MARKET OVERVIEW:
12/7/2017 - Oil futures increased across the slate on Thursday, pressured by one of Nigeria's oil unions threatening to strike. Reuters reported the union has threatened to stage a nationwide strike beginning on Dec. 15 due to a "mass sacking of workers."
Sources also reported there were additional reasons for today's rally. "The old trader's adage is 'never sell in a quiet market,'" one source remarked. Additionally, sources noted that there has been big sell-off in NYMEX cracks lately, and some profit-taking may have given prices a boost today.
West Texas Intermediate (WTI) for January delivery picked up 73cts, to $56.69/bbl at closing, wiping away some of yesterday's losses. Also of note, WTI traded in a range of $55.82/bbl-$56.77/bbl today, finishing a touch below its intraday high.
London-based Brent also edged higher on Thursday, marching to $62.20/bbl, a rise of 98cts at the close of Thursday's session. Brent closed 6cts off from its high mark of the day, which was $62.26/bbl.
For comparison, both WTI and Brent crude oil prices tumbled by more than $1.60/bbl yesterday. Most of Wednesday's declines were due to the U.S. Energy Information Administration (EIA) reporting that crude oil production moved above the 9.7-million-b/d mark for the first time since 1971.
Not to be outdone by crude oil, refined products today also put a portion of yesterday's losses into the rearview mirror.

FEEDSTOCKS:
USGC 70/30 cracks versus January WTI gained a little more than $0.70/bbl of ground today after having weakened Wednesday by approximately $0.90-$1.00/bbl.
The USGC waterborne unleaded crack (13.5-lb. RVP, or M4 unleaded) versus January WTI firmed by 70cts/bbl today to $14.34/bbl.
The USGC waterborne high sulfur No. 2 (HS) crack improved by 77cts/bbl to $15.11/bbl, and the USGC ULSD crack strengthened by 80cts/bbl to $20.24/bbl.

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The USGC HS 70/30 crack gained 72cts/bbl to $14.57/bbl, and the USGC ULSD 70/30 crack gained 73cts/bbl to $16.11/bbl.

The general consensus today was that much of the VGO overhang that has weighed to some extent upon U.S. Gulf Coast spot prices has been cleared up, possibly paving the way for stronger differentials to WTI in the weeks ahead. HSVGO cargoes arriving before December 20 represented a good chunk of the overhang, but some of those volumes were placed this week.

There is no shortage of USGC refiners on the buy side of spot VGO, with market sources reporting Marathon, Valero, CITGO, Koch/Flint Hills, ExxonMobil and Chevrion as seeking barge or cargo VGO volumes. Marathon reportedly purchased both barge and cargo VGO volumes this week, and Chevron is said to be seeking barge LSVGO volumes in addition to cargo LSVGO to supply its 370,000-b/d Pascagoula, Miss., refinery. OPIS reported last week that Chevron was seeking cargo LSVGO for January 1-5 delivery into Pascagoula.

As a result of the diminished VGO overhang and continued end-user demand, the gap between bids and offers has narrowed in some cases. OPIS today assessed USGC cargo HSVGO at $9.00-$9.50/bbl over January WTI and USGC cargo LSVGO at $11.00-$11.50/bbl over January WTI.

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In the Gulf Coast naphtha market, broker sources today were assessing heavy naphtha at 17.00-16.00cts/gal under USGC waterborne unleaded, delivered basis. Sources noted a bid/ask on a refiner’s “heavier-than-generic” naphtha (56 API gravity) of 14.00cts/gal by 10.00cts/gal under USGC waterborne, delivered basis, with the material in question viewed as garnering a quality premium of 2.00-3.00cts/gal versus generic heavy naphtha. The material was offered for delivery in a December 8-10 window.

IN GASOLINE

Gasoline prices took back a portion of yesterday’s loss in the U.S. GULF COAST spot market today, notching another day in a back-and-forth week so far.

Today’s cash price gains came despite a very mixed bag in terms of direction for basis levels. Tomorrow is the last day to schedule Cycle 69 gasoline products into the Colonial Pipeline, but that looming deadline didn’t draw much additional liquidity into the market and what was seen had regular grades and premium grades moving in different directions.

