

January 7, 2019

GLOBAL INTEGRATEDS & REFINERS

Oceanic Monday – Weekly EIA Preview and OPEC Watch, Vol 4

- EIA Preview (Exhibit 1):** We expect the EIA to report a **crude inventory build of 4.0MM bbl for the week ended Jan 4, 2019**. Imports should be lower w/w, but exports could be materially lower as well, likely a one-off phenomenon. The EIA's "adjustment" factor - meant to represent unaccounted for volumes to reflect the difference between reported production, imports, exports, refinery runs, and inventory changes – has been unusually high recently, over 0.9MM bpd for the past two weeks. Our theory is that this excess volume is incremental NGL production that's not getting appropriately marked as "Other Inventory", where it belongs. Nevertheless, we must account for it in our crude model until the "adjustment" anomaly is resolved. On exports last week, we note there were several VLCCs loaded by lightering last week, which could result in a reported export figure higher than our assumption. Generally, VLCCs loaded by lightering have correlated to an error factor in our export model.
- Arabian Gulf Export Splits West vs East (Exhibits 2 & 3):** Arabian Gulf Eastbound skew remains, with 4-week average US-bound Arabian Gulf crude export volumes down 59% from the 52-week average for the four weeks ended 1/6/19. **Despite expected low imports in the US, EIA inventories could be sloppy for the next several weeks (through Feb potentially) as US production and refinery maintenance contribute to oversupply.**
- Month-to-Date AG OPEC Exports (Exhibit 4):** Total Arabian Gulf crude exports the first week of January were very low, screening just 17MM bpd vs the 2018 average of 20MM bpd. This is likely a timing issue on a small sample size of days, although we do expect Jan to finish below the Dec 2018 average of 19.6MM bpd, which was down only 0.4MM bpd from the 2018 average.
- Other Swing Supply (Exhibit 5):** Counteracting the active Arabian Gulf supply cut, Other Swing supply remains elevated at 17.8MM bpd for the 4 weeks ended Jan 6 vs the 2018 average of 17.1MM bpd. West Africa and Russia are right on their 2018 averages, however Brazil and other Latin America account for the uplift. Brazil is not part of the OPEC+ agreement, meaning production in quota (OPEC + Russia) will have to cede share to Brazil, in addition to the US, to balance the market.

Company	Price	Rtg
BP(BP)	\$40.03	PP
Calumet Specialty Products (CLMT)	\$2.68	PP
Chevron (CVX)	\$110.82	OP
CVR Refining (CVRR)	\$11.04	PP
Delek US(DK)	\$33.71	OP
ExxonMobil (XOM)	\$71.15	OP
HollyFrontier (HFC)	\$51.72	UP
Marathon Petroleum (MPC)	\$61.65	OP
PBF Energy (PBF)	\$33.91	PP
Phillips 66 (PSX)	\$90.84	OP
Royal Dutch Shell (RDS.A)	\$60.55	OP
Total (TOT)	\$54.46	OP
Valero (VLO)	\$77.01	PP

Source: FactSet/Wolfe Research
 OP=Outperform, PP=Peer Perform,
 UP=Underperform, NR=Not Rated

