

Weekly Fundamental Market Report October 2-6, 2017

Market Update

PRODUCTS	10/2/17	10/3/17	10/4/17	10/5/17	10/6/17
WTI Crude Oil	50.58	50.42	49.98	50.79	49.29
Brent Crude Oil	57.46	56.00	55.80	57.00	55.62
Natural Gas	2.92	2.90	2.94	2.92	2.86

- [CME Group](#)

Headlines

Local North Dakota

- **TransCanada no longer pursuing North Dakota oil pipeline.** [Bismarck Tribune](#)
 - TransCanada Corp. said this week it no longer plans to proceed with the Upland Pipeline that was proposed to transport Bakken oil from northwest North Dakota to Canada. The project was linked to the proposed Energy East Pipeline, which TransCanada said Thursday it is no longer pursuing “after careful review of changed circumstances.” The Upland Pipeline was proposed to originate about 15 miles southwest of Williston and transport as many as 300,000 barrels of oil per day. It would have traveled about 126 miles in North Dakota, crossing the Canadian border near Flaxton. Because the project would have crossed the U.S.-Canada border, it required a presidential permit. TransCanada said it is in the process of withdrawing its application to the U.S. Department of State. Earlier this year, TransCanada had asked the department to pause on the review of the application to better align with the timing for the review of the Energy East Pipeline System. The Energy East Pipeline was proposed to carry 1.1 million barrels of oil a day from Alberta and Saskatchewan to eastern Canadian refineries. TransCanada continues to move forward with the proposed Keystone XL Pipeline from Canada to the Gulf Coast, which would not cross North Dakota but provides an on-ramp for Bakken crude in Baker, Mont. The Keystone XL Pipeline has a presidential permit, but the route is still being reviewed by Nebraska regulators.
- **Review of Dakota Access Oil Pipeline to Extend into Spring.** [US News](#)
 - It probably will take until next spring for the Army Corps of Engineers to finish court-ordered additional environmental study of the Dakota Access oil pipeline, agency attorneys said in court documents filed Friday. The Corps had anticipated completing the task by the end of the year, but Justice Department attorney Matthew Marinelli said it will take longer than expected to get needed information including spill modeling from Texas-based pipeline developer Energy Transfer Partners and possibly from at least one unspecified American Indian tribe. “Given the current expected time frame for the receipt of additional information, the Corps now anticipates that its review and analysis ... will not conclude until approximately April 2, 2018,” Marinelli wrote. The \$3.8 billion pipeline began carrying oil from North Dakota through South Dakota and Iowa to a distribution point in Illinois on June 1. However, four Sioux tribes in the Dakotas continue challenging it in federal court in Washington, D.C., because they fear a leak could contaminate their water supply. The pipeline crosses beneath the Lake Oahe reservoir on the Missouri River just to the north of the Standing Rock Reservation that straddles the North Dakota-South Dakota border. “The notice says they are conducting additional oil spill modeling — in other words, this wasn’t done before the Trump administration approved (the pipeline),” tribal Chairman Dave Archambault said Friday in a statement to The Associated Press. “This confirms what we’ve been saying from the start — until there’s been a full analysis of risks and impacts to the Standing Rock tribe, the pipeline should be shut down.” U.S. District Judge James Boasberg is considering halting pipeline

operations while the additional study is done. It's not known when he'll rule. Boasberg ruled on June 14 that the Corps largely complied with environmental law in giving its permission for the pipeline project, but that it didn't adequately consider how an oil spill under Lake Oahe might affect the Standing Rock tribe. He also said the Corps didn't adequately study how the pipeline might disproportionately affect the tribal community — a concept known as environmental justice. That aims to ensure development projects aren't built in areas where minority populations might not have the resources to defend their rights. Boasberg ordered the Corps to reconsider those issues. The Corps is "actively working on ways to shorten" the new April timeline for completing the work, Marinelli said.

Domestic U.S.

