

Market Commentary

Recap: The oil market continued to trend lower on Friday as Brent's premium over WTI continued to trade at a three-year high. The differential between Brent and WTI increased to double digits on Thursday for the first time since March 2015 and settled at \$11.02 on Friday, basis the August contracts. The oil market was pressured by US President Donald Trump's remarks on trade that supported the dollar. He told Canada and the European Union to do more to bring down trade surpluses, a day after imposing import tariffs on steel and aluminum from the two countries, in addition to Mexico. The July WTI contract opened slightly higher at \$67.07 and posted a high of \$67.34 in overnight trading. However, the market erased any of its gains and breached its previous lows. It extended its losses to \$1.41 as it sold off to a low of \$65.63 ahead of the close. The July WTI contract settled down \$1.23 at \$65.81 while the August Brent contract settled down 77 cents at \$76.79. Meanwhile, the product markets also ended in negative territory, with the heating oil market settling down 2.83 cents at \$2.1763 and the RBOB market settling down 1.71 cents at \$2.1434.

Fundamental News: Baker Hughes reported that the number of rigs drilling for oil in the US increased by 2 to 861 in the week ending June 1st.

The price of WTI crude in Cushing, Oklahoma fell to more than \$11/barrel below Brent on Thursday, the biggest discount since March 2015. Further illustrating the congestion, WTI delivered in Midland, Texas is \$20.50/barrel cheaper than the same oil in Houston. Hedge funds and other financial traders are betting that pipeline shortages in the Permian will lead to an inland oversupply as soon as August, while oil majors and large trading houses are counting on record US exports to narrow the gap. With no major pipeline capacity set to come online until the second half of 2019, more bets are being placed to profit from a wider gap. According to the Federal Reserve Bank of Dallas, Permian oil pipeline congestion could affect output as early as the start of 2019. Long-dated oil would need to trade below \$45/barrel, about \$9/barrel below current levels, to slow production dramatically.

ConocoPhillips' CEO, Ryan Lance, said the company may shift some spending away from the Permian Basin in West Texas and New Mexico, at least until its transport issues are resolved.

UBS raised its Brent 2018 price forecast to \$73/barrel from \$63.47/barrel and its WTI price forecast to \$68/barrel from \$59.85/barrel. The bank sees global oil demand growth slowing down over the course of 2018 and 2019/2020 on higher prices.

Oil Movements reported that OPEC shipments are expected to increase by 200,000 bpd to 24.45 million bpd in the four week period ending June 16th. Mideast shipments, including those from non-OPEC nations Oman and Yemen, are expected to increase by 860,000 bpd to 18.81 million bpd.

Russia's President, Vladimir Putin, told Abu Dhabi's Crown Prince, Sheikh Mohammed bin Zayed, that the joint efforts with OPEC have yielded good results in terms of oil market stabilization.

Shell reported that a force majeure on Bonny Light crude exports is still in place after it was declared on May 17th.

IIR Energy reported that US oil refiners are expected to shut in 499,000 bpd of capacity in the week ending June 1st, increasing available refining capacity by 99,000 bpd from the previous week. IIR expects offline capacity to fall to 310,000 bpd in the week ending June 8th and 255,000 bpd in the week ending June 15th.

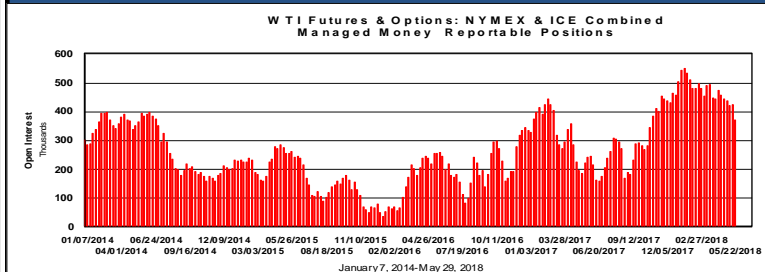
Early Market Call - as of 9:00 AM EDT

WTI - July \$65.72, down 8 cents
 RBOB - July \$2.1326, down 1.05 cents
 HO - July \$2.1712, down 51 points

All NYMEX | Prior Settlements

| Month | USLD (HO) | Prior Settle | Change In |
|--------|-----------|--------------|-----------|
| | Close | Change | One Week |
| Jul-18 | \$2.1763 | -\$0.0283 | -\$0.0289 |
| Aug-18 | \$2.1804 | -\$0.0268 | -\$0.0246 |
| Sep-18 | \$2.1854 | -\$0.0255 | -\$0.0225 |
| Oct-18 | \$2.1893 | -\$0.0239 | -\$0.0197 |
| Nov-18 | \$2.1925 | -\$0.0216 | -\$0.0166 |
| Dec-18 | \$2.1933 | -\$0.0198 | -\$0.0135 |
| Jan-19 | \$2.1959 | -\$0.0186 | -\$0.0112 |
| Feb-19 | \$2.1950 | -\$0.0176 | -\$0.0091 |
| Mar-19 | \$2.1898 | -\$0.0166 | -\$0.0063 |
| Apr-19 | \$2.1682 | -\$0.0154 | -\$0.0038 |
| May-19 | \$2.1741 | -\$0.0145 | -\$0.0040 |
| Jun-19 | \$2.1692 | -\$0.0138 | -\$0.0053 |
| Jul-19 | \$2.1671 | -\$0.0130 | -\$0.0053 |
| Aug-19 | \$2.1682 | -\$0.0119 | -\$0.0047 |
| Sep-19 | \$2.1746 | -\$0.0112 | -\$0.0043 |
| Oct-19 | \$2.1801 | -\$0.0112 | -\$0.0051 |
| Nov-19 | \$2.1879 | -\$0.0074 | -\$0.0031 |

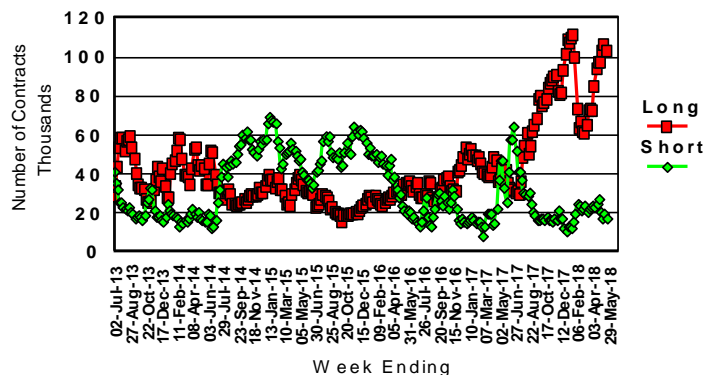
| Sprague HeatCurve Oct 2018-April 2019 | | \$2.1921 | |
|---------------------------------------|------------|-----------|-----------|
| Other Front Month NYMEX | | Close | Change |
| Crude - WTI | Aug Brent- | \$65.7700 | -\$1.1400 |
| Crude - Brent | WTI Spread | \$76.7900 | -\$0.7700 |
| Natural Gas | \$11.02 | \$2.9620 | \$0.0100 |
| Gasoline | | \$2.1434 | -\$0.0171 |



Commitment of Traders Report for the Week Ending May 29, 2018

Managed Money Heat Positons

CFTC Commitment of Traders Report



Producer/Merchant Heat Positons

CFTC Commitment of Traders Report

