehran into renegotiating a nuclear deal. Saudi Arabian Crown Prince Mohammed bin Salman insisted the kingdom is fulfilling promises to make up for lost Iranian crude supplies, Bloomberg reported. Saudi Arabia is now pumping about 10.7 million barrels per day (bpd) and can add a further 1.3 million “if the market needs that,” he said. India will buy 9 million barrels of Iranian oil in November, two industry sources said, indicating that the world’s third-biggest oil importer will keep purchasing crude from the Islamic republic. Many analysts said they expected Iranian exports to drop by around 1 million barrels per day. U.S. bank Jefferies said there was enough oil to meet demand, but “global spare capacity is dwindling to the lowest level that we can document.” S&P Global Platts sees prices strengthening “a little” toward the end of the year, said Chris Midgely, the company’s global director of analytics, at the S&P Global Platts Analytics annual summit. Fundamentals indicate a price in the high \$70s for Brent, but the reality is seen above that, he said. Prices are then likely to weaken in the first two quarters of 2019 before strengthening about \$4 to \$5 a barrel in the second half of the year as the market anticipates a shipping fuel regulation that takes effect in 2020. U.S. drillers cut two oil rigs in the week to Oct. 5, General Electric Co’s (GE.N) Baker Hughes energy services firm said RIG-OL-USA-BHI. Rising costs and pipeline bottlenecks in the nation’s largest oil field have hindered new drilling since June. Hedge funds cut their combined futures and options position in New York and London by 13,459 contracts to 333,109 in the week to Oct. 2, the U.S. Commodity Futures Trading Commission (CFTC) said.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	28-Sep-18	1054	1	1053	114	940
	5-Oct-18	1052	-2	1054	116	936
North Dakota	28-Sep-18	53	0	53	3	50
	5-Oct-18	52	-1	53	2	50
Canada	28-Sep-18	178	-19	197	-35	213
	5-Oct-18	182	4	178	-27	209
International	Sep-18	1004	-4	1008	73	931

- Baker Hughes

o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	9/28/2018	9/21/2018	9/29/2017
Crude Oil (Excluding SPR)	404.0	396.0	465.0
Motor Gasoline	235.2	235.7	218.9
Distillate Fuel Oil	136.1	137.9	135.4
All Other Oils	473.4	471.2	475.1
Crude Oil in SPR	660.0	660.0	673.6
Total	1,908.7	1,900.8	1,968.1

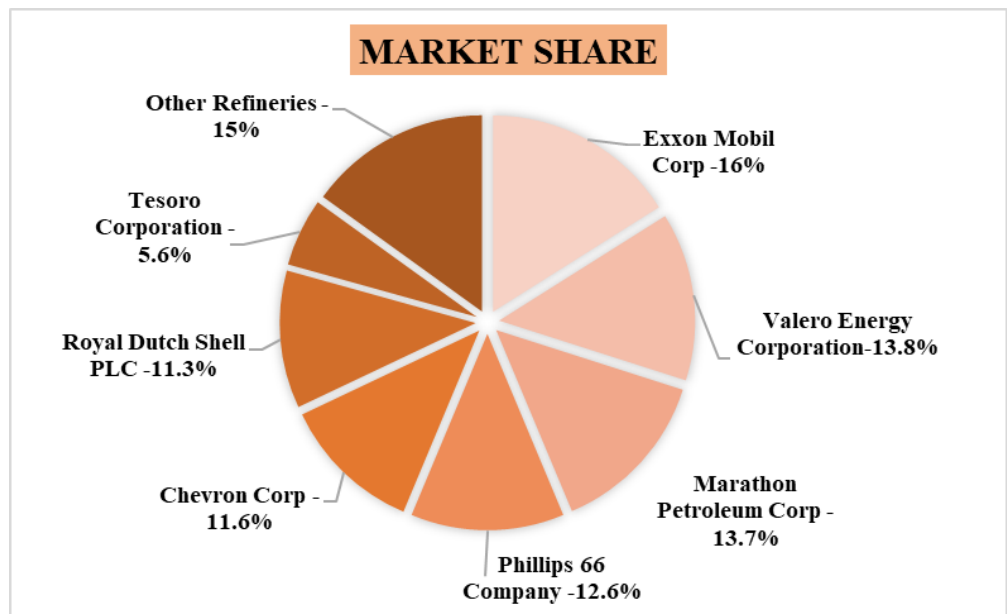
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/28/2018	9/21/2018	9/29/2017
Motor Gasoline	9,318	9,476	9,456
Distillate Fuel Oil	3,902	4,005	4,019
All Other Products	7,249	7,360	6,769
Total	20,469	20,842	20,243

