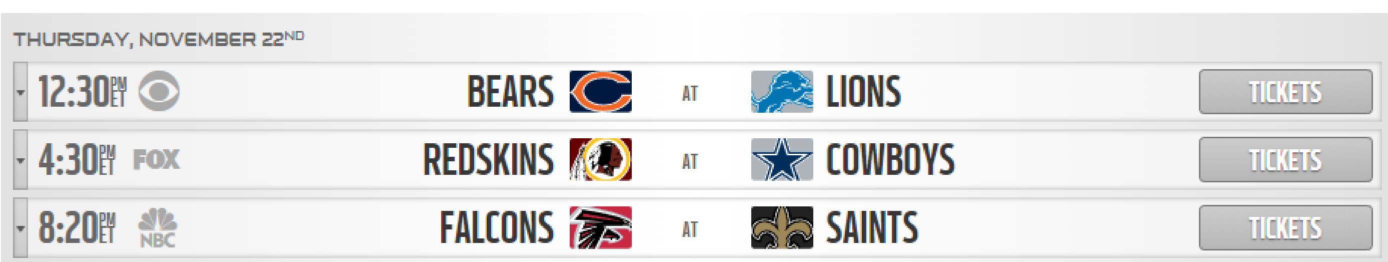
NFL Odds, Crude Probabilities, Nat Gas, Condensate, Storage, Watch the Vid if You Haven't, Yards After Contact - Thurs Reads + Energy News

"Diplomacy is the art of telling someone to go to hell in such a way that they ask for directions."

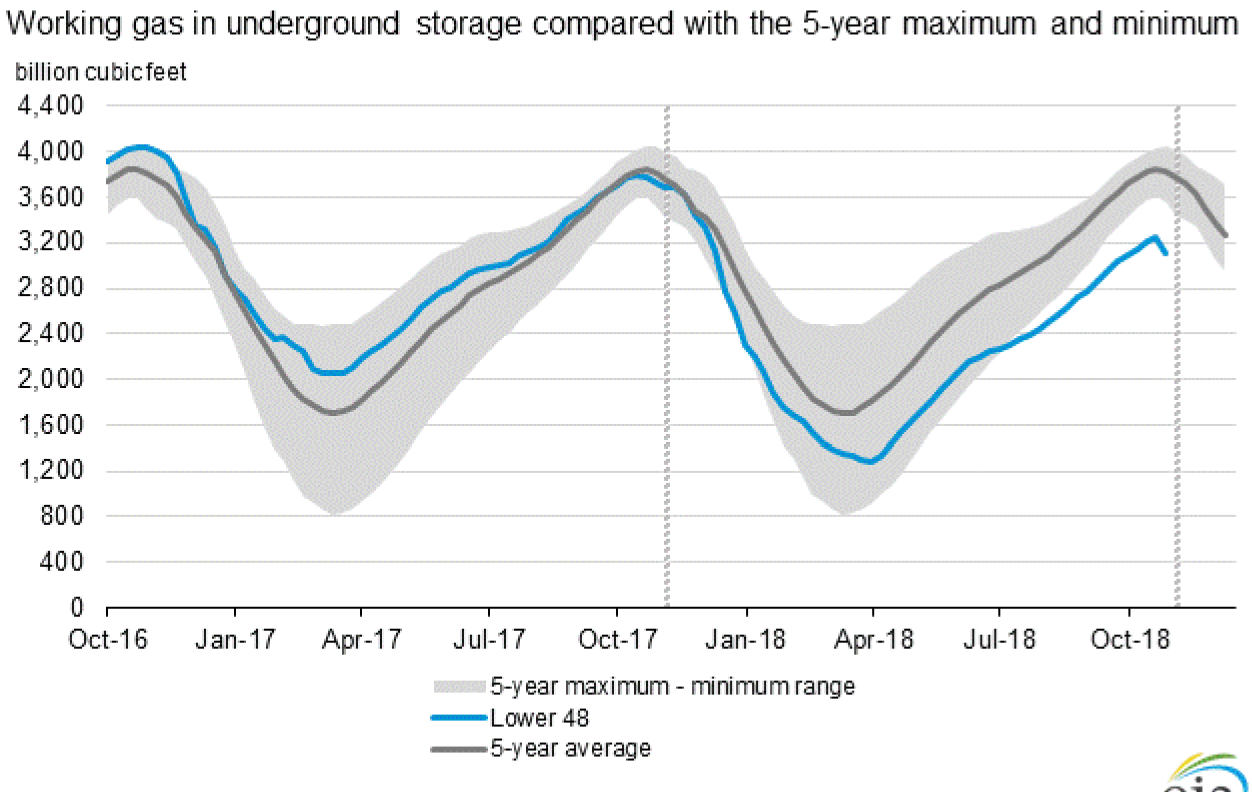
- Winston Churchill

Good morning,

Its US Thanksgiving which means market leadership here in North America (and for that matter globally) will return on Monday. AND for those in the US northeast, this year’s Thanksgiving maybe among the coldest on record. Which is good news for the gas market (more on that in a minute). We suspect some Canadians are planning to adopt American tradition today and immerse themselves in some of the day’s NFL action so here are where the Vegas odds are lining up LINK

