

Weekly Fundamental Market Report October 9-13, 2017

Market Update

PRODUCTS	10/9/17	10/10/17	10/11/17	10/12/17	10/13/17
WTI Crude Oil	49.58	50.92	51.30	50.60	51.45
Brent Crude Oil	55.79	56.61	56.94	56.25	57.17
Natural Gas	2.83	2.89	2.89	2.99	3.00

- [CME Group](#)

Headlines

Local North Dakota

- **North Dakota oil production continues to rise.** [Star Tribune](#)
 - North Dakota's oil production rose 3.5 percent in August, hitting the highest monthly mark since early 2016. North Dakota, the nation's second largest oil producer, pumped out 1.085 million barrels of crude per day in August, compared with 1.048 million per day during the previous month, according to data released Tuesday by North Dakota's Department of Mineral Resources. The state's output generally has been rising in 2017, after dropping below 1 million barrels per day for a few months in 2016 and in January of this year. The oil rig count in North Dakota currently stands at 57, up from 56 in September and August, but down from a peak of 58 in July. A rising rig count indicates operators are drilling more new wells. The rig count, which stood at 38 in January, increased steadily during the first half of 2017. Oil companies grew more optimistic after prices moved over \$50 barrel for three months beginning in early December. Prices have fluctuated since spring, and West Texas Intermediate (WTI) — the benchmark U.S. crude price — fell to just over \$42 per barrel in June. WTI closed Tuesday at nearly \$51 per barrel. Oil prices ranging from \$50 to \$60 per barrel are generally needed to spark increased activity in North Dakota's oil fields. OPEC, a group of oil-producing nations, extended production cuts for nine months in August. But some of its members haven't been complying with output targets, helping to depress global prices. Plus, rising U.S. shale oil production this year has blunted the effects of OPEC's cuts. "Oil price weakness is now anticipated to last through calendar year 2017," according to a monthly report released Tuesday by Lynn Helms, director of North Dakota's Department of Mineral Resources.

Domestic U.S.

- **Surprise Oil Inventory Build Shocks Markets.** [Oil Price](#)
 - The American Petroleum Institute (API) reported a surprise build of 3.097 million barrels in United States crude oil inventories, compared to an S&P Platts' survey of analysts that expected inventories would draw down by 400,000 barrels for the week ending October 6. Gasoline inventories, according to the API, saw a decrease of 1.575 million barrels for the week ending October 6, against an expected build of 1.4 million barrels. Both WTI and Brent benchmarks were up on Tuesday as much of US offshore production remains offline after more than 92% of Gulf of Mexico production in the US was taken out by Tropical Storm Nate. Saudi Arabia also lifted some spirits as it promised to lower November exports, although China is likely behind much of the Saudi's export cuts as it shuts refineries for maintenance as planned, and as China's government sets strict import levels—and shows signs of being stricter in 2018. Prices climbed even further on Wednesday,

with WTI up to \$51.3, and Brent at \$56.94. Gasoline was trading up 1.04% on Wednesday, at \$1.61. For the US, the total drawdown of crude oil in 2017 now stands at just shy of 23.5 million barrels, according to API data. Distillate inventories increased this week, up 2.029 million barrels. Analysts had expected a drop of 1.64 million barrels. S&P Global Platts analysts and API were way out of synch this week, estimating builds where API sees draws, and draws where API sees builds. Inventories at the Cushing, Oklahoma, site increased by 1.216 million barrels this week.

