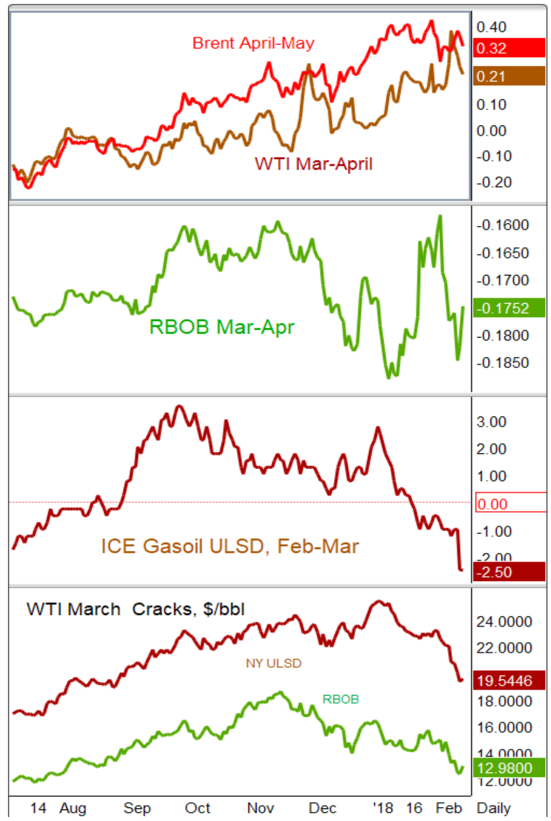
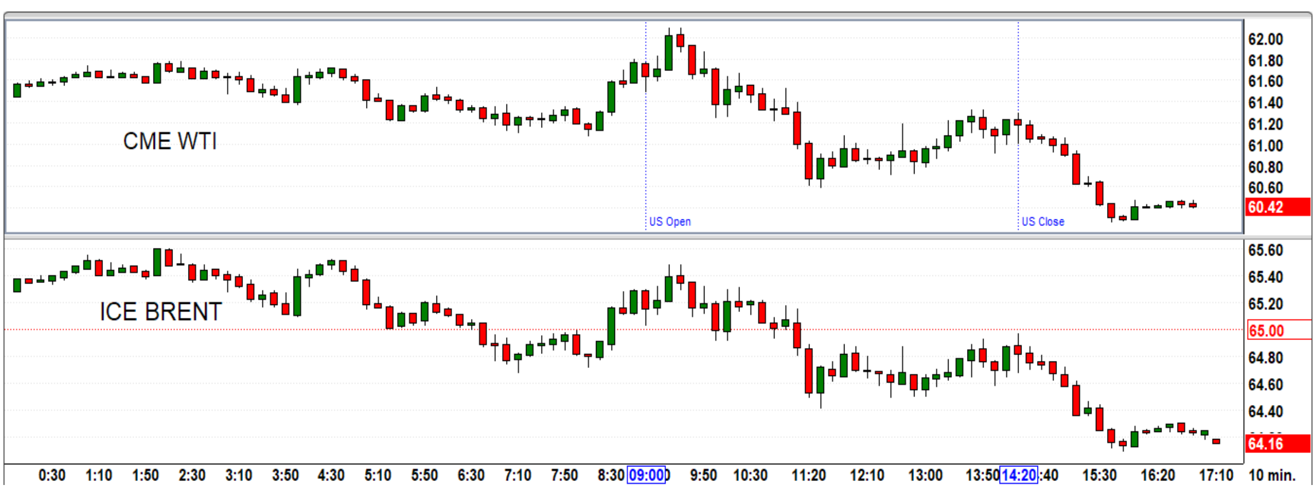
PETROMATRIX

