

## Market Update

PRODUCTS	10/8/18	10/9/18	10/10/18	10/11/18	10/12/18
WTI Crude Oil	74.29	74.96	73.17	70.97	71.34
Brent Crude Oil	83.91	85.00	83.09	80.26	80.43
Natural Gas	3.27	3.27	3.28	3.22	3.16

- [CME Group](#)

## Headlines

### North Dakota

- **North Dakota oil production sets more records, but limited by gas capture.** [Bismarck Tribune](#)
  - North Dakota continued to set oil and gas production records in August, reaching nearly 1.3 million barrels per day, the Department of Mineral Resources said Friday. It was the first time North Dakota produced 40 million barrels in one month, said Lynn Helms, the department's director. The state also hit a natural gas production record with more than 2.4 billion cubic feet per day, according to the preliminary figures. The industry captured 83 percent of Bakken natural gas in August, missing the state's natural gas capture target of 85 percent for the fourth month in a row. The volume of natural gas flared statewide was 431 million cubic feet per day. Flaring continues to be highest at Fort Berthold, where operators captured 73 percent of the natural gas, or flared 27 percent. North Dakota's gas production exceeds the state's natural gas processing capacity. The Oasis Wild Basin II plant, which will begin operating in November, will immediately have an impact on reducing flaring, said Justin Kringstad, director of the North Dakota Pipeline Authority. But the state won't be caught up on processing capacity until next year, Kringstad said. The next gas plant scheduled to come online is the Little Missouri Four Plant. When announced, that project was expected to come online this year, but workforce shortages pushed that completion back to the second quarter of 2019, Helms said. Meanwhile, the gas capture target is set to become more aggressive in November, increasing to 88 percent. Helms said he recently met with two companies that have "serious doubts" about achieving that goal. "They're pulling out all the stops and looking for every option," Helms said. The North Dakota Industrial Commission is expected to have a "robust discussion" about the gas capture policy at its Oct. 25 meeting, Helms said. It continues to be rare for regulators to impose oil production restrictions for companies that miss the gas capture target. Twelve companies captured less than 85 percent of Bakken natural gas in July. None were ordered to restrict oil production under the state's policy. Helms said two companies were close to being required to restrict oil production, but they were able to provide written documentation that the flaring was due to unforeseeable circumstances. Some companies voluntarily restrict oil production in order to meet the gas capture targets. Helms said he has no way to accurately measure the self-imposed restrictions, but he estimates it to be about 50,000 barrels per day based on his conversations with the top 10 Bakken producers. "There is a lot of restraint being exercised by the oil and gas operators," Helms said. "The last thing they want is an order from the Industrial Commission telling them how much production to restrict where."
- **Refinery near national park avoids potential big roadblock.** [Bismarck Tribune](#)
  - North Dakota regulators decided Wednesday that they don't have authority to wade into a dispute over the site of an oil refinery being developed near Theodore Roosevelt National Park, eliminating a potential big

roadblock for the \$800 million project. The 3-0 vote by the Public Service Commission was based on a technicality in state law and came after an administrative law judge told the group its hands were tied. It's unlikely to end debate over whether the Davis Refinery site 3 miles (5 kilometers) from the park is too close to the state's top tourist attraction. "Our decision today is not about whether this is an appropriate location to construct a refinery," Commission Chairman Randy Christmann said. Meridian Energy Group in June got state Health Department permission to begin construction, and ground work at the site got underway in July. Health Department approval wasn't based on the site but on a determination after a 1 1/2-year review that the refinery wouldn't be a major source of pollution and wouldn't negatively impact the park. The National Parks Conservation Association, the Environmental Law and Policy Center and the Dakota Resource Council are challenging that conclusion in court. The ELPC and DRC also filed a complaint with the Public Service Commission, challenging the site and asking the commission to order a work stoppage there. Under state law, oil refineries with a capacity of 50,000 or more barrels need to obtain a site permit from the PSC, 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. Administrative Law Judge Patrick Ward in a nonbinding recommendation urged the PSC to dismiss the complaint, noting that Meridian CEO William Prentice signed an affidavit saying the company has "no current plans" for any expansion beyond 49,500 barrels per day. Ward said that size of a facility is not big enough to warrant PSC review under state law. "Our decision today is not about whether or not the Davis Refinery is extremely close to the 50,000-barrel-per-day threshold, because the law says nothing about being close," Christmann said. "It either is or it is not over the threshold. "Meridian has denied trying to skirt state law, but Commissioner Julie Fedorchak said "all indications suggest that the company is developing plans to avoid the additional regulatory scrutiny required of a siting permit."

