

Weekly Fundamental Market Report March 5-9, 2018

Market Update

PRODUCTS	3/5/18	3/6/18	3/7/18	3/8/18	3/9/18
WTI Crude Oil	62.49	62.6	61.15	60.12	62.04
Brent Crude Oil	65.56	65.79	64.34	63.61	65.49
Natural Gas	2.75	2.75	2.78	2.76	2.73

- [CME Group](#)

Headlines

Local North Dakota

- **Oil tax revenue rise. Fox**
 - Oil tax revenues are on the rise, 42% higher than forecasted in February, according to the state tax commissioner. North Dakota could soon see a turn around on its budget revenue, thanks to better than expected oil production. These oil rigs have been producing at near record levels. Despite being in the middle of winter, North Dakota's oil production is way up. "We're actually just below record production of 1.2 million barrels, are holding strong just below 1.2 million, and oil prices are about ten dollars more than we had anticipated in the forecast," said Ryan Rauschenberger, Tax Commissioner. There are currently only 59 active drilling rigs, according to the Department of Mineral Resources, versus 192 back in 2014. "The technology has improved, the wells are outperforming wells that we were drilling two to three years ago, so it's better production out of these wells. We haven't seen a huge ramp up in activity, but we're just getting more oil out of each well. We think we're going to continue to see that, and as we get nicer weather, we're going to see more and more activity," said Ron Ness, Petroleum Council president. Rauschenberger says some of the increase in price is thanks to the Dakota Access Pipeline. "Now that we have better infrastructure, a sort of oil superhighway to get oil to market, we're getting a better price. That has contributed three to four dollars a barrel to a barrel of oil in North Dakota," Rauschenberger said. According to Rauschenberger we could see an extra quarter of a billion dollars in the state budget in the next 24 months if production continues to exceed expectations. January of this year saw a \$60 million increase over last year in oil tax revenue.

Domestic U.S.

- **Shale boom, oil price stability dominates Houston energy conference. Reuters**
 - The world's largest oil producers appealed to U.S. shale producers to join their efforts to hold global prices at their current level at a major energy conference Monday, as the boom in shale is continuing to undermine OPEC's production curbs. OPEC Secretary General Mohammed Barkindo said Monday at the CERAWEEK conference in Houston that there is a "common understanding" between oil-producing nations and U.S. shale producers that "we all belong to this industry," even as U.S. exports have eroded OPEC's market share over the last year. This year's CERAWEEK conference continues outreach between the Organization of the Petroleum Exporting Countries and shale producers. Members of OPEC will meet with shale producers on Monday evening at a dinner for the second year in a row, though Barkindo said that price levels and production will not be discussed. However, shale's surge in the last year was heavy on the minds at the Houston conference, particularly as U.S. production surged to an all-time record late last year. Nigeria's oil minister Emmanuel Ibe Kachikwu was more explicit than Barkindo, saying that oil majors operating in both shale fields and in OPEC members should bear some responsibility for prices. "We need to begin to look at companies that are very active in these areas and begin to get them to take some responsibilities in terms of stability of oil prices," Kachikwu told Reuters on the sidelines of the CERAWEEK energy conference in Houston, though he did not name any specific companies. "Some of the same companies that are working in shale are the same companies working in OPEC (member countries)." The price of oil CLC1 LCOc1 rose steadily throughout 2017 in the wake an agreement between the Organization of the Petroleum Exporting Countries and non-members including Russia, to cut production by 1.8 million barrels a day beginning last year. That surge in prices, however, boosted U.S. production sharply, which hit a record in November 2017 at more than 10 million barrels

a day and is expected to surpass 11 million barrels a day later this year. Going forward, Fatih Birol, head of the Paris-based International Energy Agency said here in Houston that shale growth may continue to rise regardless of OPEC policies - warning that larger producers may need to reconsider their future growth given “huge growth” in shale. Rising prices have U.S. shale producers pumping more, while OPEC has maintained its price cuts, with output from members at a 10-month low. The cartel’s leaders have even expressed interest in keeping some production curbs in place through 2019, though Suhail Mohamed Al Mazrouei, the United Arab Emirates oil minister, said OPEC has not “at this stage” discussed extending cuts into next year. Kachikwu said that the rapid growth in shale supply is “not just a problem for OPEC, it’s a problem for the entire oil industry.” “I don’t think it requires pressure. I think the oil companies would be the first to tell you that stability in the oil price is important to them,” he said. U.S. oil majors, however, cannot engage in supply restrictions to affect the price as the OPEC cartel does, and some ministers on Monday played down the idea that the growth of shale could not be handled. Ecuador’s oil minister Carlos Perez noted that shale fields tend to have lower total oil recovery than conventional fields. “It has an impact but not the impact we expected. Recovery factors are still low, so right now (there is) no additional impact,” Perez said.