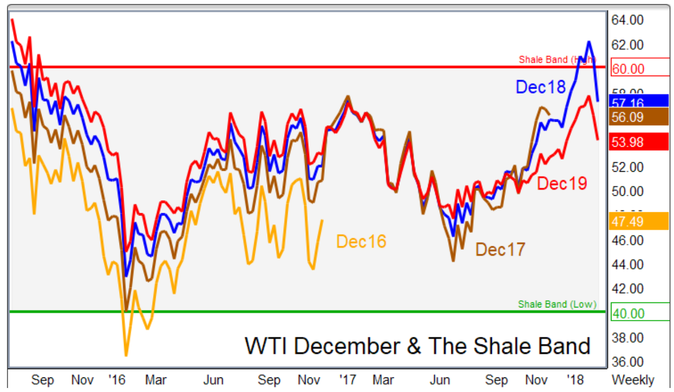
DAILY MARKET REPORT 09-FEB-18

		Latest c.o.b.	Daily Change	Daily Change %
WTI ($/bbl)	Mar	61.15	-0.64	-1.04%
Brent ($/bbl)	Apr	64.81	-0.70	-1.07%
RBOB ($/gal)	Mar	1.7650	-0.0010	-0.06%
NY ULSD ($/gal)	Mar	1.9213	-0.0100	-0.52%
Natgas US ($/mmbtu)	Mar	2.6970	-0.0050	-0.19%
Heat Crack vs WTI ($/bbl)	Mar	19.55	0.22	
RBOB Crack vs WTI ($/bbl)	Mar	12.98	0.60	
321 Crack vs WTI ($/bbl)	Mar	15.17	0.47	
Heat Crack vs Brent ($/bbl)	Apr	15.59	0.09	
RBOB Crack vs Brent ($/bbl)	Apr	16.61	0.23	
321 Crack vs Brent ($/bbl)	Apr	16.35	0.31	
Brent/WTI ($/bbl)	Apr	-3.87	0.09	
WTI Timespread ($/bbl)	Mar/Apr	0.21	-0.03	
Brent Timespread ($/bbl)	Apr/May	0.32	-0.04	
RB Timespread (cts/gal)	Mar/Apr	-17.52	0.73	
NY ULSD Timespread (cts/gal)	Mar/Apr	0.49	0.13	
ICE Gasoil Timespread ($/MT)	Feb/Mar	-2.50	0.00	
Gold		1,319.00	4.40	0.33%
GSCI		2,532.50	-15.81	-0.62%
S&P 500		2,581.00	-100.66	-3.75%
Amex Oil Index		1,260.12	-39.46	-3.04%
Dollar Index		90.23	-0.03	-0.03%
VIX		33.46	5.73	20.66%





THE SHALE BAND, NOT DEAD YET



In 2015, we introduced the Shale Band concept, adjusting in 2016 the price range of the Shale Band to 40-60 $/bbl WTI on the December contracts (to allow for hedging capacity). The upper limit of the Shale Band says that above 60 $/bbl there will be a surge of US crude production that will make it difficult to sustain WTI crude oil prices above that level (December contract).

By taking action to limit supplies, OPEC and Russia have tried through a rebalancing of stocks to break away from the Shale Band. Some OPEC countries, in particular Iran, and some Russian oil companies have expressed concerns about pushing prices above the Shale Band but Saudi Arabia and Russia decided to ignore those concerns.

Many large speculators were energized late in 2017 by an investment theme that went along the lines of "this time it is different, US producers will not significantly increase production and will focus instead on cash flow maximization". OPEC was also sold on the concept and therefore made repetitive comments that it was not losing sleep over shale as US producers were not after maximization of output. The large revisions made by the DOE since last week are however showing that US producers have reacted in style to the rising oil prices and have accelerated the pace of growth of US crude oil production.

The second half of 2017 and the first two weeks of 2018 have seen a considerable increase in speculative length in crude oil futures reaching record levels, matched by record short positions by swap producers (including hedging programs). Large speculators have however shown signs of flow exhaustion over the last two weeks. If they can find enough new flows to push a flat price rebound, we expect that they will be met by increased producer hedging, as some producers will now see the recent high as a missed hedging opportunity.

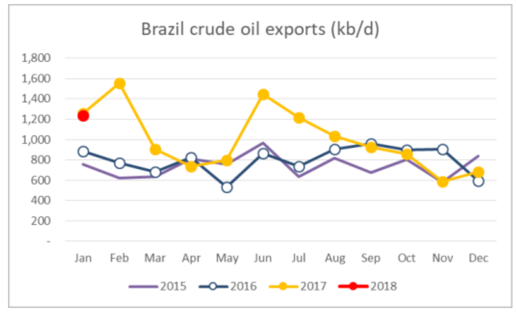
The stock rebalancing of OPEC and Russia has managed to re-introduce a backwardation in crude oil markets, but a backwardation in a high flat environment allows a satisfactory forward price for producer hedging and therefore continued increase of production, which in turn becomes a risk to the backwardation, as increased production starts to offset the lost supply of stocks. OPEC has been told that it needs to create a backwardation to reduce hedging price levels and therefore reduce US production in the medium term, but if a backwardation at 50 $/bbl can do that, a backwardation at 70 $/bbl does not achieve that objective.

