

South Central FS, Inc.

Energy Market Update July 11, 2018

NYMEX Prices

	Close	Wk. Change
August Crude Oil	\$70.38	-2.56
August Gasoline	\$2.0614	-.0679
August Heating Oil	\$2.1008	-.0779
August Natural Gas	\$2.826	-0.110

Market Comments: The inventory report had very little impact on today's market which grew more bearish throughout the session. The U.S. dollar rose today as a "safe haven" move against trade tensions, with tariff talk escalating between the U.S. and China. Commodities and stocks both responded strongly, with copper closing at a one-year low.

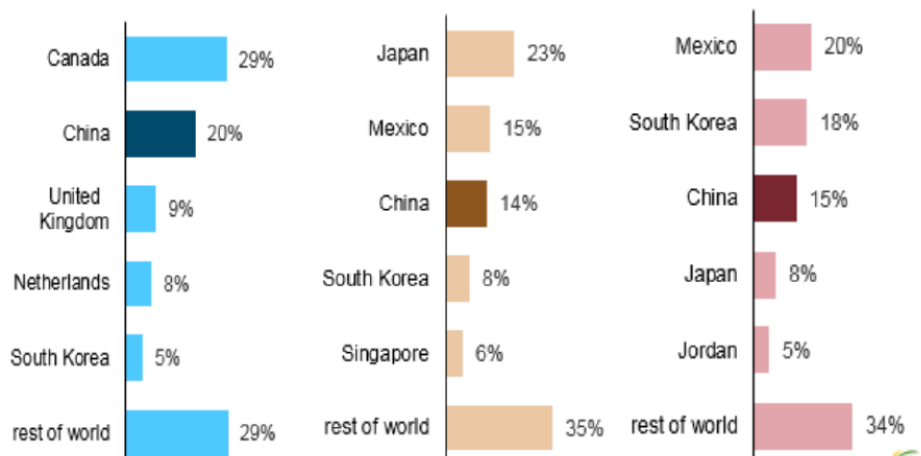
The Senate passed a nonbinding resolution today 88-11 that would give Congress more say on trade penalties that are placed on other countries in the name of national security. Trump ramped up the trade dispute with China by announcing a [potential] additional \$200 billion in tariffs. Congress would like to have some constitutional authority when tariffs are put into place. They are concerned about U.S. farmers and manufacturers, but were unsuccessful in getting a vote passed that would require congressional approval before tariffs are enacted.

The inventory report was shrugged off today in favor of trade disputes that could stymie the economy and impact oil demand.

	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	12.633	405.2	458	448	-.694	239.0	224	225	+4.125	121.7	136	137
EST.	-1.500/-8.000				+1.200/-2.544				+2.000/-1.500			
Propane	Total 63.6 +2.4				Midwest 20.4 +1.2				Gulf 35.2 +1.3			
API's	Crude -6.796	Cushing -1.925			Gasoline -1.590				Distillates +1.952			

China has become a significant destination for U.S. exports of crude oil, propane, and liquefied natural gas. Canada remains the largest importer of U.S. crude oil, with China second, taking 20% of our crude exports last year, and 14% of our propane exports. Most of the propane that China imports is used in their

Share of 2017 crude oil exports | Share of 2017 propane exports | Share of 2017 LNG exports

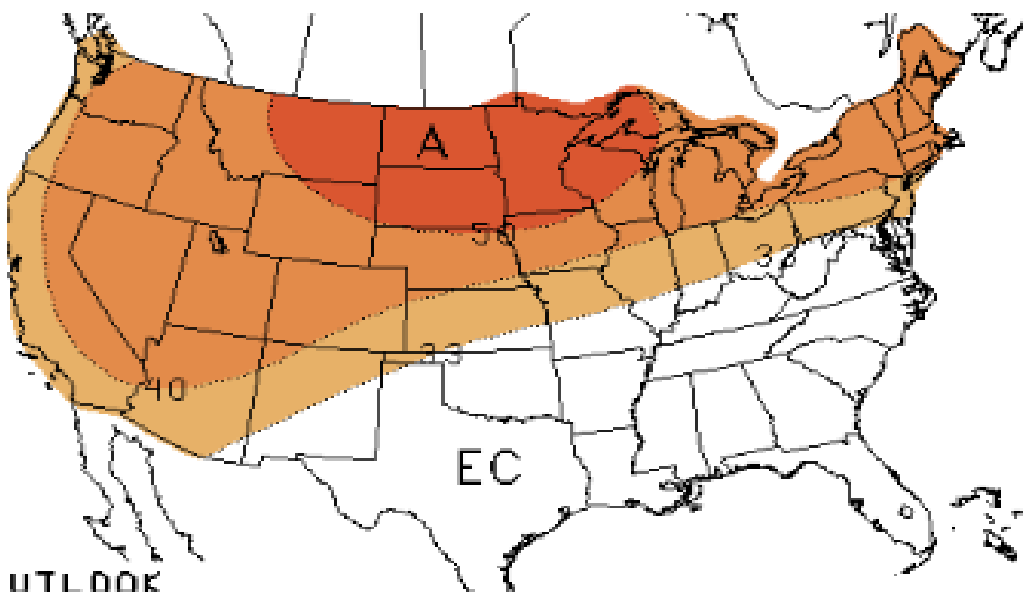


chemical and plastics manufacturing. With the beginning round of tariffs between the U.S. and China now in place, exports are likely to fall with China and U.S. exports to Europe could rise to fill in the gap.

China will reimburse buyers for the cost of the 25 percent tariff on soybean imports from the United States if the soybean cargoes are for state reserves. The state reserve buyers will pay the additional tariff before it is later reimbursed by the Chinese government.

Iran's vice president acknowledged on Tuesday that U.S. sanctions would hurt the economy, but he did promise to sell as much oil as they can and protect banking. President Donald Trump said he would reintroduce sanctions and Washington also told countries they must stop buying Iran's oil after November 4, or face financial consequences. On Tuesday, the U.S. ambassador to Germany also called on Berlin to block an Iranian bid to withdraw large sums of cash from bank accounts in Germany. The U.S. administration has since said that they would consider waivers on countries who want to keep doing business with Iran on a case-by-case basis, backing away from Trump's zero tolerance pronouncement.

As of July 8, 2018 the national average rating for corn in good to excellent condition was 75 percent, down 1% from last week. The soybean crop came in at 71 percent good to excellent, which was unchanged from the previous week.



The extended forecast for December, January, and February 2018-2019 is calling for above normal temperatures throughout much of the northern U.S. As for precipitation the Plains is expected to experience above normal precipitation. Certainly, the propane industry keeps an extremely close eye on winter forecast to

gauge how much demand the industry will experience. There is still a long time before winter and the forecast will be subject to change. Current propane stocks are at 61.2 million barrels vs. 84.8 million barrels two years ago.

Over July 4, holiday gasoline prices hit their highest level since 2014. According to AAA, the national average price of gasoline was \$2.86, about 63 cents higher than a year ago. However, even with high gas prices, most motorists are not likely to curtail their travel during the most popular summer holiday.