

## South Central FS, Inc.

### Energy Market Update July 25, 2018

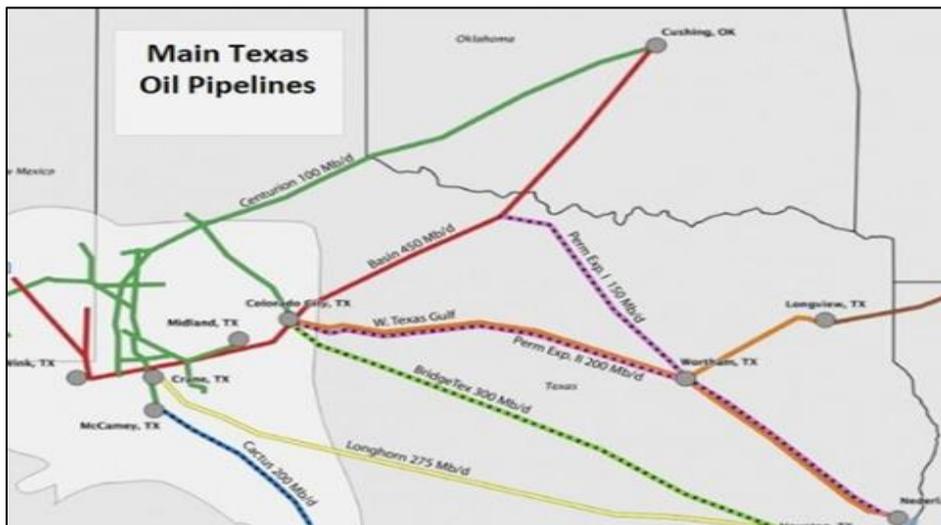
#### NYMEX Prices

	Close	Wk. Change
August Crude Oil	\$69.30	+0.560
August Gasoline	\$2.1231	+0.0830
August Heating Oil	\$2.0891	+0.0621
August Natural Gas	\$2.775	+0.052

**Market Comments:** U.S. crude oil inventories dropped more than expected to their lowest level since 2015 as exports increased and stocks at the Cushing hub fell, according to the EIA. Cushing's inventories have been declining, in part due to an outage at a Syncrude facility in Canada that has reduced the flow of oil into the Oklahoma hub. Inventories at Cushing have dropped to 23.7 million barrels, the lowest since November 2014.

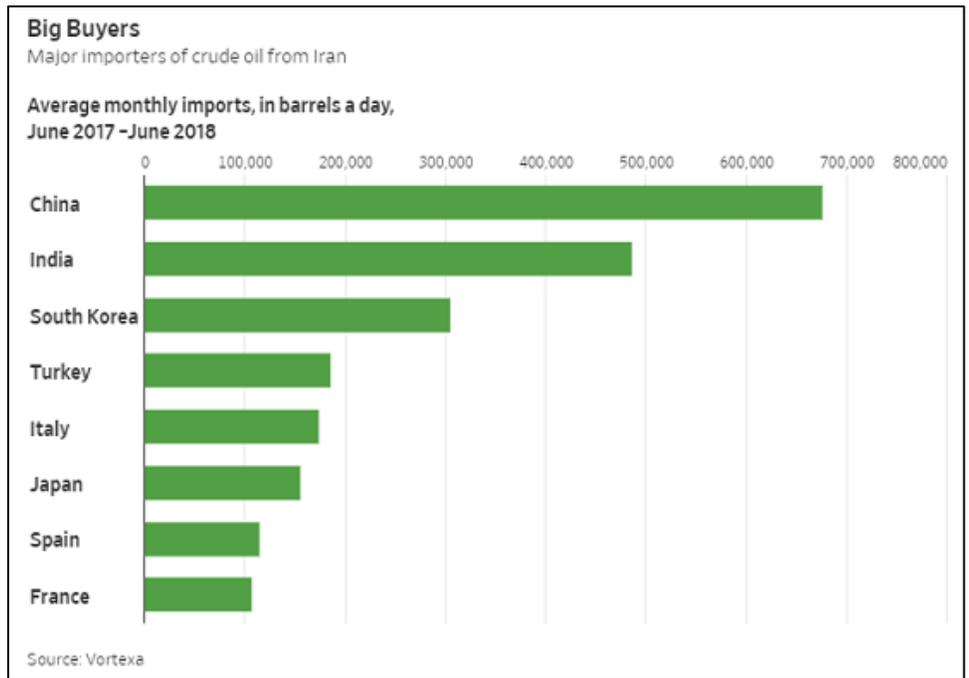
	Crude				Gasoline				Distillate Fuel			
	Change	Total	3Yr Avg.	5 Yr. Avg.	Change	Total	3Yr Avg.	5 Yr. Avg.	Change	Total	3Yr Avg.	5 Yr. Avg.
DOE	-6.1	409.9	451	440	-2.3	233.5	224	224	-0.1	121.2	140	139
EST.	+2.700/-4.000				+1.300/-2.500				+1.500/-1.500			
Propane	<b>Total -0.8 64.5</b>				<b>Midwest -0.3 21.4</b>				<b>Gulf N/C 34.7</b>			
API's	<b>Crude -3.160 Cushing -0.808</b>				<b>Gasoline -4.870</b>				<b>Distillates -1.320</b>			