## Domestic

- **Oil turns lower as weaker demand outlook weighs prices mark weekly gain ahead of Iran sanctions. Reuters**
  - Oil prices gave back early gains and turned lower on Friday after the International Energy Agency (IEA) deemed supply adequate and the outlook for demand weakening, sinking even as equities rebounded from a slump Thursday. The West's energy watchdog said in its monthly report that the market looked "adequately supplied for now" and trimmed its forecasts for world oil demand growth this year and next. "This is due to a weaker economic outlook, trade concerns, higher oil prices and a revision to Chinese data," said the IEA, which advises industrialized countries on energy policy. Brent crude fell 56 cents a barrel to \$79.70 by 12:16, after dropping 3.4 percent on Thursday. U.S. crude futures fell 2 cents to \$70.95. "The weaker outlook has gotten a raised profile in the market, but there's potential for a real supply crunch toward the end of this year," said John Kilduff, a partner at Again Capital Management in New York. "The demand outlook is hurt right now because of the situation with the U.S. and China in particular." Both benchmarks were headed for their first weekly drop in five weeks, pressured by a big rise in U.S. inventories and fading concerns about shrinking global supplies due to looming U.S. sanctions on Iran's oil exports. The IEA report is the latest official forecaster to predict weaker demand ahead and conclude that supply is adequate. The Organization of the Petroleum Exporting Countries (OPEC) made a similar move on Thursday. "The bearish alarm bells are ringing for next year's oil balance as market players brace for the return of a supply surplus," said Stephen Brennock of oil broker PVM. Early in the session, crude rose as global equities were set for their biggest daily gain in nearly a month. Declining equities amid wider risk-off investor sentiment had pressured oil on Thursday. A drop in U.S. oil production this week supported prices. In the U.S. Gulf of Mexico, companies cut output by 40 percent on Thursday because of Hurricane Michael, even as some began returning crews to offshore platforms. Michael made landfall in Florida on Wednesday as the third most powerful hurricane to strike the U.S. mainland, though it has since weakened to a tropical storm. Oil traders will watch for the weekly U.S. drilling rig count, an indicator of upcoming production, which is due at about 1 p.m. from Baker Hughes.

# Oil and Gas Analysis

## o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	5-Oct-18	1052	-2	1054	116	936
	12-Oct-18	1663	11	1052	135	1528
North Dakota	5-Oct-18	52	-1	53	2	50
	12-Oct-18	52	0	52	1	51
Canada	5-Oct-18	182	4	178	-27	209
	12-Oct-18	195	13	182	-17	212
International	Sep-18	1004	-4	1008	73	931

- Baker Hughes

## o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	10/5/2018	9/28/2018	10/6/2017
Crude Oil (Excluding SPR)	410.0	404.0	462.2
Motor Gasoline	236.2	235.2	221.4
Distillate Fuel Oil	133.5	136.1	134.0
All Other Oils	480.4	473.4	475.1
Crude Oil in SPR	658.7	660.0	672.4
Total	1,918.7	1,908.7	1,965.2

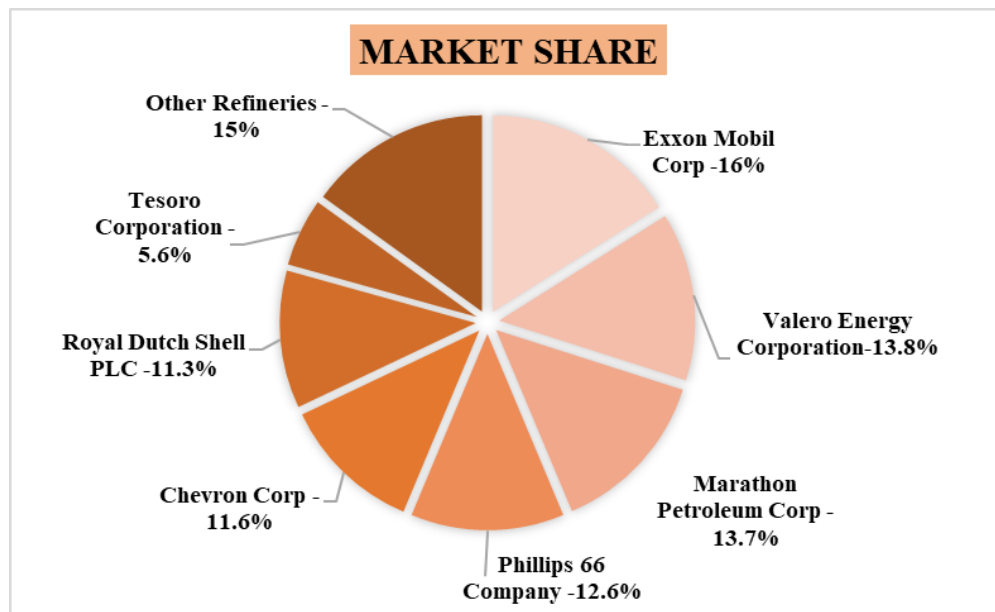
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	10/5/2018	9/28/2018	10/6/2017
Motor Gasoline	9,175	9,318	9,421
Distillate Fuel Oil	4,237	3,902	3,916
All Other Products	6,870	7,249	6,906
Total	20,283	20,469	20,243