- **US oil exports will keep booming after hitting record 2 million barrels a day, analysts say. [CNBC](#)**
 - The U.S. oil export boom will keep chugging along in the coming months, analysts said, one day after the government reported record shipments of American crude. Oil exports rose to all-time high 1.98 million barrels a day, surpassing the previous record of nearly 1.5 million barrels that was hit during the previous week. At that level, the United States is shipping out more oil than what OPEC countries like Venezuela and Nigeria produce. Fueling the boom is the widening gap in the price of a barrel of U.S. West Texas Intermediate crude and Brent, the international benchmark. That gap is now around \$6.25 a barrel. WTI traded Thursday at \$50.79 a barrel, while Brent was at \$57. When WTI trades at a discount to Brent and other foreign benchmarks, it encourages traders to buy U.S. supplies. But the so-called spread needs to be wide enough to offset shipping costs. While last week's export levels just under 2 million barrels a day are probably unsustainable, Smith said he believes exports will remain elevated for at least another month or two. That's in part because American producers have committed supplies to overseas buyers. But there is also typically a lag between the widening of the Brent-WTI spread and the rise in exports, Smith added. That means today's wide spreads are feeding tomorrow's exports. The Brent-WTI spread blew out in September after Hurricane Harvey knocked out one-quarter of U.S. refining capacity, sinking demand for crude oil and causing stockpiles to build up. That weighed on WTI prices, and Brent's rally soon outpaced U.S. crude's run-up. "We were seeing exports getting close to a million barrels per day even when the spread was nearly half of what it is now," Smith said. "It seems as long as our spread remains above three or four dollars, we're going to see a million barrels-per-day-plus exports." Andy Lipow, president of Lipow Oil Associates, also said U.S. producers can't maintain last week's pace, but exports could strike another high this month. Lipow correctly predicted in June that the United States would continue to set new export records in the second half of 2017. "We're going to continue to export significant volumes of oil over the next couple of months, as the economics are there to ship it to markets in Asia and Europe and elsewhere," he told CNBC. U.S. shale oil output is projected to march higher in the fourth quarter, while refiners will shut down for seasonal maintenance, leaving more crude available to foreign buyers, Lipow noted. What could eventually clip WTI's wings is the export boom itself, the analysts said. Rising exports will help whittle away at brimming U.S. crude prices, helping to reduce a global oversupply and push up prices. As the WTI-Brent spread narrows, U.S. crude will be less attractive to overseas buyers. Oil prices sank on Wednesday after the U.S. Energy Information Administration reported the import figures, but they rebounded 1.6 percent on Thursday as comments from Saudi and Russian officials fed hopes that the top oil producers will orchestrate an extension to output cuts among about two dozen exporters. The production cuts have opened an opportunity for U.S. drillers to fill the gap left by OPEC and its allies. The exporters are keeping 1.8 million barrels a day off the market through March.

Global

- **Oil Down 2 Percent, Set to End Five-Week Rally as Oversupply Fears Resurface. [Reuters](#)**
 - Oil futures plunged over 2 percent on Friday, and were set to end Brent's longest multi-week rally in 16 months following profit taking and the return of oversupply concerns. Benchmark Brent crude futures were down \$1.26 at \$55.74 a barrel, set to snap a five-week winning streak that was the longest since June 2016. U.S. West Texas Intermediate (WTI) crude was at \$49.35, down \$1.44 or 2.8 percent on the day. "Yesterday we had Russia and the Saudis talking about extending cooperation, and today we saw a little bit of backtracking with respect to additional cuts in production," said Houston-based consultant Andrew Lipow. "What the market gained yesterday is clearly being given back today." Russia on Friday clarified remarks made by President Vladimir

Putin about the oil market earlier this week, saying he did not propose extending a global oil output cut deal but said he recognized it was a possibility. The prospect of extended oil production cuts by the Organization of the Petroleum Exporting Countries and other producers led by Russia had supported prices in recent sessions. Oil futures plunged over 2 percent on Friday, and were set to end Brent's longest multi-week rally in 16 months following profit taking and the return of oversupply concerns. Benchmark Brent crude futures were down \$1.26 at \$55.74 a barrel, set to snap a five-week winning streak that was the longest since June 2016. U.S. West Texas Intermediate (WTI) crude was at \$49.35, down \$1.44 or 2.8 percent on the day. "Yesterday we had Russia and the Saudis talking about extending cooperation, and today we saw a little bit of backtracking with respect to additional cuts in production." said Houston-based consultant Andrew Lipow. "What the market gained yesterday is clearly being given back today." Russia on Friday clarified remarks made by President Vladimir Putin about the oil market earlier this week, saying he did not propose extending a global oil output cut deal but said he recognized it was a possibility. The prospect of extended oil production cuts by the Organization of the Petroleum Exporting Countries and other producers led by Russia had supported prices in recent sessions.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	29-Sep-17	940	5	935	418	522
	6-Oct-17	936	-4	940	412	524
North Dakota	29-Sep-17	50	1	49	20	30
	6-Oct-17	50	0	50	20	30
Canada	29-Sep-17	213	-7	220	51	162
	6-Oct-17	209	-4	213	44	165
International	Sep-17	931	-21	952	-3	934