If the US does not manage to increase its crude oil exports (and the narrow Brent-WTI is not helping) the risk is to see US crude oil having to force itself back to storage through weak differentials to the futures benchmark; this is what has happened to Canadian Heavy over the last two months.

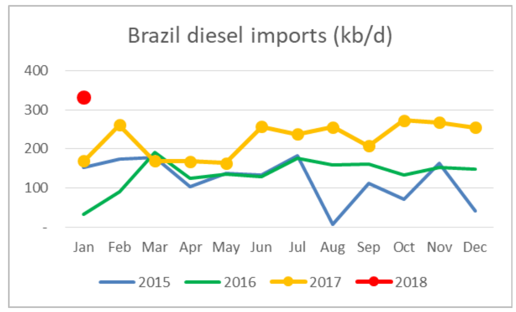
We are into the third year of Shale Band price-confirmation. The Shale Band is more boring than calling a raging bull market to 80 $/bbl or an implosion to 20 $/bbl, but it is hard to close that theme as attempts to move away from it have still not been successful.

BRAZIL TRADE-JANUARY

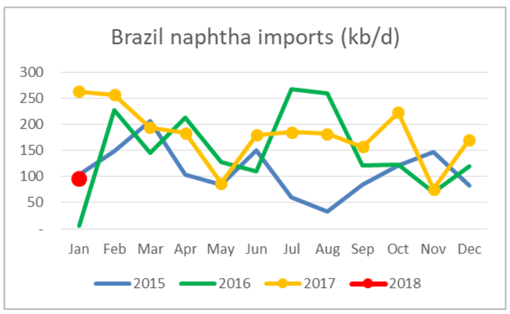
Brazil's crude oil exports in January at 1.24 myn b/d were +556 kb/d higher than in December and +530 kb/d higher than in the 4Q. They were however about unchanged from a year ago.



Exports to China at 585 kb/d were +211 kb/d higher than in December and +147 kb/d higher than a year ago. Exports to the US at 196 kb/d were +78 kb/d higher than in December and +32 kb/d more than last year. Exports to India were also on the high side, at 143 kb/d they were +110 kb/d larger than in December and +77 kb/d stronger than a year ago.

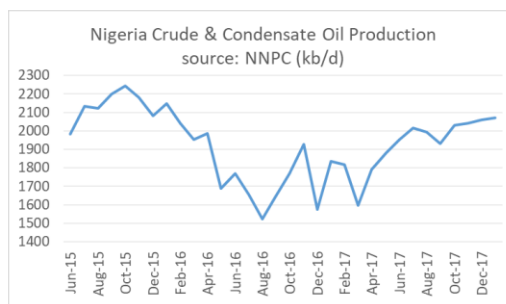


Brazil's imports of diesel in January, as reported to the customs authorities, reached a record high of 332 kb/d, with 246 kb/d originating from the US and most of the rest from Europe (Russia, Italy, ARA…). Imports of diesel were +163 kb/d higher than a year ago.



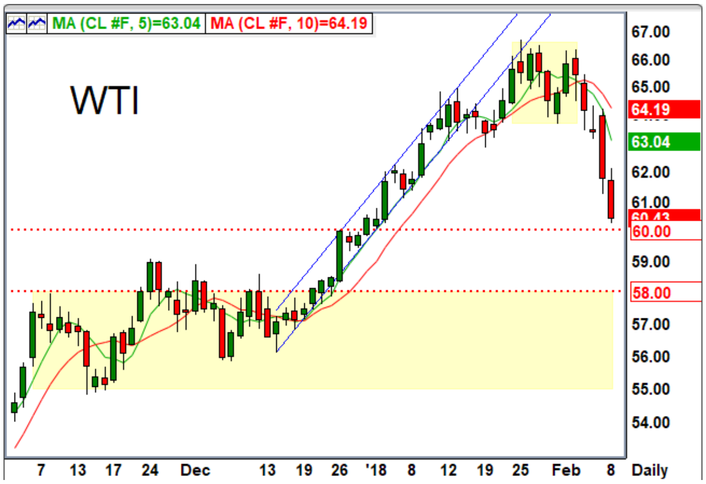
Imports of naphtha were however significantly lower than a year ago, down -167 kb/d versus January 2017 and -74 kb/d lower than December. Most of the imports still originate from Algeria.

