

Energy Market Update August 16, 2017 NYMEX Prices

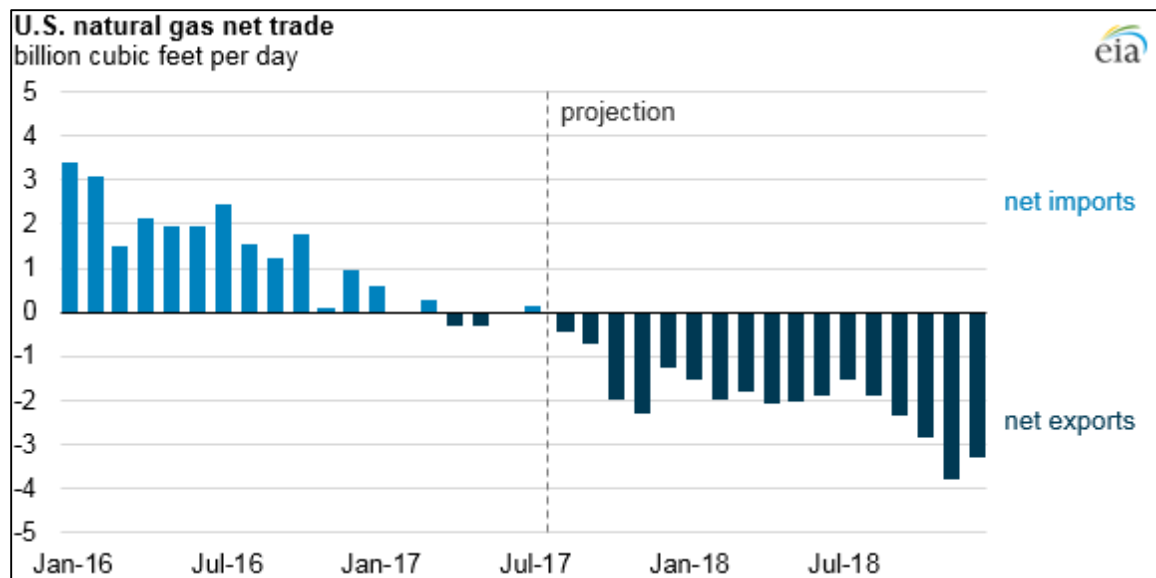
	Close	Wk. Change
September Crude Oil	\$46.78	-\$2.75
September Gasoline	\$1.5638	-\$0.081
September Heating Oil	\$1.5744	-\$0.0787
September Natural Gas	\$2.89	+\$0.009

MARKET COMMENTS:

Energy futures fell on Wednesday despite a large drop in domestic crude inventories as traders appeared more concerned that U.S. crude production edged higher by 79,000 barrels per day. U.S. crude inventories dropped for a seventh consecutive week, falling 8.95 million barrels last week to 466.5 million barrels to their lowest since January 2016. The bullishness was also tempered by a small build in gasoline inventories in what was the last full week of the “summer driving season.” See chart for this week’s DOE and API highlights.

	Crude				Gasoline				Distillate Fuel			
	Change	Total	3Yr Avg.	5 Yr. Avg.	Change	Total	3Yr Avg.	5 Yr. Avg.	Change	Total	3Yr Avg.	5 Yr. Avg.
DOE	-8.9	466.5	448	415	N/C	231.1	224	221	+0.7	148.4	141	136
EST.	-0.500/-3.800				+0.000/-2.200				+1.500/-2.890			
Propane	Total 69.2 +1.6				Midwest 22.3 +.3				Gulf 38.2 +1.3			
API's	Crude -9.200 Cushing +1.70				Gasoline +0.3				Distillates -2.100			

The EIA projects that the United States will export more natural gas than it imports in 2017. The United States is currently the world's largest natural gas producer, having surpassed Russia in 2009. Natural gas production in the United States increased from 55 billion cubic



