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Energy Market Update April 23, 2015

Market Outlook: Traders know the recent run in crude was speculatively driven and did not have a fundamental basis. If fundamentals do not change to support the new speculatively driven price the risk to a fall in prices is highly probable. So far fundamental data for crude has been doggedly bearish, so the speculative push is losing momentum.

Market News:

Crude Oil, Diesel and Gasoline:

- Crude was up Thursday morning, currently the markets are balanced by high crude inventory on the one side and threats to supplies in the Middle East and North Africa on the other.
- Oil futures were mostly flat before the inventory report, on Wednesday, as traders waited for direction from the EIA. Markets popped higher after the report came out which showed a crude build as expected, but it also showed US production decreasing slightly for the second consecutive week, fueling expectations that US production will may decrease sooner than expected due to the steep drop in oil rigs. The distillate build was less than expected as demand increased slightly and U.S. refinery runs decreased by 1%. Gasoline stocks were down a surprising 2 million barrels considering the API reported a 1.1 million barrel build.
- Oil producers sales revenues have been directly impacted by the 50% slash in oil prices since last summer. While all producers lost sales revenue, some managed to minimize their loss with the use of hedging. The EIA produced an article describing how hedging benefited oil producers when prices began their descent in June. Their study includes 32 selected U.S. oil producers. Sales revenues for the 32 producers show a 22% decline, down \$2.4 billion from the third to fourth quarter of 2014. Hedging resulted in a \$1.3 billion gain which minimized their overall loss to \$1.1 billion.
- The EIA crude inventory build may have been stronger than expected, causing weakness in the nearby futures while outer months strengthened. RBOB outpaced ULSD to the upside as the draw in stocks was stronger than expected. The EIA reported gasoline demand at over 9 million barrels per day. Midwest distillate spot prices slipped as inventories remain near 6 year highs.
- On a chart of crude oil, TradingAnalysis.com founder Todd Gordon on noted Wednesday's "Trading Nation," identified a "must hold" technical support level that will keep this crude oil rally alive. "Right now we have support at the lower end of this uptrend channel around \$54-\$55 a barrel," he said. That level also happens to correspond with prior resistance on the chart. "I like the crude oil trade, but I'm putting in a very tight stop below \$54," added Gordon, who believes if oil holds support it could make a run up to the upper end of the trend channel at \$61 a barrel. However, knowing the volatile swings oil has made in the past months, Gordon warned, "If we fall below that level, I know the message that the dollar is giving us is telling us that crude oil is probably moving lower."ⁱ
- The U.S. Dollar/Crude Oil inverse relationship remains intact and with low crude prices, the crack spread continues to incentivize refiners to produce products. Product inventories remain adequate for the spring season. Product allocations in the NuStar pipeline (North of Geneva) and in the Magellan pipeline (in the Fort Smith area) due to hydro testing (target date of June and July) will cause some juggling for customers and suppliers.

SPCC Update from the Petroleum Marketers of Iowa

- Exempt all farm tanks of 1,000 gallons or less from the SPCC rule, and farms with an aggregate tank storage capacity of 2,500 gallons or less would not have to comply with EPA's SPCC rule.
- Increase the farm exemption threshold. Farm facilities with up to 6,000 gallons in aggregate storage capacity would be exempt pending the completion of a study looking at a permanent exemption for farms with 2,500 to 6,000 gallons.
- Permit farms to self-certify their spill prevention plans if their aggregate aboveground oil storage is between 6,000 and 20,000 gallons with no individual tank greater than 10,000 gallons and no history of oil spills. Farmers may self-certify their plan if no single tank is above 10,000 gallons.
- Require a professional engineer to certify the plan if the farm has an individual storage tank greater than 10,000 gallons, an aggregate aboveground oil storage greater than or equal to 20,000 gallons, or a reportable oil discharge history.