Prices reflect 1/4/19 close

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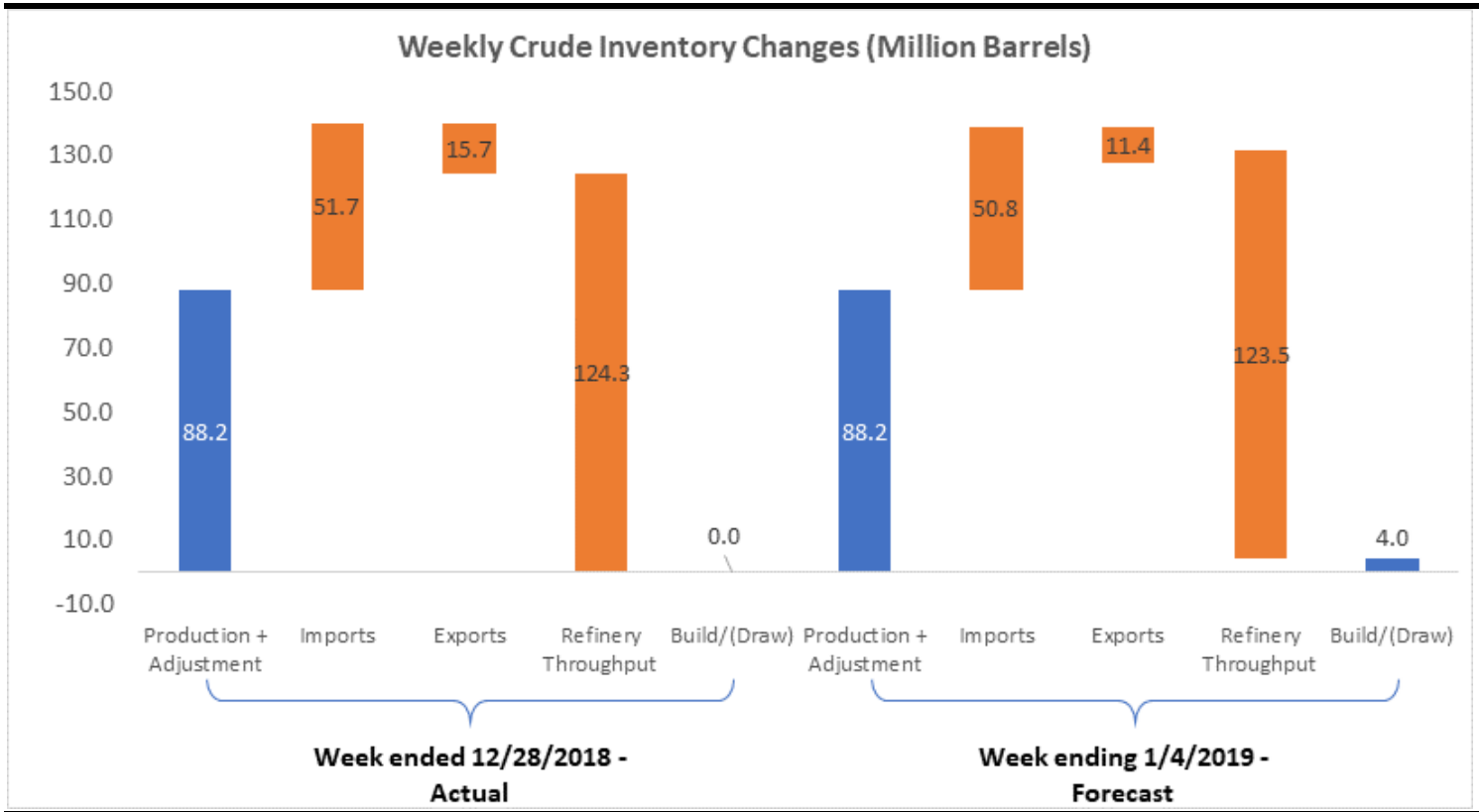
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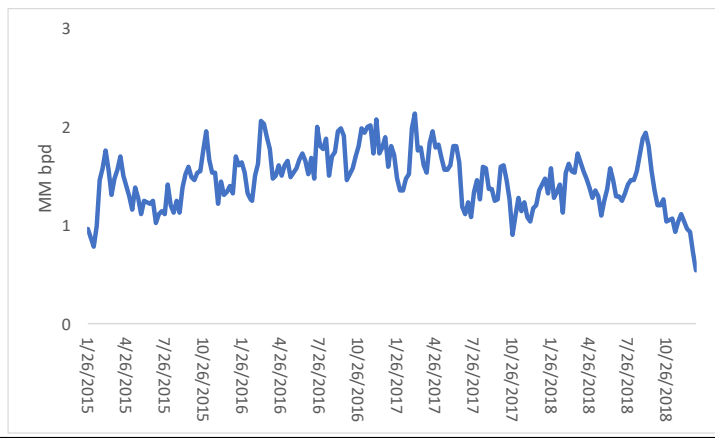
Data Charts