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Prompt CBOB traded between a heard 5.75cts discount early in the session and 6.25cts beneath futures later in the day, ending the session with diffs sagging around 75pts from yesterday's mean. That put a small dent in futures advance, but prices still picked up 3.03cts, to $1.63875/gal. While that is still a nickel or so from where prices were last week, it's also a solid move back above the $1.60/gal mark that was tested yesterday. Conventional gasoline was also quiet for most of the day, with sources reporting a deal struck at 2cts below the NYMEX this morning. This afternoon, though, saw a quarter-million bbl trade at a 2.25cts beneath the Merc. All in all, prices were down about a half-penny or so, putting an even smaller dash in futures advances than CBOB, with prices up 3.41cts, to $1.67875/gal. RBOB was also lackluster for most of the day, seeing less movement than CBOB or conventional gasoline. The 13.5-lb RVP "F4" was pegged around a nickel beneath futures, off a quarter-penny from yesterday, while 15-lb. RVP "F5" was flat to yesterday at a 5.50ct discount. Prices largely followed futures higher, gaining 3.66cts, to $1.65/gal, and 3.91cts, to $1.6450/gal, respectively. Premium grades, though, did see basis levels jump a bit. Premium conventional gasoline traded in the afternoon at 9.25cts above the NYMEX, picking up more than 2cts on the day and helping futures tug prices up just over 6cts to $1.7925/gal. Premium CBOB saw a smaller move, but still picked up 1.25cts with chatter moving diffs to a nickel premium. Prices jumped just over 5.25cts to $1.75125/gal. Colonial Pipeline line space for Line 1, the main gasoline line, gained a half-penny of strength to be talked on either side of 75pts above tariffs. This week saw gasoline line space move back into premium territory after spending the prior several sessions at a discount thanks to a tightening gap between New York and Houston.

NEW YORK HARBOR gasoline prices roared higher on Thursday, reclaiming much of yesterday's sharp plunge. RBOB and CBOB spot values rose almost 4cts to close at $1.6980/gal and $1.75125/gal, respectively. Any-timing RBOB, which is reflective of an end-month price, traded 75pts below futures this morning, indicating the forward pricing curve is backwardated, meaning the value of the barrel gets cheaper going forward. Premium grades, though, did see basis levels jump a bit. Premium conventional gasoline traded in the afternoon at 9.25cts above the NYMEX, picking up more than 2cts on the day and helping futures tug prices up just over 6cts to $1.7925/gal. Premium CBOB saw a smaller move, but still picked up 1.25cts with chatter moving diffs to a nickel premium. Prices jumped just over 5.25cts to $1.75125/gal. Colonial Pipeline line space for Line 1, the main gasoline line, gained a half-penny of strength to be talked on either side of 75pts above tariffs. This week saw gasoline line space move back into premium territory after spending the prior several sessions at a discount thanks to a tightening gap between New York and Houston.

Today's advance was entirely Merc-based as cash trade levels went unchanged on the session. Prompt RBOB material was last valued 20pts under futures. Any-timing RBOB, which is reflective of an end-month price, traded 75pts below futures this morning, indicating the forward pricing curve is backwardated, meaning the value of the barrel gets cheaper going forward. CBOB cash trade levels remained unchanged at "flat" to the January gasoline contract. A Buckeye deal was done at that level for loading Dec. 9-10 earlier today.

High-octane premium RBOB gasoline traded this morning at 8.50cts over for midmonth loading into Buckeye Pipeline, even to where the market was assessed on Wednesday. Prices closed $1.7850/gal, or 50pts cheaper than premium CBOB values. U.S. MIDWEST gasoline prices closed higher on Thursday after strong losses the day prior. Cash trade was brisk and sent

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OPIS Feedstocks Pricing

While vacuum gasoil (VGO) volumes transacted in the U.S. Gulf Coast spot market are not expected to exactly match the VGO specifications outlined in OPIS’s feedstocks methodology, the OPIS specifications serve as a benchmark for making spot assessments. VGO with materially above-average qualities (relative to OPIS specifications) would be expected to command a stronger price, and VGO with materially sub-par specifications would be expected to be discounted for quality.

Depending on the extent of the quality discrepancy from OPIS’ specifications, OPIS may decide to reflect VGO deals somewhere within price ranges (near one end of the range rather than the mean), or OPIS may decide that the qualities of the VGO in question are too far removed from the outlined specifications to be considered representative of spot VGO values.

The full methodology for OPIS’ assessment of U.S. Gulf Coast and U.S. West Coast VGO, naphtha and other intermediate refinery feedstocks can be found online at http://www.opisnet.com/about/methodology.aspx.

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differentials in the Group lower while pushing Chicago trade levels higher. GROUP 3 “V-grade” gasoline prices added 4.54cts/gal, ending the day at $1.6388/gal. Prompt barrels were heard traded at a high of minus 5cts/gal versus the January RBOB contract and a low of minus 7.25cts/gal against futures. Despite the wide swings in prices each day this week, V-grade is running pretty close to where it was this time last week. December ratable V-grade was confirmed traded at minus 5.50cts/gal against the Merc while January rates were confirmed traded for minus 7.50cts/gal against December RBOB.

