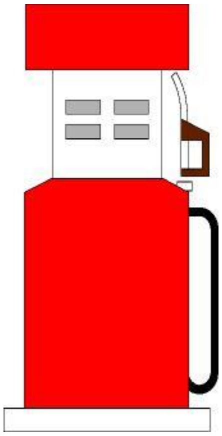


South Central FS, Inc.

Energy Market Update August 8, 2018

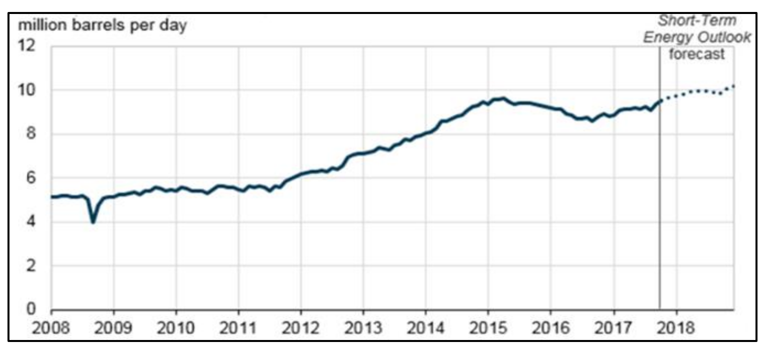
NYMEX Prices

	Close	Wk. Change
Sept Crude Oil	$66.94	-0.72
Sept Gasoline	$2.0195	-0.0256
Sept Heating Oil	$2.1157	+0.0183
Sept Natural Gas	$2.949	+0.104

Market Comments: Oil prices fell sharply today as a trade dispute between the U.S. and China escalated further and after Chinese import data showed a slowdown in energy demand. China on Wednesday threatened to impose a 25 percent tariff on $16 billion of U.S. goods. The move came in response to the Trump administration's plan to impose the same tariff on an equal amount of Chinese imports in the coming weeks. Also weighing on prices, the EIA reported that U.S. crude inventories fell just 1.4 million barrels last week, less than half the 3.3 million barrel draw analysts had expected. Both gasoline and distillate stock rose by 2.9 million barrels and 1.2 million barrels, respectively

	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	**-1.3**	**407.4**	448	436	**+2.9**	**233.9**	224	225	**+1.2**	**125.4**	141	139
EST.	+4.037/-4.500				+1.000/-3.698				+4.215/-1.200			
Propane	**Total +0.1 66.4**				**Midwest -0.1 22.8**				**Gulf +0.3 35.1**			
API's	**Crude -6.000 Cushing -0.576**				**Gasoline +3.100**				**Distillates +1.800**			

U.S. crude oil production in 2018 is expected to grow at a slower rate than previously forecast, according to the EIA. U.S. crude production is expected to increase 1.31 million bpd to 10.68 million bpd in 2018, lower than previous expectations that production would rise 1.44 million bpd to 10.79 million bpd.

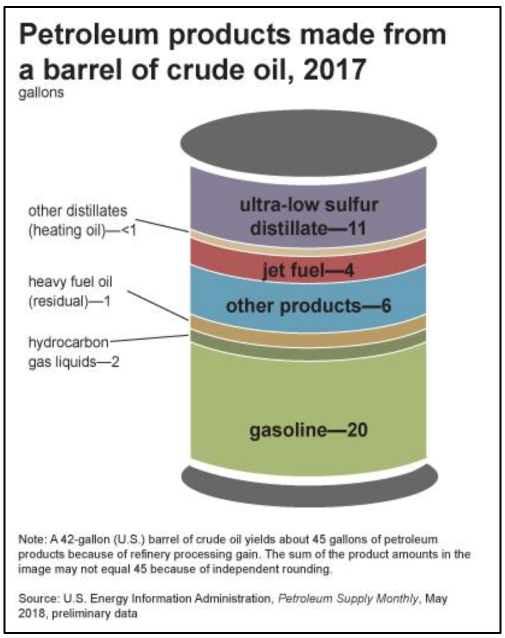


There were 6.66 million job openings at the end of June, the Labor Department said on Tuesday, up slightly from May's levels and the third highest in history. Job openings increased in educational services but decreased in transportation, warehousing, and utilities. The U.S. jobs market is one of the healthiest it's been in years as seen by job openings and a 3.9% unemployment rate.