Global

- **Oil rallies on Chinese import boost and Mideast tensions. Reuters**
 - Oil prices firmed on Friday as bullish news from strong Chinese oil imports to turmoil in the Middle East put Brent on track for a nearly 3 percent weekly gain. A oil pump is seen at sunset outside Scheibenhart, near Strasbourg, France. The developments added to other signs that the market was finally rebalancing after years of excess, but analysts warned that the 2018 balance was still shaky. Brent LCOc1 was at \$57.20 at, up 95 cents. U.S. West Texas Intermediate (WTI) crude was at \$51.44 per barrel, up 84 cents from its last settlement. The contracts were on track for weekly gains of more than 2 percent and 4 percent, respectively. Chinese oil imports hit 9 million barrels per day (bpd) in September, data showed on Friday. Imports averaged 8.5 million bpd between January and September, solidifying China's position as the world's biggest oil importer. "We woke up with the strong data from China. That's on the supportive side," said Olivier Jakob, managing director of oil consultancy PetroMatrix. China's huge imports have been strongly driven by purchases for its strategic petroleum reserves (SPR). The nation has spent around \$24 billion on building its crude reserves since 2015 and now holds around 850 million barrels of oil in inventory, according to the International Energy Agency (IEA). Unrest in Iraq, and possible U.S. action on the Iran nuclear deal, also underpinned prices. On Friday, local television reported that tens of thousands of Kurdish fighters had deployed in the Kirkuk oil region to confront possible "threats" from Iraqi forces. Tensions between the two, which traders fear could impinge on oil exports from the region, have been building since Iraq's Kurds overwhelmingly backed independence in a Sept. 25 vote. Later on, Friday, U.S. President Donald Trump is expected to announce that he will not certify the 2015 Iran nuclear deal. The deal must be re-certified every 90 days and is due for renewal on Sunday. The step would give the U.S. Congress 60 days to decide whether to impose sanctions, but Iran's parliament speaker told the TASS news agency that decertification would "be the end" of the deal and cause "global chaos". "U.S. sanctions could cut off a lot of Iranian oil trade finance," Jeff Brown, president of energy consultancy FGE, told Reuters this week. Despite the bullish signals, analysts warned that the Organization of the Petroleum Exporting Countries needed to extend its agreement to reduce oil output beyond its current March 2018 expiry date in order to clear stocks. OPEC, with other producers including Russia, has agreed to production cuts of 1.8 million bpd. "OPEC-led cuts have breathed new life into oil bulls but unless the organization digs deeper, the drawdown in global oil stockpiles will soon fizzle out," broker PVM's Stephen Brennock wrote.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	6-Oct-17	936	-4	940	412	524
	13-Oct-17	928	-8	936	389	539
North Dakota	6-Oct-17	50	0	50	20	30
	13-Oct-17	51	1	50	21	30
Canada	6-Oct-17	209	-4	213	44	165
	13-Oct-17	212	3	209	47	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 October-2 to October-6	44.06	45.04	45.04	44.59	45.24
2017 October-9 to October-13	43.98	44.17	45.23	45.4	44.92
WTI					
2017 October-2 to October-6	50.59	50.44	50	50.79	49.34
2017 October-9 to October-13	49.58	50.93			
Differentials					
2017 October-2 to October-6	6.53	5.4	4.96	6.2	4.1
2017 October-9 to October-13	5.6	6.76			

- Flint Hills Resource
- EIA

o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	10/6/2017	9/29/2017	10/7/2016
Crude Oil (Excluding SPR)	462.2	465.0	474.0
Motor Gasoline	221.4	218.9	225.5
Distillate Fuel Oil	134.0	135.4	157.0
All Other Oils	475.1	475.1	487.6
Crude Oil in SPR	672.4	673.6	695.1
Total	1,965.2	1,968.1	2,039.1

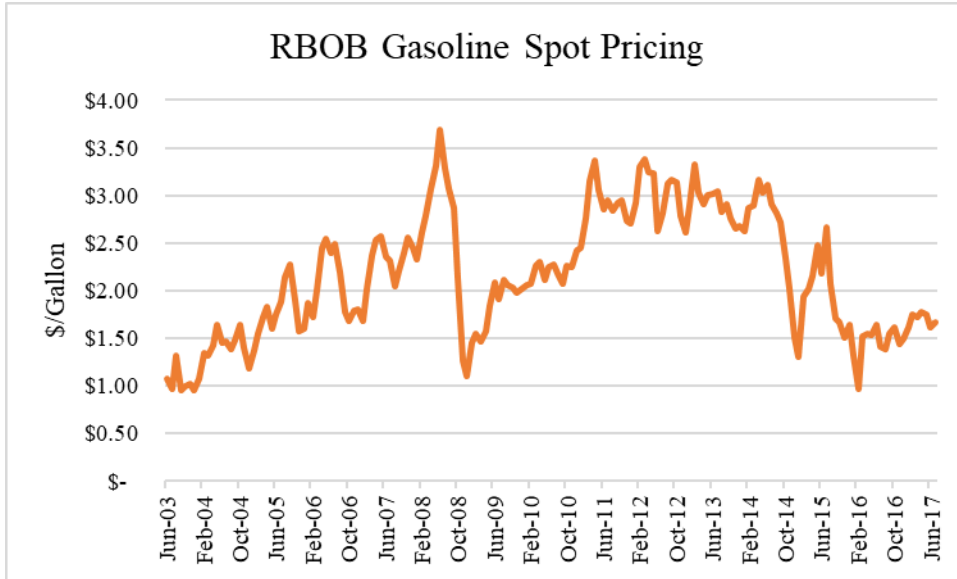
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/6/2017	9/29/2017	10/7/2016
Motor Gasoline	9,421	9,456	9,296
Distillate Fuel Oil	3,916	4,019	3,836
All Other Products	6,906	6,769	6,857
Total	20,243	20,243	19,989