Corn Condition: Week Ending August 13, 2017

State	Very poor (percent)	Poor (percent)	Fair (percent)	Good (percent)	Excellent (percent)
Illinois	3	8	27	50	12
Indiana	5	11	29	42	13
Iowa	3	9	27	52	9
Kansas	4	11	30	44	11
Michigan	3	10	29	48	10
Missouri	2	7	27	52	12
Nebraska	4	9	24	46	17
North Dakota	7	13	32	44	4
Ohio	2	7	33	46	12
South Dakota	10	21	35	33	1
Wisconsin	2	7	21	47	23
Nationwide avg.	3	9	26	49	13
Previous week	4	9	27	47	13
Previous year	2	5	19	53	21

feet per day (Bcf/d) in 2008 to 72.5 Bcf/d in 2016. Most of this natural gas—about 96% in 2016—is consumed domestically. Based on construction plans, EIA expects that by 2020 the United States will have the third-largest LNG export capacity in the world after Australia and Qatar.

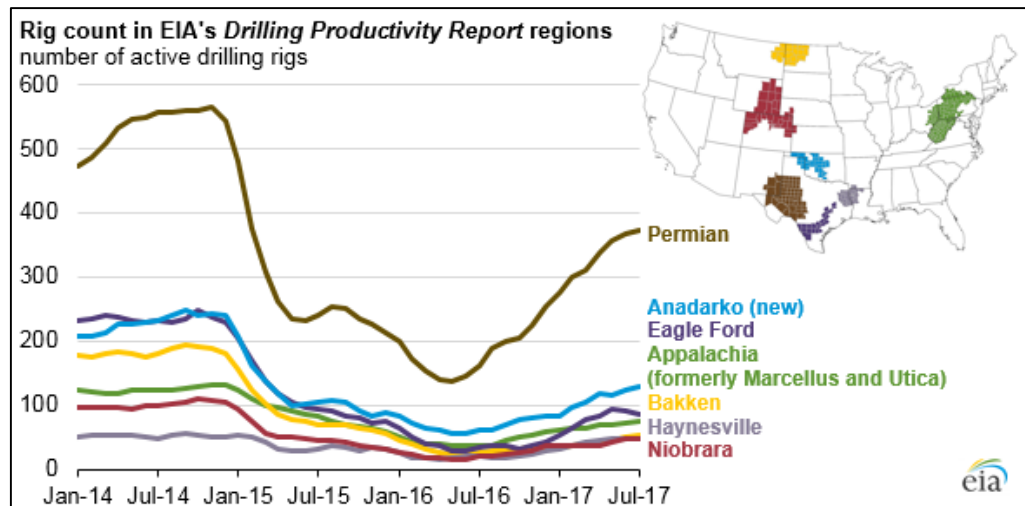
After a couple of months of declining conditions, the USDA’s latest crop condition report shows things stabilizing.

As for the corn, the states with the best conditions are primarily concentrated in the south; Louisiana at 67% good condition, while Kentucky and North Carolina farmers are reporting 62% in good condition.

Although the nationwide crops appear to be worse than last year at this time, conditions turned a corner and appear to be improving week-over-week. Corn futures retreated yesterday as a result of the better than expected report. Nationally, conditions will likely improve again in next week’s report as 70 percent of U.S. corn and soybean growing areas should receive rains in the next five days, according to the Commodity Weather Group.

This graphic shows the vital importance the Permian region plays for the entire country’s shale production. The EIA said production in the Permian will increase to about 2.9 million barrels per day in 2018 as average production ramps up 515,000 barrels per day from June 2017 to the end of 2018. That 2.9 million barrels represents almost 30 percent of expected U.S. production

next year. The EIA said lower costs of production have enabled Permian producers to make a profit even with oil prices lingering in the \$50-a-barrel range. So, what makes the Permian Basin so special? Geology, the Permian has unique stacked layers of rock called seams, each seam is 10 or 15 times thicker than those in other formations. Running 250 miles wide and 300 miles long, the Permian may contain more recoverable oil than any field except Saudi Arabia’s Ghawar, which accounts for more than half of the oil production in Saudi Arabia.



China is on pace to overtake the US as the world’s largest oil importer this year. The EIA reported that China imported more crude than the US in the first half of the year. China averaged 8.55 million bpd compared with 8.12 million bpd in the US, a trend that is expected to last. China’s import surge is being driven by the expansion of its refinery capacity. However, as the domestic demand has not materialized to offset the increase in fuel supply, China’s exports of gasoline and diesel have increased to record highs