The U.S Agriculture Department will provide around \$12 billion in aid to farmers and ranchers hit by tariffs imposed on U.S. products, USDA secretary Sonny Perdue said on Tuesday. The programs, which include direct payments to farmers, trade promotion and food purchases, are already authorized under the Commodity Credit Corporation act and do not need Congressional approval. The United States has never before offered aid of this scale for the impact of a trade dispute. Short term assistance programs are typically offered during times of recession or low prices for agriculture commodities. The last time the government offered a comparable amount of emergency assistance was in 1998 to address low hog, corn and soybean prices, according to Chad Hart, a professor of economics and crop markets specialist at Iowa State University.

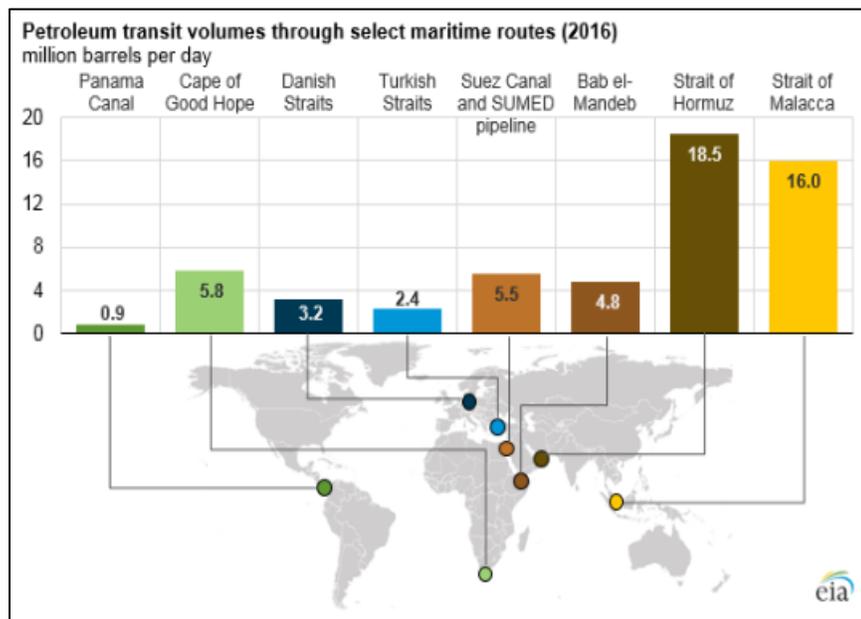


The European Commission is coming up with a list of \$20 billion of U.S. goods to hit with duties if Washington imposes tariffs on imported cars. In response to the U.S. metals tariffs, the EU has already imposed its own import duties on \$3.3 billion worth of U.S. goods, including products like bourbon and motorcycles.

One of the bigger unknowns in the oil market going forward was partially answered last week when China announced their intention to greatly increase their crude take from Iran. It is known that India and South Korea have been scaling back on their imports and Japan has also, but may be intending to ask for a waiver from the U.S. who initially promised to sanction all who kept up business with Iran after November 4<sup>th</sup>.



The U.S. has recently softened their stance on zero tolerance and MAY grant waivers on a case-by-case basis. Given the current state of the U.S. relationship with China, it is still unknown if the U.S. will sanction China for taking all available crude from Iran.



The conflict between the United States and Iran escalated over the past few days from a war of words to threats of military action. The exchange was due to the first of two U.S. imposed deadlines for international businesses to cut ties with Iran quickly approaching next month. The United States is expecting most oil buyers to reduce purchases of Iranian crude to zero or face their own sanctions from the U.S. Iranian leaders countered by renewing its threat to shut down the Strait of Hormuz if U.S. sanctions

disrupt Iran's exports. The strait is the world's most important seaborne passageway for crude oil shipments, which sees about 19 million barrels per day or 30 percent of seaborne-traded oil pass through.

For decades the three benchmark crudes have been WTI (West Texas Intermediate), Brent (North Sea) and Dubai (Middle East). **ICE (International Commodity exchange) is introducing a new U.S. benchmark that will be known as Permian WTI with a symbol of HOU, deliverable into the Magellan East Houston terminal.** The contract will be active on ICE sometime during the 3<sup>rd</sup> quarter. Houston has become the most active terminal in the U.S. and the new specification crude will come directly from the Permian basin.