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/6/2017	9/29/2017	10/7/2016
Crude Oil Input to Refineries	15,908	15,363	16,126
Refinery Capacity Utilization	87.3	84.4	59.0
Motor Gasoline Production	9,811	9,847	9,890
Distillate Fuel Oil Production	4,769	4,521	4,724

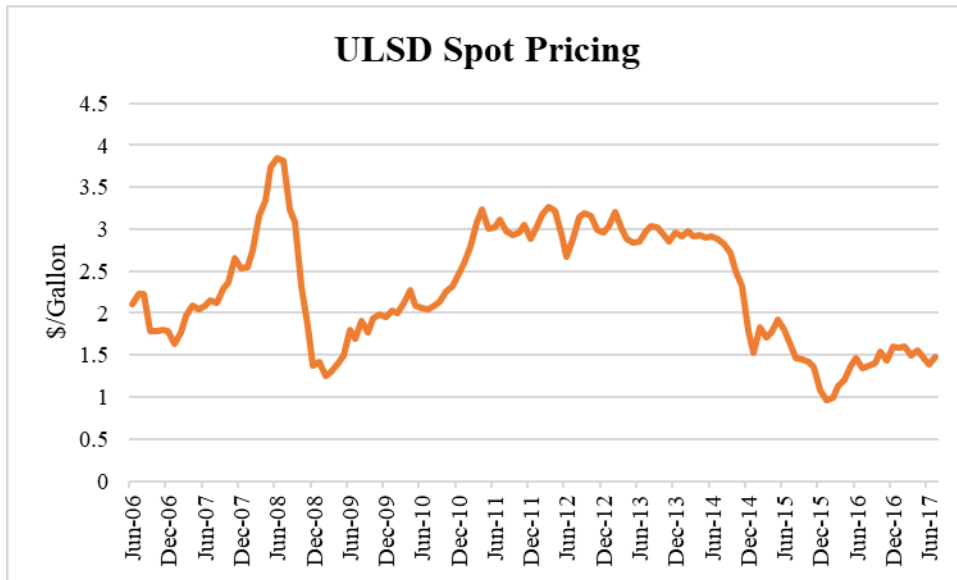
Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/6/2017	9/29/2017	10/7/2016
Crude Oil	5,988	5,828	7,425
Petroleum Products	-2,271	-1,900	-2,661
Total	3,717	3,928	4,764

- [EIA](#)