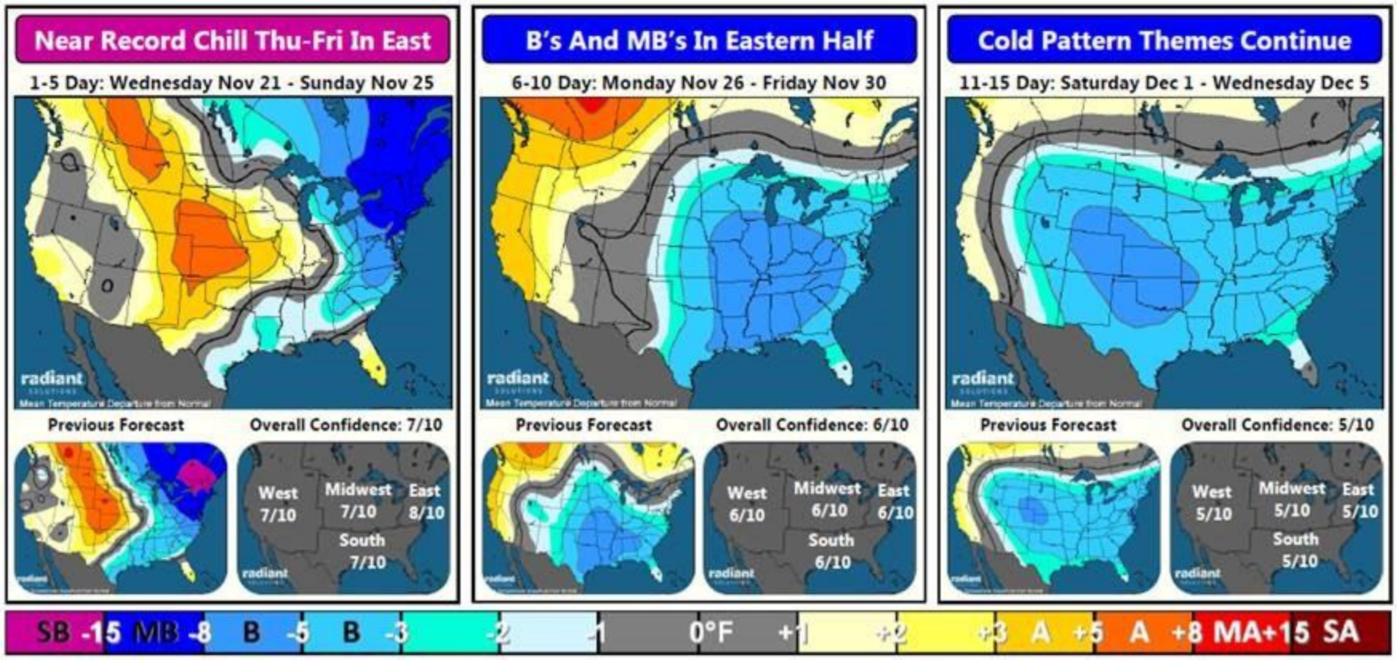


Coming back to natural gas we wanted to flag this morning the larger than expected draw in the US yesterday which initially sent prices higher only to fade into the close. Prices again this morning continue to soften however continue to remain in and around the highest price levels we’ve seen in 5 years. For anyone who missed the release, the expectations called for a draw of -109 Bcf with the actual coming in at 134 bcf. Inventory levels continue to remain well below normal. We also wanted to flag again that Dawn pricing continues to remain robust with prices through $6/GJ. Great news for operators like Birchcliff (among others) who have good exposure to this premium priced market as unfortunately western Canadian gas prices continue to struggle with both winter and Cal ’19 prices off significantly from recent levels. Warm weather and higher Alberta field receipts among the primary culprits to blame for this.