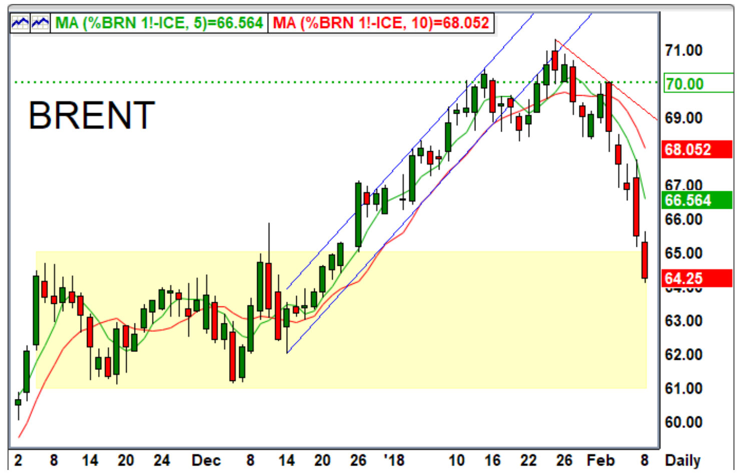
OTHER MAIN DEVELOPMENTS



- Nigeria crude/condensate production (according to NNPC) rises to 2.07 myn b/d in January, about unchanged versus December, but +233 kb/d compared to a year ago. Crude-only is at 1.71 myn b/d
- Vitol is reported shipping a newbuilt Suezmax loaded with gasoline from Ventspils to Nigeria (Reuters). NNPC says it will import two cargoes a day of gasoline until the end of the month in order to reduce the domestic shortages.
- Iran plans to increase crude oil production capacity by +700 kb/d over the next 3-4 years.
- The EU is considering restoring "blocking regulations" to protect EU firms if the US imposes extra-territorial sanctions against firms doing business with Iran.
- US natural gas stocks down -119 Bcf
- PJK indicates rising ARA stocks of distillate, gasoline,fuel oil. Stocks of naphtha and jet fuel were lower. ARA stocks of gasoline and naphtha are above last year, stocks of distillate only slightly below.
- The S&P500 is down -10.2% from recent highs
- OPEC updates its Oil Market Report on Monday, IEA does the same, it will be interesting to see what they do with US supply after the recent increase in estimates by the EIA/DOE.
- China's Shanghai futures exchange plans to launch crude oil futures on March 26th (Reuters).

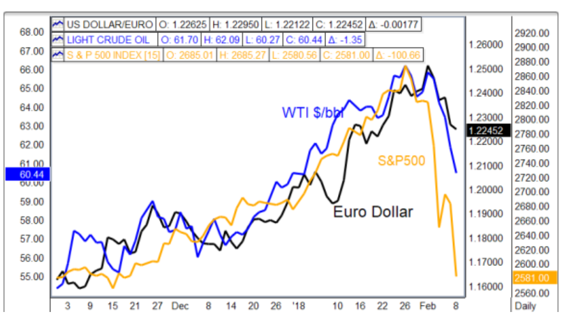
OIL PRICE OUTLOOK





(The graphs above of WTI and Brent are taken at the end the day and not as usual at settlement, in order to show the impact of the late pressure coming from the collapse of the S&P500).

As we feared, rising yields in government bonds came back to haunt the US stock markets. If the is Plunge Protection Team exists, it will have to work hard today if it wants to prevent rotating pressure through the Asian markets for the start of next week. The weakness in the equity markets is an after-hour risk for oil commodities as the volatility in the closing hour of the S&P500 translates into an overnight or weekend adjustment risk for oil futures.



Volatility in crude oil has increased, volatility in the dollar index not yet and that remains an additional risk for crude oil.

Yesterday we had 65.00 $/bbl as a must-hold level for Brent, it tried to hold to that support during the European hours and the start of the US session but it could not hold the level for settlement and then went below it in the after hours, pushed lower by the S&P. Brent is now back to the range of November-December and we have to now focus on the support of 60.00 $/bbl for WTI. If WTI cannot hold to 60.00 $/bbl then the next target is 58.00 $/bbl, and with the narrower Brent-WTI that would bring Brent close to the bottom of the November-December range. Brent is starting to enter into the RSI-14 oversold area but it usually takes more than one day in the zone to start having an impact.

In the sea of red, US cracks of refined products improved, helped by a strong rebound in biofuel RINs.

In WTI we trace a first and important support at 60.00 $/bbl, below that we won't view much until 58.00 $/bbl. First resistance at 61.30 $/bbl followed by 62.00 $/bbl.

In Brent, below 64.00 $/bbl we will watch an interim support at 63.00 $/bbl but a stronger test at 62.00 $/bbl. First resistance at 65.00 $/bbl, followed by 66.20 $/bbl.