<b>Refinery Activity (Thousand Barrels per Day)</b>			
	<b>Four Weeks Ending</b>		
	<b>10/5/2018</b>	<b>9/28/2018</b>	<b>10/6/2017</b>
Crude Oil Input to Refineries	16,690	17,094	15,908
Refinery Capacity Utilization	91.3	93.5	87.3
Motor Gasoline Production	9,941	10,109	9,811
Distillate Fuel Oil Production	5,127	5,254	4,769

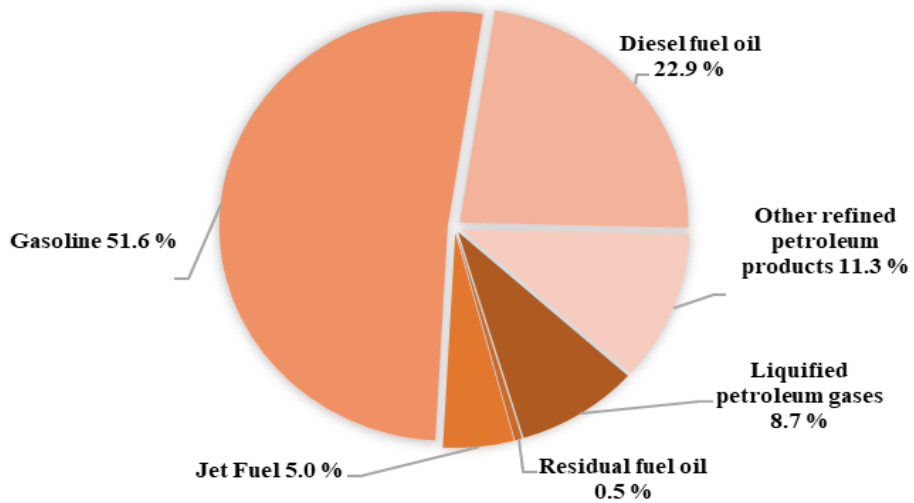
<b>Net Imports (Thousand Barrels per Day)</b>			
	<b>Four Weeks Ending</b>		
	<b>10/5/2018</b>	<b>9/28/2018</b>	<b>10/6/2017</b>
Crude Oil	5,471	5,706	5,988
Petroleum Products	-2,870	-2,730	-2,271
Total	2,601	2,976	3,717

- [EIA](#)

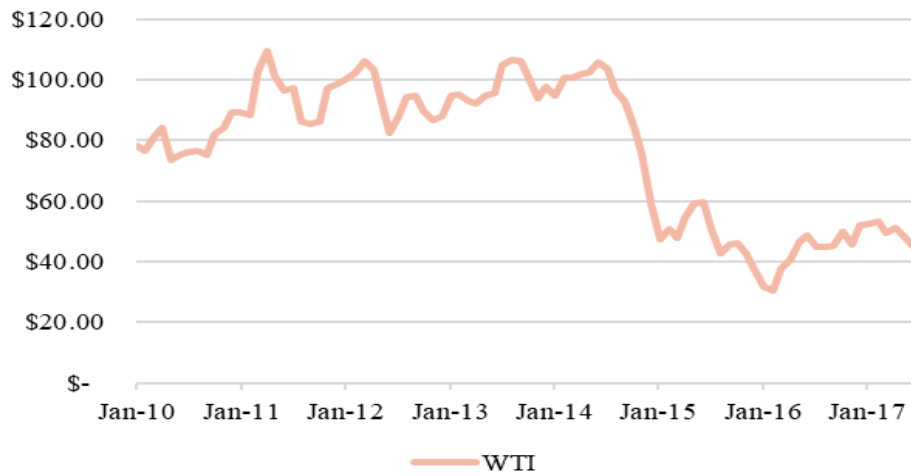
- **US Petroleum Refining at a Glance**



## 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>