- [Baker Hughes](#)

o WTI & Bakken Spot Price

October 2017 Daily Spot Prices					
	Mon	Tue	Wed	Thu	Fri
Bakken (FH)					
2017 September-25 to September-29	43.84	44.06	44.06	44.09	44.04
2017 October-2 to October-6	44.06	45.04	45.04	44.59	45.24
WTI					
2017 September-25 to September-29	51.85	51.59	52.14	51.62	51.67
2017 October-2 to October-6	50.59				
Differentials					
September-25 to September-29	8.01	7.53	8.08	7.53	7.63
2017 October-2 to October-6	6.53				

- [Flint Hills Resource](#)
- [EIA](#)

o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	9/29/2017	9/22/2017	9/30/2016
Crude Oil (Excluding SPR)	465.0	471.0	469.1
Motor Gasoline	218.9	217.3	227.4
Distillate Fuel Oil	135.4	138.0	160.7
All Other Oils	475.1	474.2	491.8
Crude Oil in SPR	673.6	674.6	695.1
Total	1,968.1	1,975.1	2,044.2

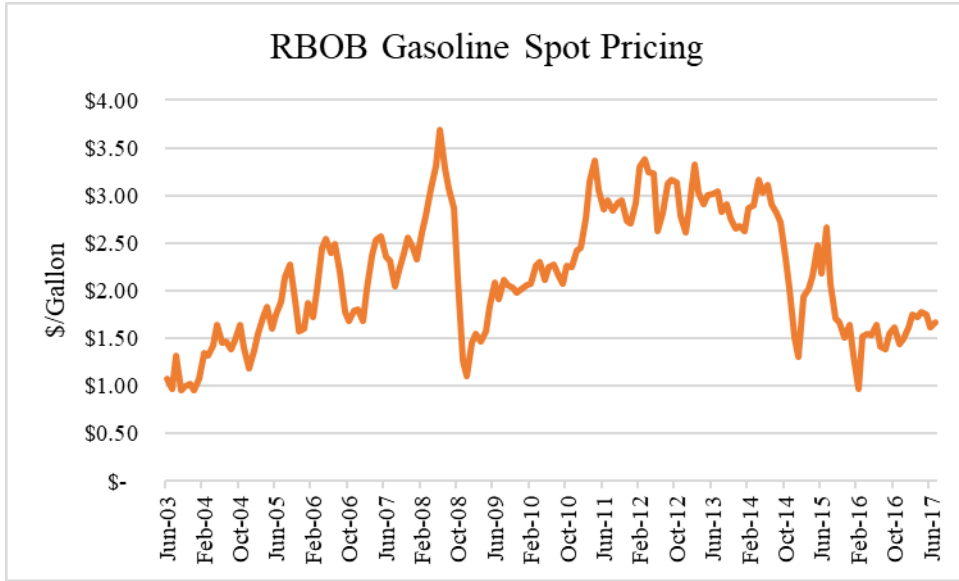
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/29/2017	9/22/2017	9/30/2016
Motor Gasoline	9,456	9,436	9,332
Distillate Fuel Oil	4,019	4,033	3,589
All Other Products	6,769	6,835	6,940
Total	20,243	20,304	19,860

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/29/2017	9/22/2017	9/30/2016
Crude Oil Input to Refineries	15,363	14,974	16,421
Refinery Capacity Utilization	84.4	82.3	90.8
Motor Gasoline Production	9,847	9,763	9,881
Distillate Fuel Oil Production	4,521	4,412	4,833