Economy:

- Interest rates have set new lows in the six years since the financial crisis, crimping lending margins for banks. Sustained job growth probably will help assure Fed policy makers that the expansion is well-rooted and can withstand an increase in interest rates this year.ⁱⁱ

Other Stuff:

- President Barack Obama is making one more attempt to shift the way the nation pays for roads and bridges from the politically unpopular gasoline taxes that have been the backbone of U.S. transportation policy since the Eisenhower era. The president's spending plan for fiscal 2016 includes a six-year, \$478 billion surface transportation budget financed mostly by changes to the corporate tax code. It's more ambitious and far-reaching than the Grow America Act his administration unveiled last year, a four-year, \$300 billion plan that never advanced in Congress.ⁱⁱⁱ

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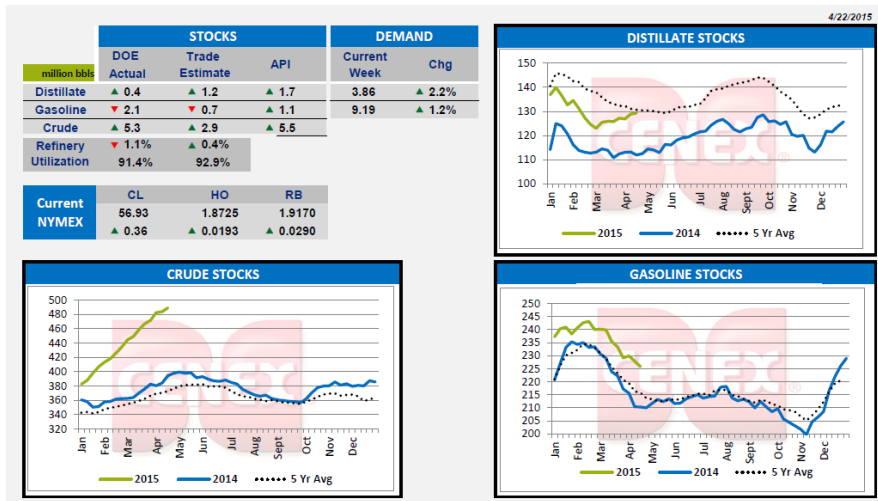
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Market Supply:



U.S. crude oil refinery inputs averaged 16.0 million barrels per day during the week ending April 17, 2015, 230,000 barrels per day less than the previous week's average. Refineries operated at 91.2% of their operable capacity last week. Gasoline production increased last week, averaging about 9.8 million barrels per day. Distillate fuel production decreased last week, averaging about 4.8 million barrels per day.

U.S. crude oil imports averaged about 7.8 million barrels per day last week, up by 617,000 barrels per day from the previous week. Over the last four weeks, crude oil imports averaged over 7.6 million barrels per day, 0.9% above the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) last week averaged 737,000 barrels per day. Distillate fuel imports averaged 255,000 barrels per day last week.

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 5.3 million barrels from the previous week. At 489.0 million barrels, U.S. crude oil inventories are at the highest level for this time of year in at least the last 80 years. Total motor gasoline inventories decreased by 2.1 million barrels last week, but are above the upper limit of the average range. Finished gasoline inventories increased while blending components inventories decreased last week. Distillate fuel inventories increased by 0.4 million barrels last week and are in the middle of the average range for this time of year. Propane/propylene inventories rose 2.0 million barrels last week and are well above the upper limit of the average range. Total commercial petroleum inventories increased by 9.2 million barrels last week.

Total products supplied over the last four-week period averaged 19.2 million barrels per day, up by 5.2% from the same period last year. Over the last four weeks, motor gasoline product supplied averaged over 9.0 million barrels per day, up by 4.0% from the same period last year. Distillate fuel product supplied averaged over 3.9 million barrels per day over the last four weeks, down by 0.2% from the same period last year. Jet fuel product supplied is up 12.2% compared to the same four-week period last year.

The WTI price was \$55.71 per barrel on April 17, 2015, \$4.08 over last week's price. The spot price for conventional gasoline in the New York Harbor was \$1.822 per gallon, \$0.101 more than last week's price. The spot price for ultra-low sulfur diesel fuel in the New York Harbor was \$1.893 per gallon, \$0.124 above last week's price.

The national average retail regular gasoline price increased to \$2.485 per gallon on April 20, 2015, \$0.077 per gallon above last week but \$1.198 below a year ago. The national average retail diesel fuel price increased to \$2.780 per gallon, \$0.026 per gallon more than last week but \$1.191 less than a year ago.

¹ <http://www.cnbc.com/id/102610343>

² <http://www.bloomberg.com/news/articles/2015-02-06/u-s-index-futures-little-changed-before-payrolls-twitter-gains>

³ <http://www.bloomberg.com/news/articles/2015-02-02/obama-takes-new-shot-to-end-reliance-on-eisenhower-era-gas-taxes>

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