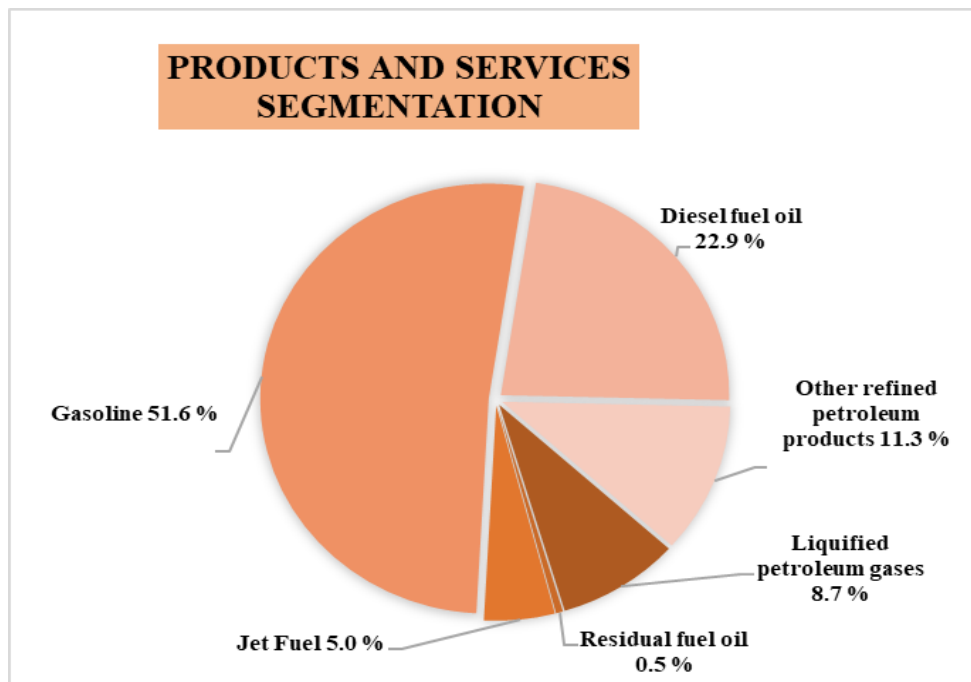
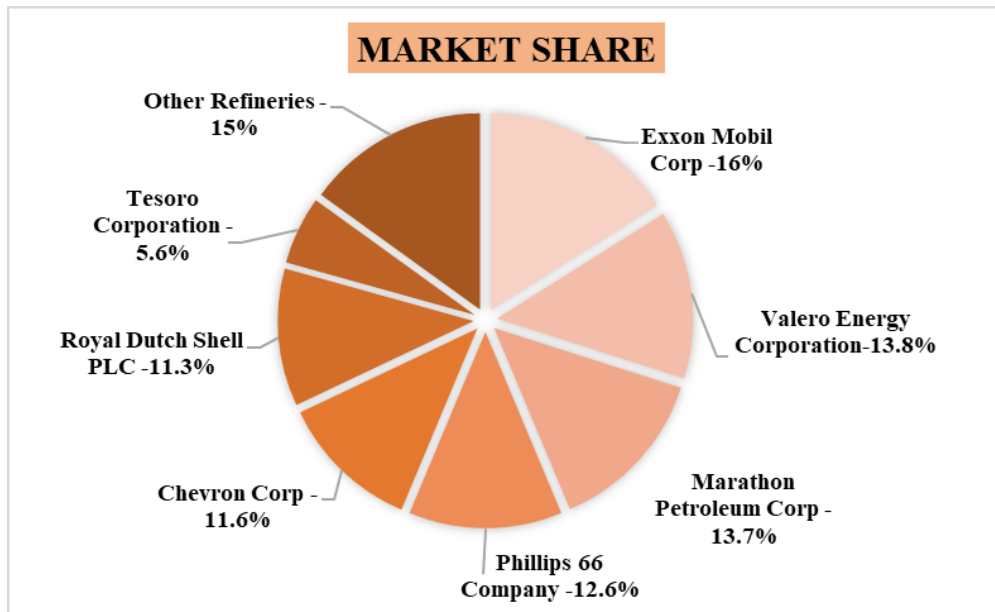
o **RBOB Gasoline**

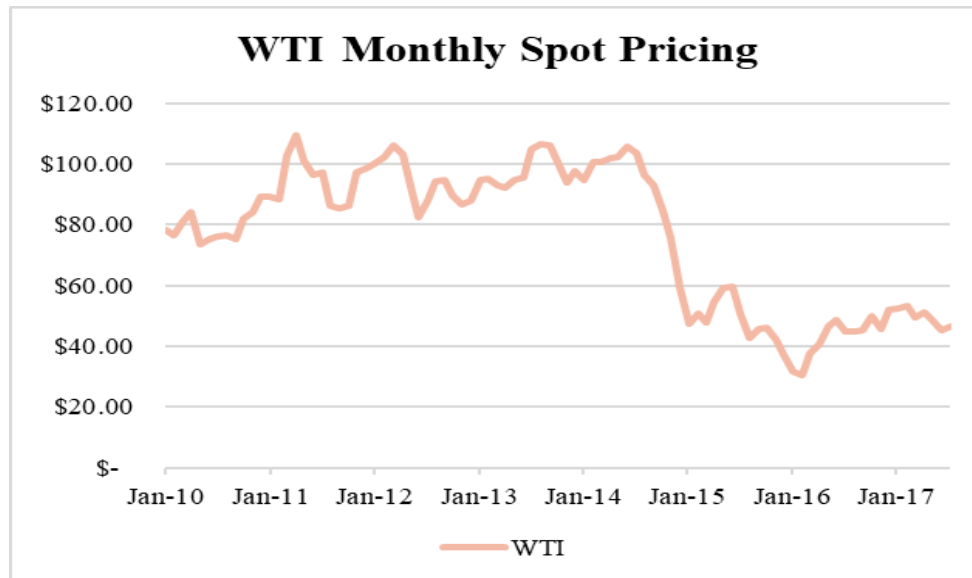


o **Ultra-Low Sulfur Diesel**



o US Petroleum Refining at a Glance





- [EIA](#)

o Key External Drivers

- o **World price of crude oil**
 - <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>