

Market Update

PRODUCTS	2/12/18	2/13/18	2/14/18	2/15/18	2/16/18
WTI Crude Oil	59.29	59.19	60.60	61.34	61.68
Brent Crude Oil	62.59	62.72	64.36	64.33	64.84
Natural Gas	2.55	2.59	2.59	2.58	2.56

- [CME Group](#)

Headlines

Local North Dakota

- **Winter weather causes slight drop in oil production. [Bismarck Tribune](#)**
 - Winter weather contributed to a slight slowdown in North Dakota oil activity in December, bringing the state's production down 1.3 percent to an average of 1.18 million barrels per day. Director of Mineral Resources Lynn Helms said Thursday he expects to continue seeing modest decreases in oil production as cold, windy weather makes hydraulic fracturing and other operations costlier. Oil production is projected to gradually climb in 2018 and break the state's record of 1.2 million barrels per day set in December 2014. Helms joked that his best prediction for when the record will be broken is "the first month that we get 30 nice days of weather." Natural gas production dropped less than 1 percent in December to an average of 2.08 billion cubic feet per day, according to the preliminary figures. Natural gas flaring decreased from 14 percent in November to 13 percent in December, with the figures falling within the gas capture target set by the North Dakota Industrial Commission. The volume of natural gas flared was 273 million cubic feet per day in December, a decrease of about 10 million cubic feet, Helms said. To put that into context, Helms said the volume of gas burned off is roughly equivalent to the amount of gas processed daily at the Hess Tioga Gas Plant, currently the state's largest gas processing plant. Flaring continues to be higher on the Fort Berthold Reservation, with about 20 percent of gas flared in December. Helms told the North Dakota Industrial Commission this week that delays getting pipeline projects approved by Bureau of Indian Affairs are making it difficult for companies to reduce flaring on the reservation. He cautioned that companies will not be able to meet the state's gas capture goals unless the federal right-of-way permitting process improves. Officials have invited Interior Secretary Ryan Zinke to the Williston Basin Petroleum Conference in May in Bismarck. Helms said his goal is to get Zinke together with tribal, state and BIA officials to develop solutions. In November, eight companies failed to meet the state's gas capture target, which requires companies to capture 85 percent of the Bakken gas produced. One company is required to limit oil production on three wells in February for missing the goal, according to the Department of Mineral Resources. The other seven are not facing production restrictions because they meet an exception in the state's policy. The state had 57 drilling rigs operating on Thursday, up from 38 that were active at this time last year. About 77 percent of oil was transported out of the region by pipeline in December, while 9 percent was transported by rail, said Justin Kringstad, director of the North Dakota Pipeline Authority.
- **N.D. oil supply down a bit but forecast is strong. [Star Tribune](#)**
 - North Dakota's oil production fell by 1 percent in December, though the outlook continues to be relatively optimistic. The nation's second-largest oil-producing state, North Dakota pumped 1.18 million barrels per day in December, down from nearly 1.2 million in November, according to data released Thursday by North Dakota's Department of Mineral Resources. That marked the first month-to-month decline in production since July. Still, the number of drilling rigs in North Dakota continues to rise, a positive sign for future production. There are currently 57 rigs operating in North Dakota, up one from January and up three from November. "Current operator plans are to add five to 10 rigs in the second and third quarters of 2018 depending on workforce and infrastructure constraints," Lynn Helms, director of the state's mineral resources department, wrote in his monthly report. With a tight national economy, oil industry contractors have had trouble finding enough workers. Oil production in North Dakota and across the country has accelerated over the past six months, and the bullish trend is expected to continue, barring a price collapse. The federal government forecasts production of more than 10 million barrels a day on average in 2018, which would break a record set in 1970.

Agreements by OPEC and Russia have put a cap on global oil supply, while a relatively hot world economy has boosted demand. The result: West Texas Intermediate (WTI) — the U.S. bench-mark crude price — has risen to around \$65 a barrel in recent weeks, its highest price since hitting \$60 a barrel in mid-2015. WTI closed at just over \$61 per barrel Thursday. North Dakota's natural gas production also fell a bit in December, coming in at 2.08 million MCF per day, down from 2.1 million MCF per day in November, which was a record. (An MCF is 1,000 cubic feet of gas).