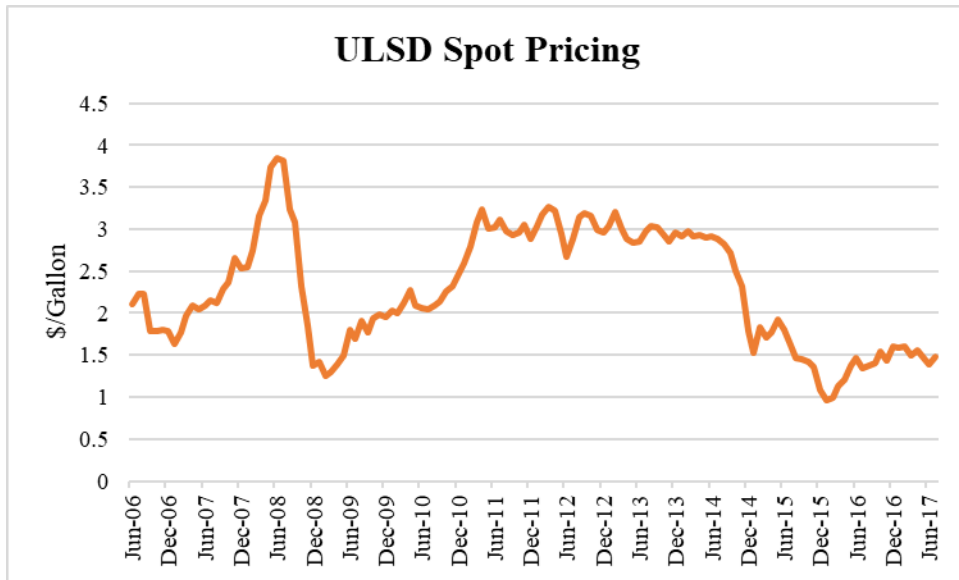
Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/29/2017	9/22/2017	9/30/2016
Crude Oil	5,828	6,253	7,491
Petroleum Products	-1,900	-1,330	-2,526
Total	3,928	4,923	4,965

- [EIA](#)

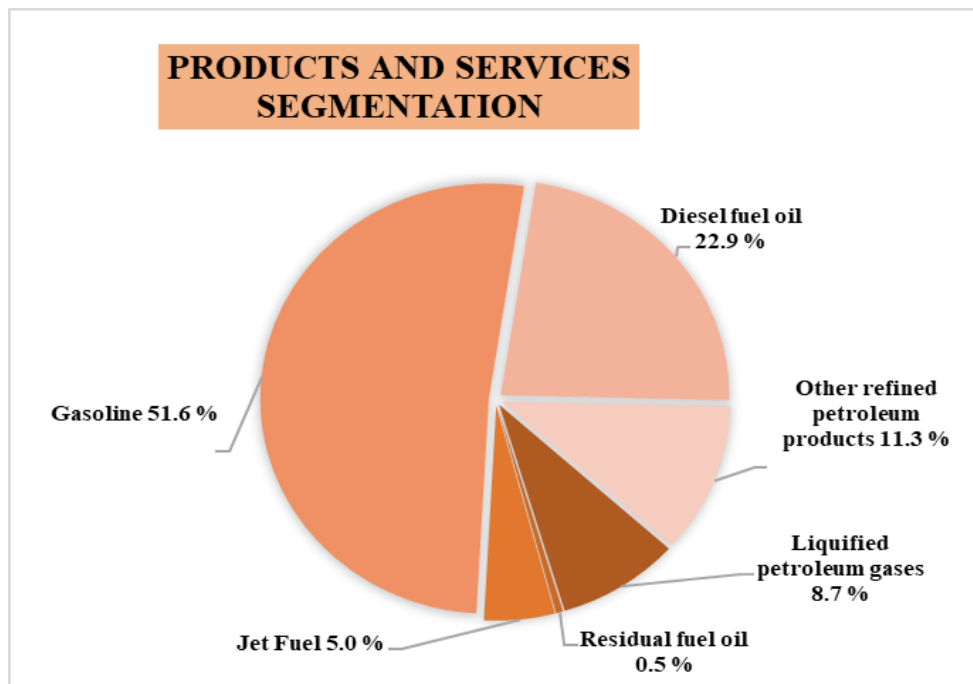
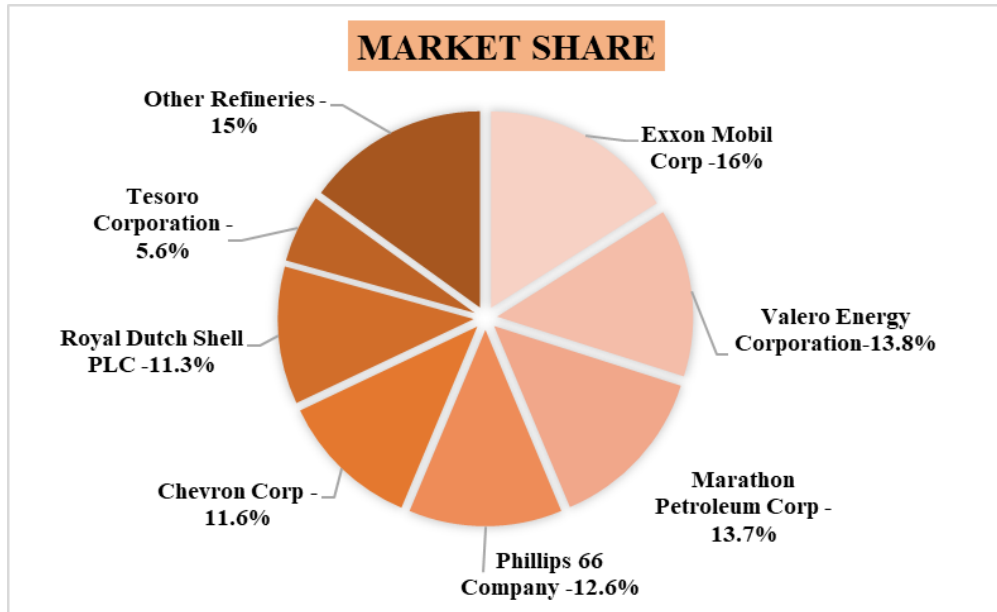
o **RBOB Gasoline**

