



Energy Brief

June 13, 2018

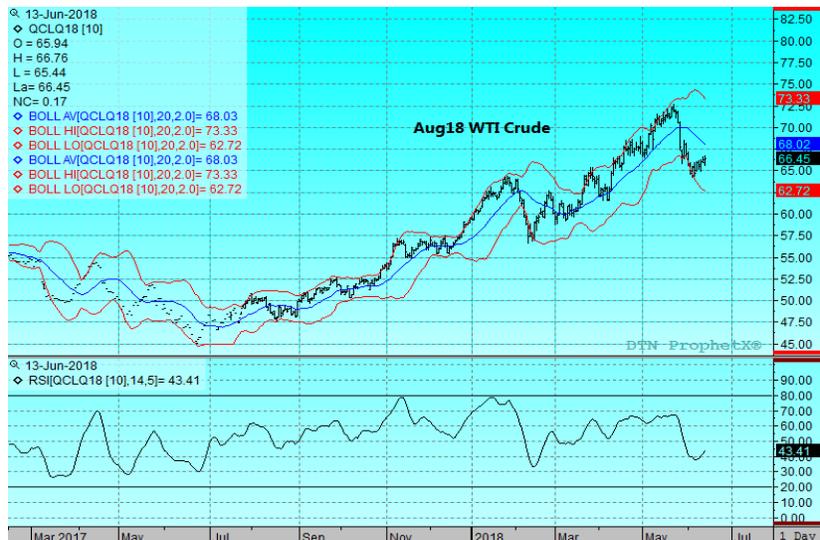
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Price Overview

The petroleum complex traded on both sides of unchanged with early weakness linked to nervousness in advance of the OPEC meeting and on the appearance that Russian and Saudi output has begun to increase. Renewed buying interest developed in US morning trade following the release of the DOE numbers which showed a larger draw than expected in both crude and product inventories.



The DOE report put crude inventories down by 4.1 mb compared to expectations of a 2.7 mb draw. Exports were indicated at 2 mb compared to 1.7 mb last week and .8 mb last year while crude imports totaled 8.1 mb compared to 8.2 mb. Domestic production of crude was reported at 10.9 mb compared to 10.8 mb.

The product supplied surged dramatically from the week prior rising to 21.8 mb from as low as 18.5 in the prior week as gasoline and distillate supplied rose to 9.9 mb and 4.4 mb respectively compared to 9.0 and 3.5 in the prior week. . The report helped support the cracks, particularly in the gas, which had been under pressure. Exports of distillates were weak at 1.1 mb compared to 1.6, possibly reflecting the better availability from other sources particularly Latin America.

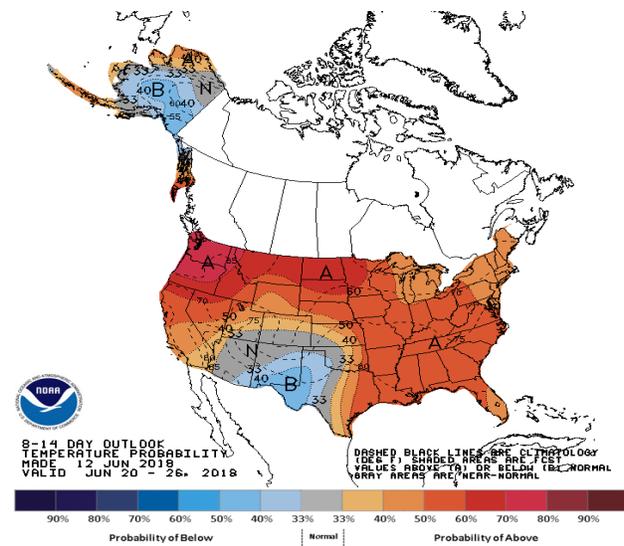
The market still looks range bound ahead of the OPEC meeting with the cracks likely providing the bulk of volatility. On a flat price basis crude will be sensitive to reports that floating storage, particularly in Europe, has increased dramatically with oil stored on ships in Europe reportedly rising to the highest levels in as much as 18 months as increasing imports by China, India and

Indonesia shuts out supplies from Nigeria, the Middle East and Angola. Nevertheless, ideas that Venezuelan availability will remain constrained and Iranian supplies will fall should keep the market cautious on the downside.

Given the good availability in Europe and discounts for US crude, we would suspect the market is toward the top end of its trading range near 67.00 basis August crude, with downside potential to 64.15 and possibly 62.00 as speculation builds as to whether output levels will be increased by OPEC members to accommodate the market. Such an action will be an attempt to avoid any threats to demand and slow price incentives that might hasten the use of alternative sources of energy by major consumers.

Natural Gas

The market traded firmly on the potential for a below average build in tomorrow's EIA report, along with forecasts for above normal temperatures later this month. The EIA is expected to show a build in inventories of 86 bcf compared to a five year average build of 91 bcf. Inventories should remain as much as 21 percent below the five year average. With petrochemical capacity increasing and concurrently demand for natural gas, we would look for inventories to usage levels to fall as we move into the last quarter, raising questions over the adequacy of inventories. We still look for 3.05 to be achieved and would maintain the long July position risking 2.845.



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