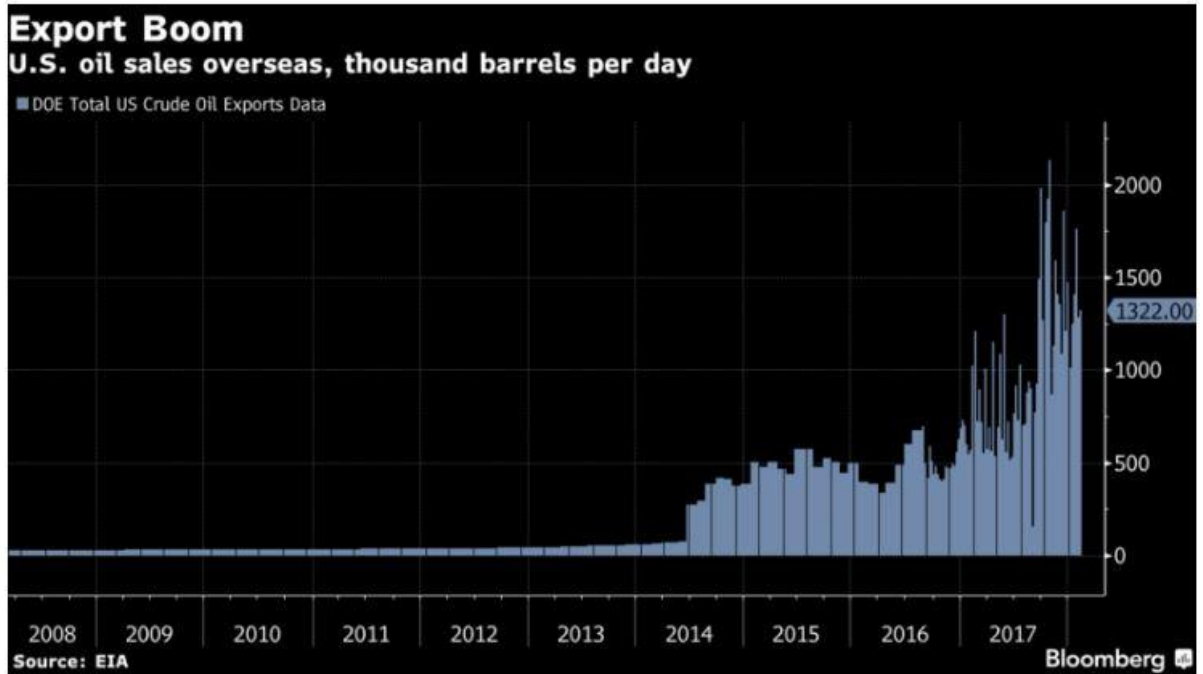
Domestic U.S.

- **Oil hits two-week high on share market recovery, Middle East tensions. Reuters**
 - Oil prices hit their highest level in nearly two weeks on Monday, lifted by a global equity market recovery and tensions in the Middle East, although concerns of rising U.S. production tempered gains. European shares rose for a fourth straight session, with global stocks set for a sixth session of gains, following a sell-off triggered by fears of creeping inflation and higher borrowing costs. Brent crude LCOc1 was up 34 cents at \$65.18 a barrel at 1356 GMT, after rising to an 11-day high of \$65.45 a barrel earlier in the session. U.S. West Texas Intermediate crude for March delivery CLc1 was up 46 cents at \$62.14 a barrel, after earlier gaining as much as 1.4 percent to its highest since Feb. 7. “Benign stock markets are providing ... as are geopolitical tensions in the Middle East,” Commerzbank said in a note. Israeli Prime Minister Benjamin Netanyahu said on Sunday that Israel could act against Iran itself, not just its allies in the Middle East, after border incidents in Syria brought the Middle East foes closer to direct confrontation. Trading is expected to be slower than usual on Monday due to market holidays in the United States and Greater China. The U.S. oil rig count, an indicator of future production, rose by seven to 798, its highest since April 2015, according to a weekly report from General Electric’s Baker Hughes unit. That marked the first time since June that drillers added rigs for four consecutive weeks, and the figure was well up on the 597 rigs that were active a year earlier as energy companies have boosted spending since mid-2016 when crude prices began recovering from a two-year crash. Surging U.S. production is offsetting efforts by the Organization of the Petroleum Exporting Countries (OPEC) and some other producers including Russia to curb production by 1.8 million barrels per day (bpd) until the end of 2018. Money managers slashed their bullish bets on Brent crude futures by the most in nearly eight months in the week to Feb. 13, InterContinental Exchange data showed. Speculators also cut net long U.S. crude futures and options positions in the week to Feb. 13 by the most since late August, the U.S. Commodity Futures Trading Commission (CFTC) said. Oil pricing agency Platts is looking at adding new oil production from the Johan