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/28/2018	9/21/2018	9/29/2017
Crude Oil Input to Refineries	17,094	17,358	15,363
Refinery Capacity Utilization	93.5	95	84.4
Motor Gasoline Production	10,109	10,175	9,847
Distillate Fuel Oil Production	5,254	5,357	4,521

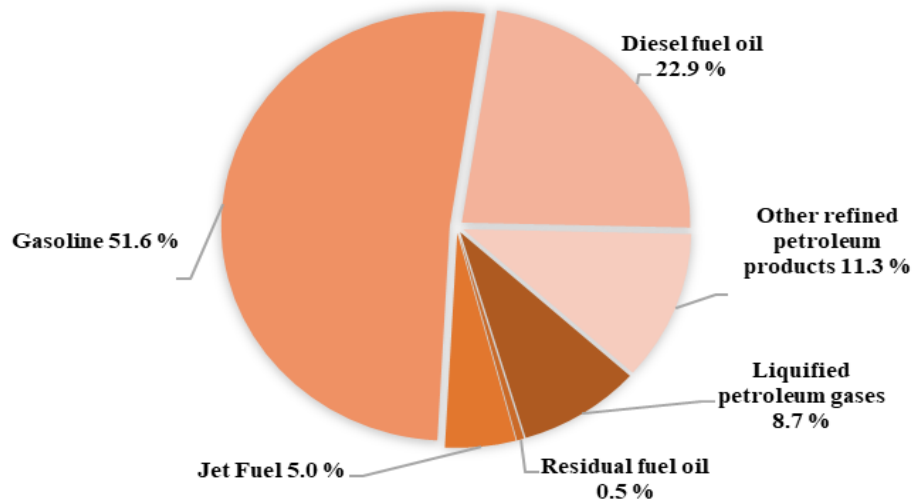
Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/28/2018	9/21/2018	9/29/2017
Crude Oil	5,706	5,697	5,828
Petroleum Products	-2,730	-2,374	-1,900
Total	2,976	3,324	3,928

- [EIA](#)

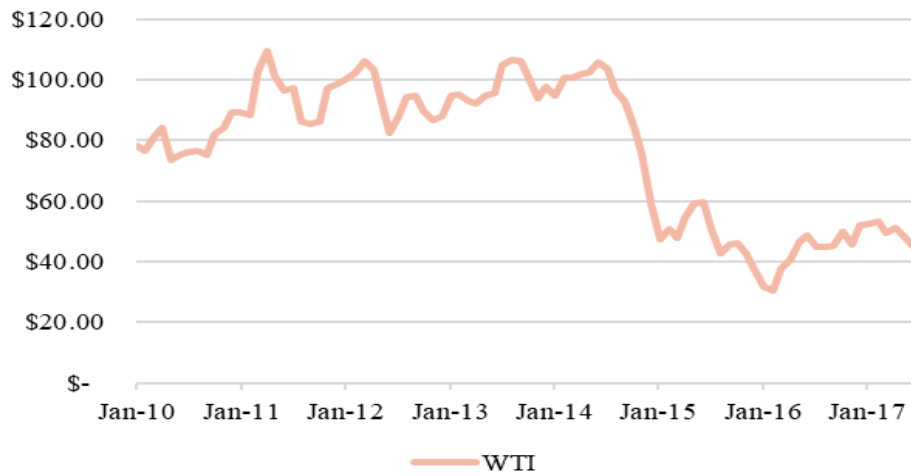
- **US Petroleum Refining at a Glance**



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-behavior>