Exhibit 1: EIA Crude Inventory Changes – Week Ended Jan 4 Forecast vs Week Ended Dec 28 Actual



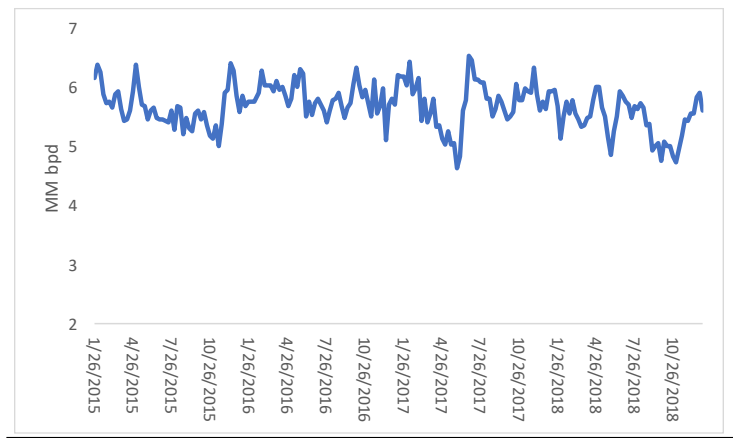
Source: EIA, ClipperData, Bloomberg, Wole Research

Exhibit 2: AG Westbound Crude Exports, 4-Week Average



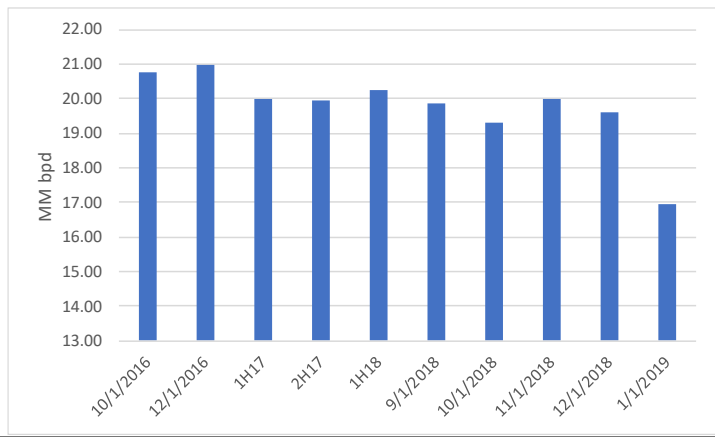
Source: ClipperData, Wolfe Research

Exhibit 3: AG Asia-Bound Crude Exports, 4-Week Average



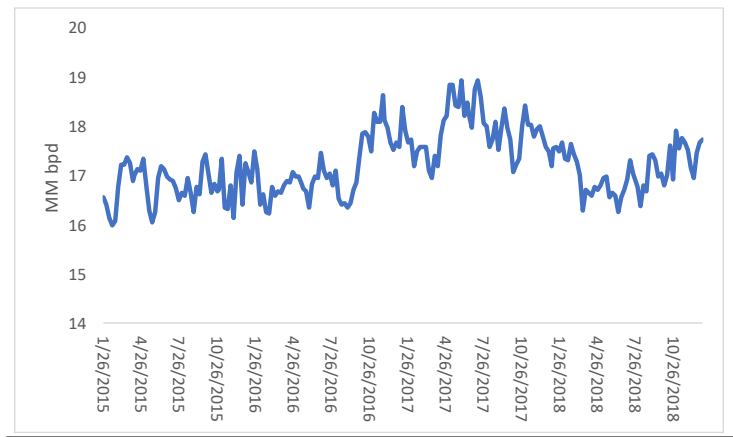
Source: ClipperData, Wolfe Research

Exhibit 4: Monthly AG OPEC Export Tracker



Source: ClipperData, Wolfe Research

Exhibit 5: Other Swing Supply, 4-Week Average



Source: ClipperData, Wolfe Research

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