Crop ratings deteriorated even more than anticipated this week after dry conditions hit parts of the Midwest and Plains. USDA pegged 71 percent of the corn crop in good to excellent condition vs. 72 percent last week. The report indicated 67 percent of the soybean crop was in good to excellent condition, down three points from the previous week.

Marine Fuel Sulfur Standard- a Small Industry Negative or Sharply Higher Prices?

The global sulfur cap change on marine fuels is coming soon—January 1, 2020. Bunker fuel which is used by the shipping community now has a cap of 3.5%, and is set to become capped at .5% sulfur. The change will affect everything on down to road fuels, but experts disagree on the variables. Refiners are developing the compliant fuels, ship owners are updating vessels, and container line owners have imposed emergency bunker surcharges to recoup costs for a sharp rise in fuel prices. Bunker (residual) fuel is very heavy; it is what is left after lighter hydrocarbons have been extracted. It will have to be blended with low-sulfur diesel to achieve the new standard.

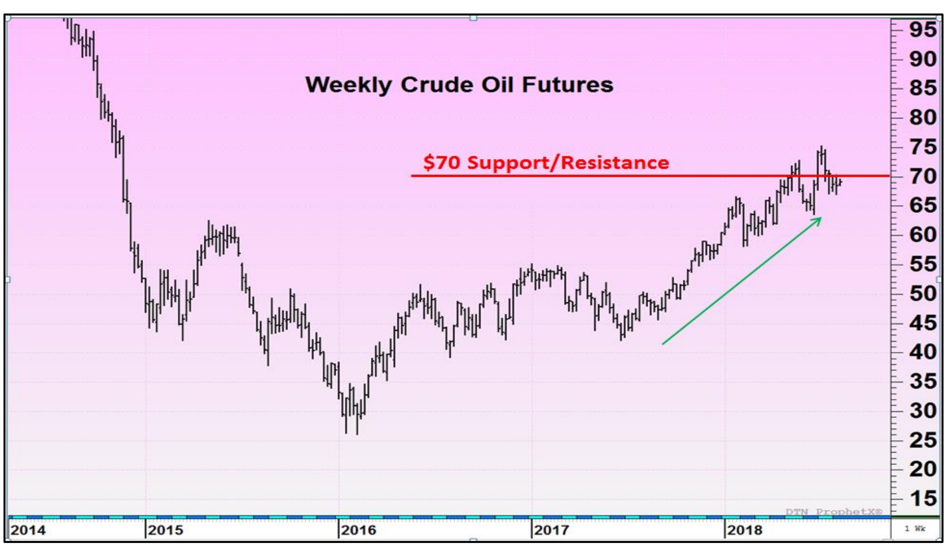


Another method of complying with the sulfur cap is by using scrubbers or Exhaust Gas Cleaning Systems (EGCS), which sprays alkaline water into the vessel's exhaust to remove sulfur and other chemicals.

Going forward huge investments are still needed, and could also change the price of crude. High sulfur crude could become cheaper and light sweet crude more expensive as the industry moves toward compliance.

The biggest problem will be the lack of enforcement for the shipping industry. Most major shippers have already pledged their compliance but the International Maritime Organization (IMO) does not have across the board standards for behavior nor a regulatory arm.

Enforcement is generally up to each country policing its territorial waters, but virtually no one is policing the high seas. Human health is the reason for the change, but the burdensome costs of both compliance and enforcement will be borne by the consumers in the end.



The crude oil market is still struggling to find a definitive direction. Prices keep bouncing around the $70/.barrel support /resistance level. If they can close and maintain above the $70 price zone it would open the door towards additional upside strength. However, the long-term trend is still tracing out a bullish formation.