Global

- **U.S. Oil Exports Go Up a Gear as Supertanker Sets Sail for China. Bloomberg**
 - The flood of U.S. oil exports stepped up a gear on Monday after the first fully laden supertanker sailed from an American port, alleviating a bottleneck that’s limited overseas shipments. The Louisiana Offshore Oil Port, or LOOP, the only deep-water port in the U.S. able to handle the industry’s biggest tankers, said in a statement it had successfully completed the first loading of a very large crude carrier. Shipping data compiled by Bloomberg show the tanker is the Saudi Arabian-owned Shaden, now heading to the Chinese port of Rizhao. “There could not be a better time to offer this service as domestic production surpasses 10 million barrels per day in the ever-dynamic global crude oil market,” said LOOP LLC President Tom Shaw. LOOP has been a vital piece of U.S. energy infrastructure for more than 30 years, handling oil imports from across the world as well as gathering crude pumped from deep-water deposits in the Gulf of Mexico. Since it started receiving oil in 1981, it has offloaded 10,200 tankers. The Shaden, which is owned by the National Shipping Co. of Saudi Arabia and carries the flag of the kingdom, was the first VLCC to load oil at the port rather than discharge it. Pipelines and ports have become the biggest bottleneck in U.S. oil exports, with traders at times engineering logistically complex chains combining railways, trucks, pipelines, barges, and ship-to-ship transfers to get crude out of the country. As U.S. output surpasses the record high of 10 million barrels a day set in 1970, trading houses, pipeline owners and ports are investing in new infrastructure to ship more American crude overseas. While U.S. crude has already been exported using supertankers, other ports are too shallow to allow full loadings, meaning smaller ships must shuttle multiple cargoes to the giant vessels as they wait to load offshore. LOOP, because it stands in deeper water about 18 miles off of the Louisiana coast, allows the industry’s largest tankers to load in one go. Using very large crude carriers will significantly cut shipping costs. The new export capacity at LOOP will allow the supertankers to deliver foreign crude into the U.S. and depart laden, known as back-hauling in the industry’s jargon, rather than returning empty. LOOP said the “shipper of record” was the trading arm of Royal Dutch Shell Plc. However, data compiled by Bloomberg showed the Shaden was booked last month by Unipecc, China’s biggest oil trader, a unit of the country’s refining giant China Petroleum & Chemical Corp., or Sinopec. LOOP didn’t disclose what kind of oil the Shaden loaded, but traders said it was unlikely U.S. shale oil. It’s more likely to be a mix of crude pumped out of the U.S. Gulf of Mexico. Washington lifted a 40-year ban on most oil exports in late 2015, reshaping the world’s energy map

as U.S. crude was shipped to countries including Switzerland, China, Israel and even the United Arab Emirates. The de facto export ban, which only allowed a few exceptions, was imposed in the aftermath of a 1973 to 1974 oil embargo led by Saudi Arabia. Even though the country remains a net oil importer, U.S. crude exports have surged to a record high of 2.1 million barrels since the ban was lifted. China and other Asian nations have become big buyers.



Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	9-Feb-18	975	29	946	234	741
	16-Feb-18	975	0	975	224	751
North Dakota	9-Feb-18	49	4	45	13	36
	16-Feb-18	48	-1	49	13	35
Canada	9-Feb-18	325	-17	342	-27	352
	16-Feb-18	318	-7	325	-13	331
International	Jan-18	960	6	954	27	933

- [Baker Hughes](#)

o WTI & Bakken Spot Price

February 2018 Daily Spot Prices					
	Mon	Tue	Wed	Thu	Fri
Bakken (FH)					
2018 January-29 to February-2	58.44	58.39	58.39	58.33	60.5
2018 February-5 to February-9	60.26	58.97	58.36	57.18	56.62
2018 February-12 to February-16	55.37	55.37	55.37	56.64	56.64
WTI					
2018 January-29 to February-2	65.71	64.64	64.82	65.92	65.5
2018 February-5 to February-9	64.18	63.48	61.91	61.3	59.2
2018 February-12 to February-16	59.41				
Differentials					
2018 January-29 to February-2	7.27	6.25	6.43	7.59	5
2018 February-5 to February-9	3.92	4.51	3.55	4.12	2.58
2018 February-12 to February-16	4.04				

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

o **Weekly Petroleum Status Report**

Stocks (Million Barrels)			
	Four Weeks Ending		
	2/9/2018	2/2/2018	2/10/2017
Crude Oil (Excluding SPR)	422.1	420.3	518.1
Motor Gasoline	249.1	245.5	259.1
Distillate Fuel Oil	141.4	141.8	170.1
All Other Oils	394.3	401.9	412.7
Crude Oil in SPR	665.6	665.1	695.1
Total	1,872.4	1,874.6	2,055.0

Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	2/9/2018	2/2/2018	2/10/2017
Motor Gasoline	8,978	8,880	8,431
Distillate Fuel Oil	4,044	4,208	3,804
All Other Products	7,670	7,734	7,121
Total	20,692	2,082	19,356

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	2/9/2018	2/2/2018	2/10/2017
Crude Oil Input to Refineries	16,364	16,542	15,836
Refinery Capacity Utilization	90.3	91.1	87.4
Motor Gasoline Production	9,651	9,680	9,170
Distillate Fuel Oil Production	4,845	4,911	4,646

Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	2/9/2018	2/2/2018	2/10/2017
Crude Oil	6,617	6,650	7,806
Petroleum Products	-2,448	-2,577	-2,636
Total	4,169	4,073	4,169

- [EIA](#)

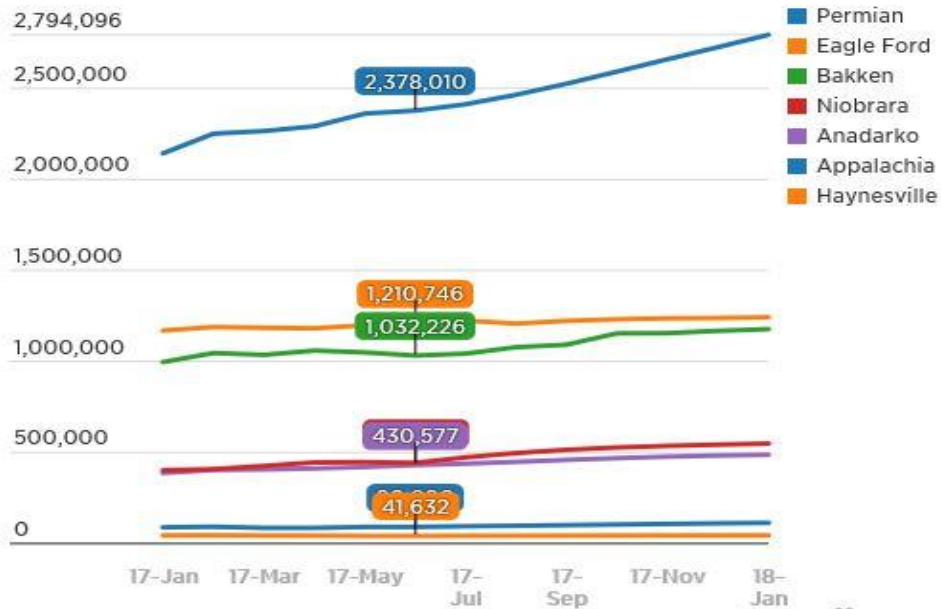
o US Oil Production



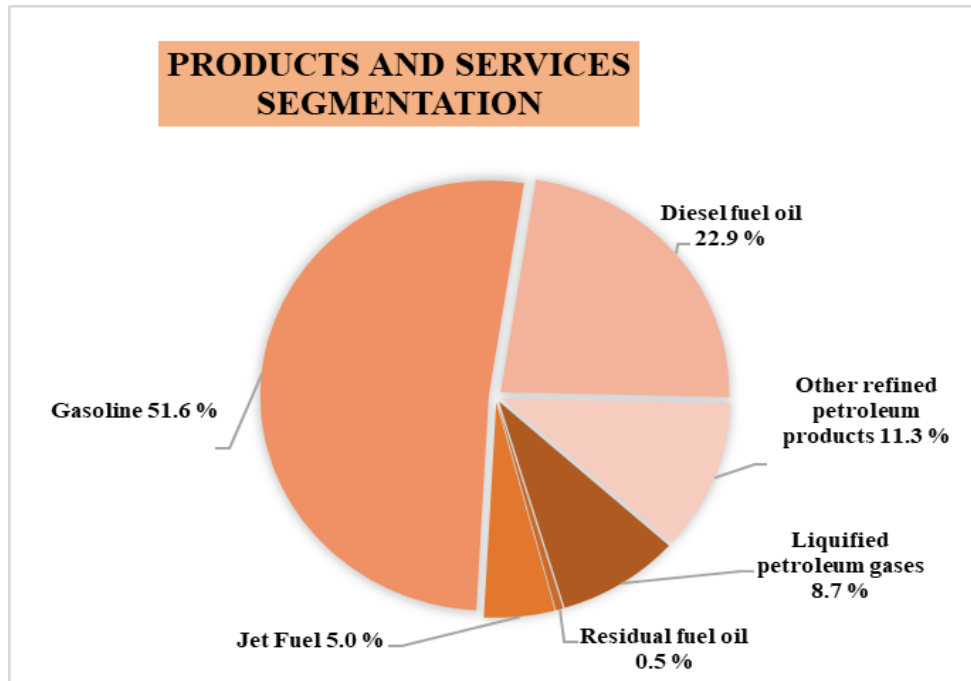
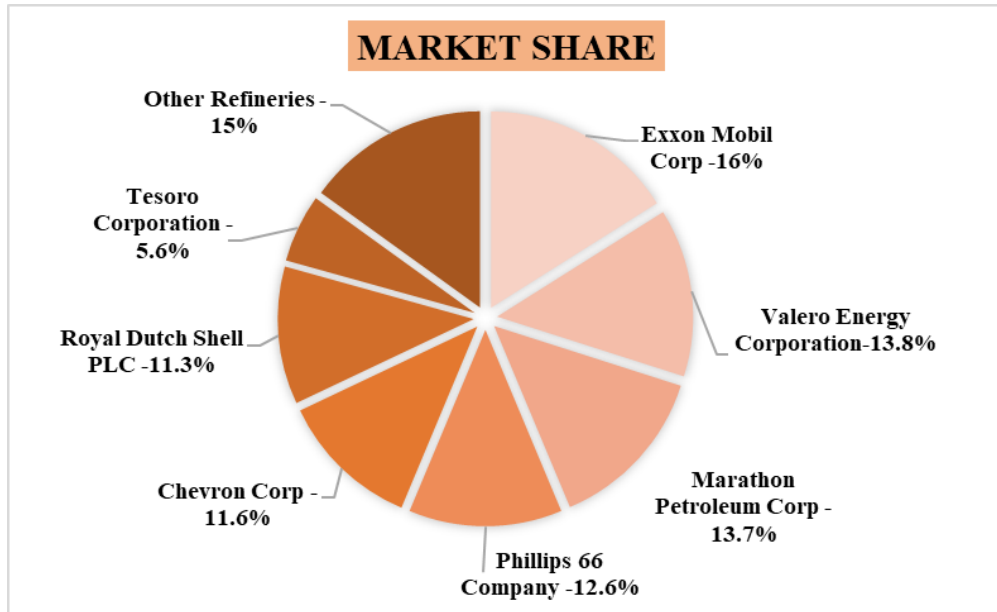
o Americas Shale Basins

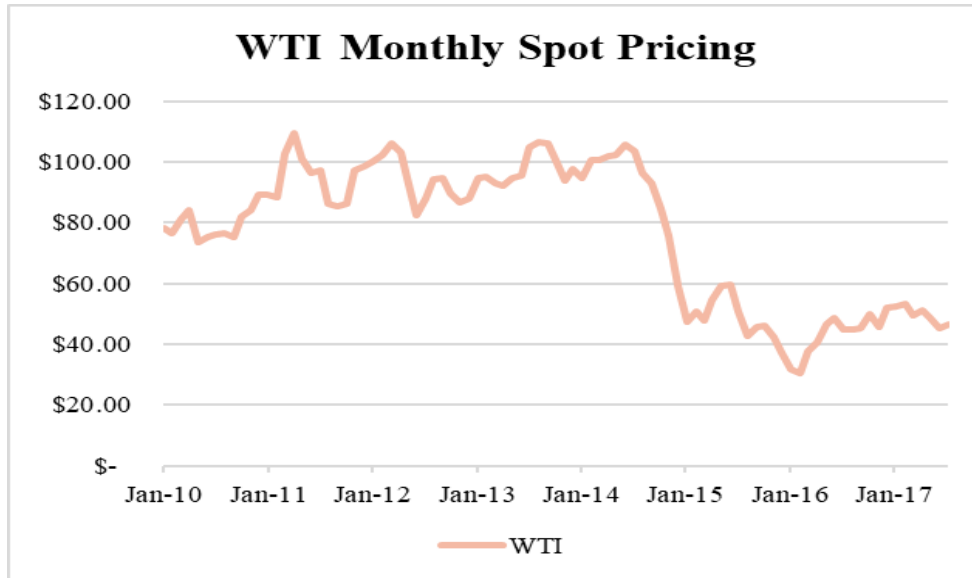
America's shale basins

Oil production by basin. More recent data are subject to revision.



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>