○ **Global oil players flock to Houston as OPEC, U.S. shale tensions ease. [Reuters](#)**

- The oil industry’s biggest names gather this week at CERAWeek, the largest energy industry get-together in the Americas, at a time when U.S. shale production is booming, global demand is rising, and crude prices are at a sweet spot for both big U.S. producers and OPEC. Last year’s decision by the Organization of the Petroleum Exporting Countries to restrain output has drained the global glut that occupied much of the conversation at 2017’s gathering. With oil prices LCOc1 up about 15 percent since oil ministers and top executives convened here last year, fears have receded for a slugfest of OPEC vs. U.S. shale. Rising prices have U.S. shale producers pumping more, sending total U.S. output to an all-time record above 10 million barrels per day. This year, the United States could surpass Russia as the world’s largest oil producer. OPEC, meanwhile, has shown no signs of moving to produce more, with output from members at a 10-month low. The cartel’s leaders have even expressed interest in keeping some production curbs in place through 2019. Oil ministers and their advisers will use the conference to put shale under a microscope, said Dan Yergin, vice chairman of conference organizer IHS Markit and a Pulitzer Prize-winning oil historian. “OPEC is still really struggling to understand: ‘What is this new oil business called shale?’” said Yergin. “This conference is a field trip for OPEC to a different reality in oil.” They have scheduled dinners with shale executives and financiers for the second time in two years, underscoring the maturation of a relationship between big petrostates and a once-upstart industry that weathered OPEC’s best efforts to bury it under a supply glut from 2014 to 2016. Shale has emerged stronger from that period with the Permian Basin, the largest U.S. oilfield, now producing nearly 3 million barrels of oil per day, triple that of 2009. Presentations will look at shale’s rising role in global markets and the potential for future North American production and export growth. “The Permian is just now coming into its own,” said Randy Foutch, chief executive officer of shale producer Laredo Petroleum Inc (LPI.N), which plans to boost output 10 percent this year. “We no longer have to find oil and gas. We’ve found it and will pump it.” OPEC says it wants to encourage moderation by shale companies as well as its own members. Shale firms often use hedges, or financial contracts that lock in a price for future production, to guarantee profits. These contracts protect them should prices slip. “We all should look with responsibility to the market in order to keep the balance in the market as much as we can so as not to harm investors,” said Ali Nazar, Iraq’s national representative to OPEC. OPEC views shale as a monolith rather than a collection of independent companies and hopes executives will say they will keep U.S. output under 10 million barrels per day. But the organization also recognizes shale producers would be violating U.S. antitrust law if they agreed to collective pricing or output pacts, one OPEC source told Reuters. The U.S. Energy Information Administration said on Tuesday it expects domestic oil production to surpass 11 million barrels per day late this year.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	2-Mar-18	981	3	978	225	756
	9-Mar-18	984	3	981	216	768
North Dakota	2-Mar-18	47	-2	49	10	37
	9-Mar-18	50	3	47	10	37
Canada	2-Mar-18	302	-4	306	-33	335
	9-Mar-18	273	-29	302	-42	315
International	Feb-18	979	19	960	38	941

- [Baker Hughes](#)

o WTI & Bakken Spot Price

March 2018 Daily Spot Prices					
	Mon	Tue	Wed	Thu	Fri
Bakken (FH)					
2018 February-27 to March-2	58.33	58.33	58.33	58.33	55.5
2018 March-5 to March-9	56.83	56.83	56.83	54.83	54.85
WTI					
2018 February-27 to March-2	63.81	62.94	61.43	60.98	61.19
2018 March-5 to March-9	62.49				
Differentials					
2018 February-27 to March-2	5.48	4.61	3.1	2.65	5.69
2018 March-5 to March-9	5.66				

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

o **Weekly Petroleum Status Report**

Stocks (Million Barrels)			
	Four Weeks Ending		
	3/2/2018	2/23/2018	3/3/2017
Crude Oil (Excluding SPR)	425.9	423.5	528.4
Motor Gasoline	251.0	251.8	249.3
Distillate Fuel Oil	137.0	138.0	161.5
All Other Oils	388.2	389.3	407.6
Crude Oil in SPR	665.5	665.3	694.8
Total	1,868.0	1,867.9	2,041.7

Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	3/2/2018	2/23/2018	3/3/2017
Motor Gasoline	9,049	9,008	8,763
Distillate Fuel Oil	4,038	4,001	4,012
All Other Products	7,183	7,354	6,830
Total	20,270	20,363	19,605

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	3/2/2018	2/23/2018	3/3/2017
Crude Oil Input to Refineries	15,953	16,169	15,471
Refinery Capacity Utilization	88.4	89.6	85.4
Motor Gasoline Production	9,753	9,793	9,420
Distillate Fuel Oil Production	4,591	4,725	4,632

Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	3/2/2018	2/23/2018	3/3/2017
Crude Oil	5,971	5,996	6,915
Petroleum Products	-2,630	-2,591	-2,583
Total	3,341	3,406	4,333

- [EIA](#)

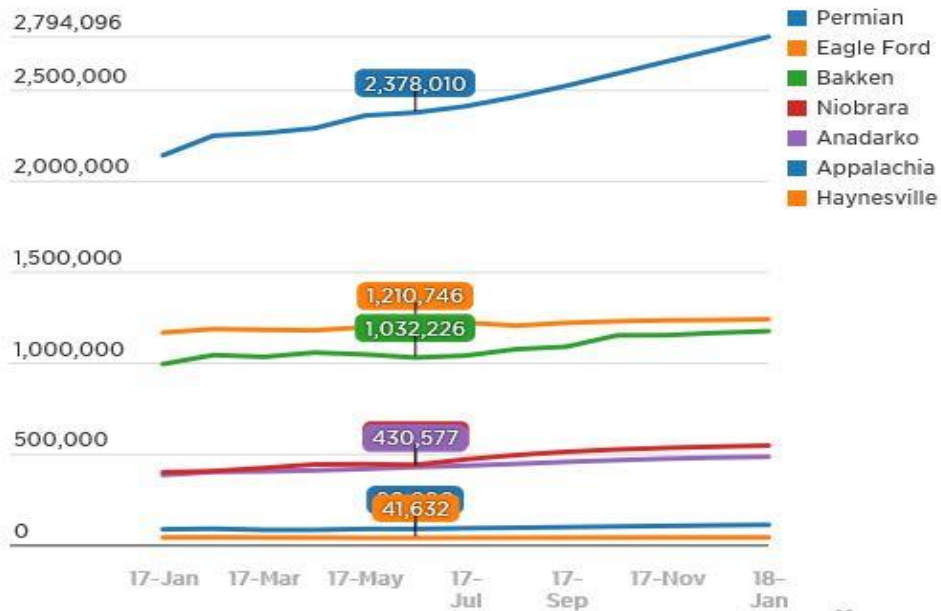
o US Oil Production



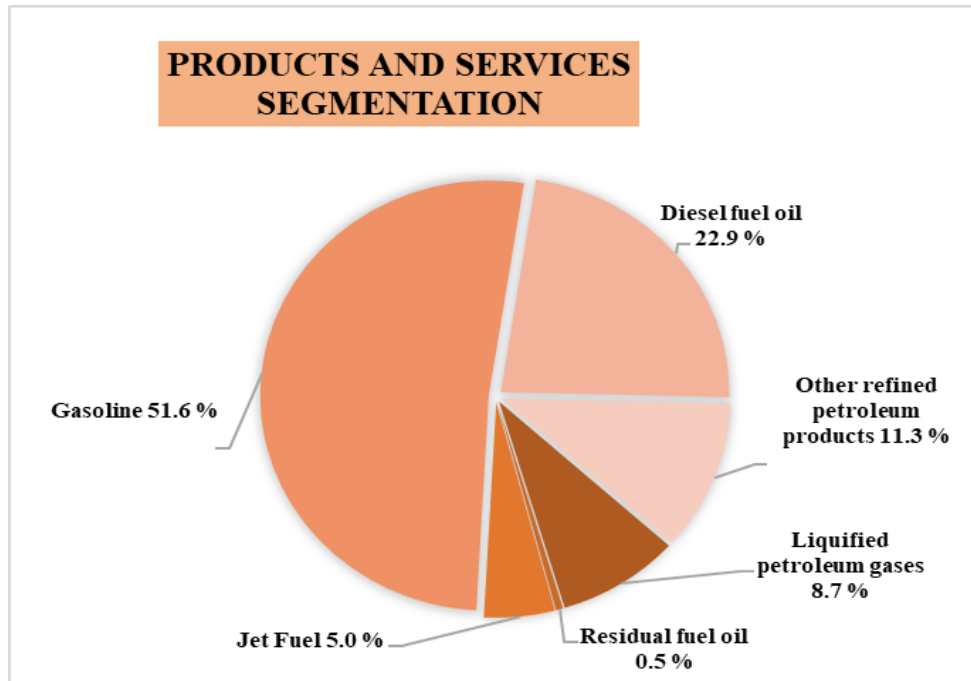
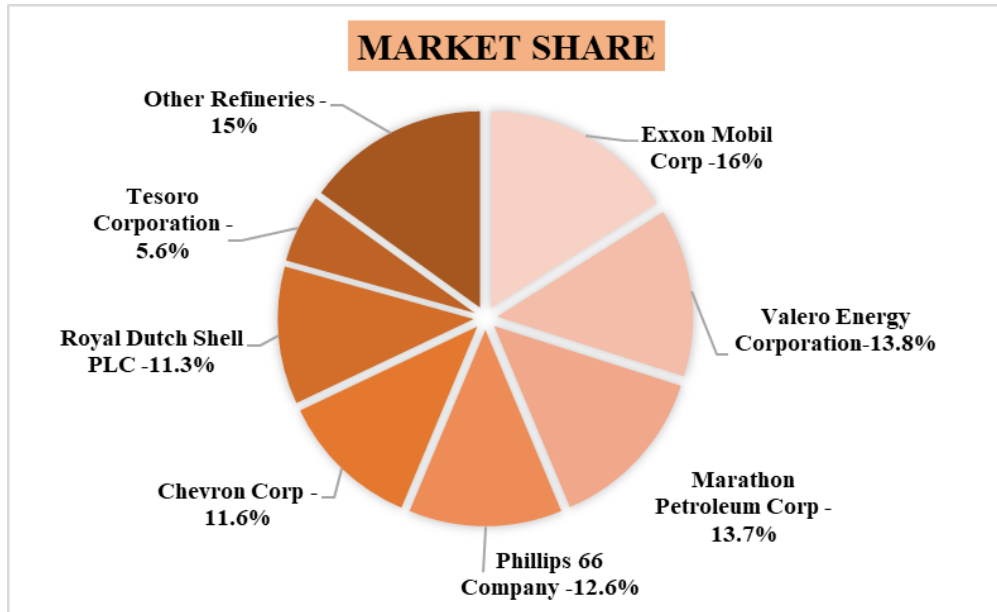
o Americas Shale Basins

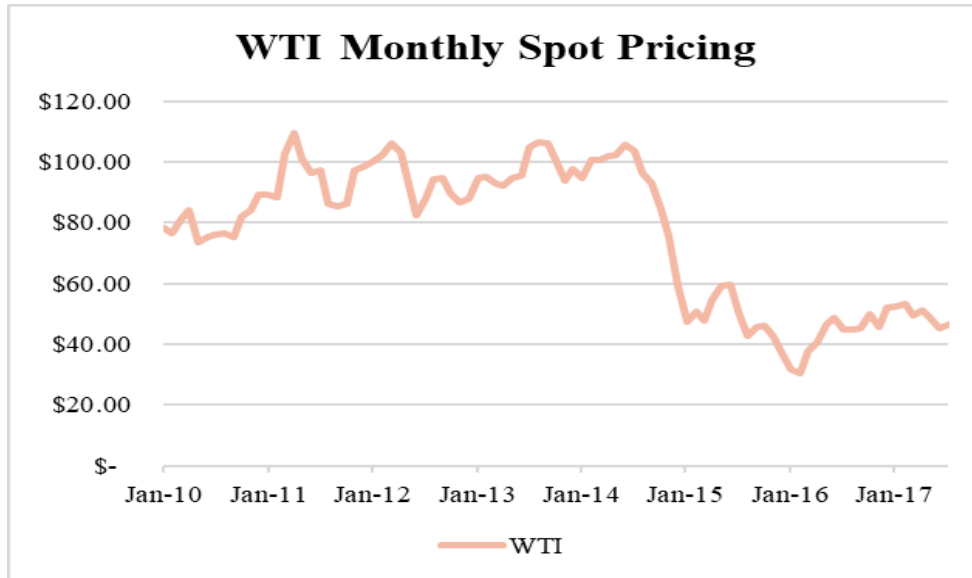
America's shale basins

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>