A Dec. 10-20 roll was completed at plus 40pts. CHICAGO CBOB prices took off, leaping higher with cash trade. Outright prices shot up 6.41cts/gal with stronger trade levels and heavy futures buying and were assessed at an even $1.69/gal. Cycle 2 CBOB was confirmed traded several times at a penny below futures, or 2.50cts/gal above yesterday’s mean differential.

In refinery news, HollyFrontier this week notified regulators of flaring in the East portion of the company’s 125,000-b/d refinery in Tulsa, Okla., according to the Department of Environmental Quality (DEQ).

Excess emissions from the fluid catalytic cracking unit were reported on Dec. 4, according to the DEQ filing. Excess emissions from “Flare No. 1 and No. 2” were also reported with a start date of Dec. 5.

The company was not available for comment.

IN DISTILLATES

U.S. GULF COAST distillate spot prices zipped higher during today’s session, taking back some - but not all - of yesterday’s losses.

Cycle 69 ultra-low-sulfur diesel changed hands at 7.50-7.55cts beneath January NYMEX ULSD futures today, most recently transacting at a 7.55ct Merc discount. This activity firmed basis levels by 5pts versus yesterday’s mean, but today’s substantial hike in outright mean prices was primarily due to paper gains. At day’s end, outright mean prices had jumped up 3.65cts, to $1.82175/gal - approximately three pennies less than last week’s average.

Prompt Cycle 69 jet fuel scheduled today, with deals inked between 11.50-12.75cts beneath ULSD futures. The last trade was at a 12.50ct Merc discount, weakening the differential by 1.13cts and eating into futures-based gains. Even so, outright mean prices lifted to $1.77575/gal - a gain of 2.82cts on the day. For comparison, average weekly prices have hovered around $1.78/gal for three of the past four weeks.

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remains within the $40 to $60 per barrel band through 2019, assuming continued compliance with global production targets.”

“Prolonged oversupply will constrain oil prices in the next one to two years, though OPEC-led production cuts have now stabilized around price-supportive levels,” said Steve Wood, Moody's managing director for oil and gas. “We expect prices to increase over time, but not to exceed the mid-2010s peak. In 2018, we expect oil prices to average $58 per barrel, up 15% from 2017." Moody's outlook for the upstream, midstream and downstream earnings outlooks for 2018 are expected to be positive, according to Moody's Investors Service.

The upstream segment has the strongest earnings outlook for the energy sector in 2018, followed by midstream. The refining and marketing subsector and the integrated oil and gas subsector have the lowest upside for 2018 earnings in the energy sector. Moody’s outlook is stable for the integrated oil and gas subsector over the next 12 to 18 months. EBITDA will grow by about 5%, even as investment conditions remain strained as companies seek greater returns on upstream investments. A return to positive cash flow could compel major European companies to reinstate cash dividends.

Moody’s outlook for the exploration and production sector remains positive, with EBITDA likely to grow by more than 10% in 2018 amid increasing production volumes, helped by modestly higher capital spending. Service-cost inflation, though currently contained, could rise in certain markets. The outlook for drilling and oilfield services companies is also positive, with EBITDA likely to grow 10% to 12% as upstream capital spending and the global rig count continue to rise. But the positive outlook represents an improvement for a sector that remains very weak, rather than a return to full health. North American land markets will have the best margin opportunities, while segments related to well completion will see the largest year-on-year price increases. Offshore markets, however, will have another weak year.

Moody’s outlook for the midstream segment is positive as well, with EBITDA likely to grow 8% to 10% in 2018. Both upstream capital spending and production will increase. While the U.S. federal regulatory climate supports the midstream sector, state and local regulations are likely to continue to pose hurdles. The outlook for the refining and marketing sector is stable, with EBITDA likely to grow 5% to 7% in 2018. Demand for distillates will remain strong, helping to ease high inventory levels, and Middle Eastern fuels will gradually displace European products. Meanwhile, the energy industry will continue its slow recovery as upstream companies increase production, helping the midstream and services sectors as well, the rating agency said.

Excess supply will continue to dampen oil prices in the coming year, Moody’s said in its 2018 outlook for the global oil and gas sector. Natural gas prices, on the other hand, will benefit from higher demand, but price gains will still be limited.

“Prolonged oversupply will constrain oil prices in the next one to two years, though OPEC-led production cuts have now stabilized around price-supportive levels,” said Steve Wood, Moody’s managing director for oil and gas. "We expect prices to remain within the $40 to $60 per barrel band through 2019, assuming continued compliance with global production targets."