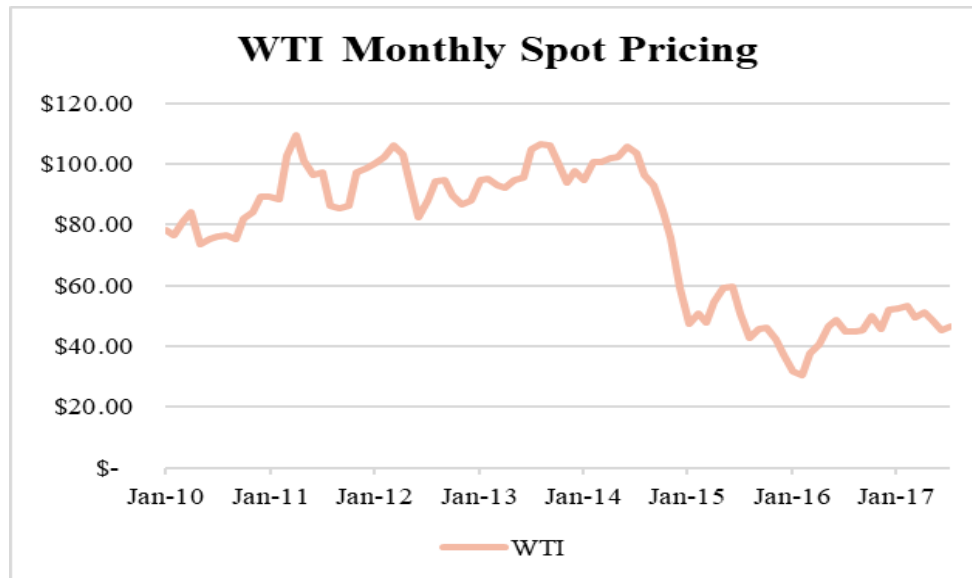


o **Ultra-Low Sulfur Diesel**



o US Petroleum Refining at a Glance





- [EIA](#)

o Key External Drivers

- o **World price of crude oil**
 - https://www.eia.gov/outlooks/steo/report/global_oil.cfm
- 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**
 - <http://china-trade-research.hktdc.com/business-news/article/Facts-and-Figures/Economic-and-Trade-Information-on-China/ff/en/1/1X000000/1X09PHBA.htm>
- o **Trade-weighted index**
 - <https://seekingalpha.com/article/4102493-dollars-drop-still-bullish-oil>
- o **Total vehicle miles**
 - <https://www.advisorperspectives.com/dshort/updates/2017/08/31/vehicle-miles-traveled-another-look-at-our-evolving-behavior>