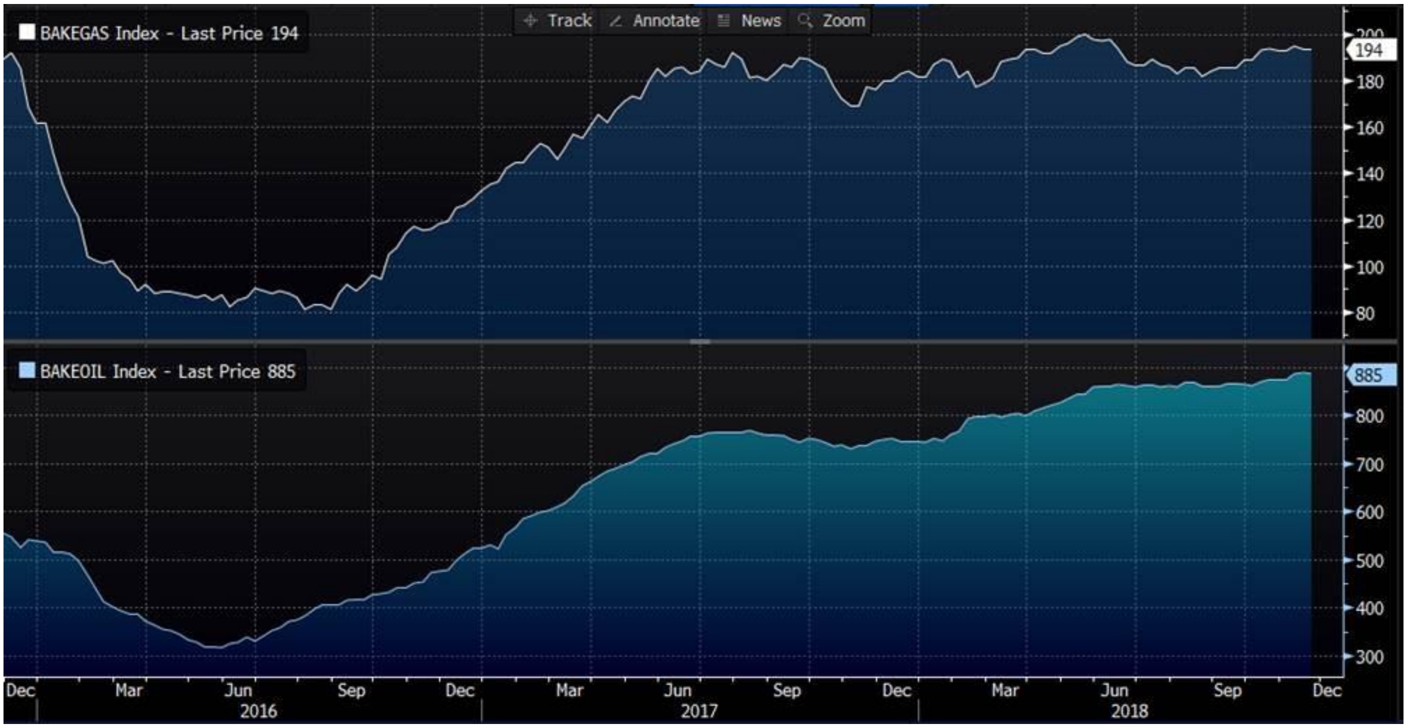
Source: U.S. Energy Information Administration

Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2013 through 2017. The dashed vertical lines indicate current and year-ago weekly periods.



On the crude side, a little less bullish of an inventory number. Despite the API reading showing a draw in crude, the DOE release showed a 4.85mmb build marking the ninth consecutive build in a row. With US refineries coming out of an unseasonably high turnaround we should start to see draws on inventory. We hope. US crude inventories are accelerating to levels which has clearly caused concern in the oil markets and has been one of the primary factors that has weighed on pricing. Helping to shoulder the more bearish crude number, gasoline stocks showed an unexpected decline (gasoline inventory is also a little too high for comfort).

The latest read on the US rig count was out early given the US holiday. The oil rig count dropped by three to 885 while the natural gas rig has also remained stagnant at 194 which is unchanged w/w (and relatively unchanged since the spring of 2017).



Here in Canada the Liberals were out with a mini budget yesterday which failed to even acknowledge the challenges facing the country's energy industry. The tax breaks offered to business (no tax cuts), were primarily aimed at allowing companies to write off capital investment more quickly. On the heels of this mini budget, Prime Minister Trudeau will be in Calgary today speaking at the Calgary Chamber of Commerce. We can only hope (perhaps naively) that he offers some form of sincerity and concern for the stress on AB/the western energy economies. He'll say how important it is to get our resources to world markets to achieve the best possible price (something he heard someone say but were not convinced he understands what this means), he'll acknowledge the Liberals commitment to seeing Trans Mountain pipeline getting built (unless that is someone, anyone, even one person or a squirrel objects to it – then his hands are tied) and perhaps he might even acknowledge anti-competitiveness and red tape which he seems committed to doubling down on with Bill C-69. Canada needs leadership at the Federal level and action. Enough of the lip service.

If you haven't watched Chris Slubicki's presentation on global energy and Canadian energy leadership we HIGHLY recommend taking the time to watch it and share with friends and family. LINK. Canada cannot allow a small minority of voices, influenced and supported by American funding, spreading inaccurate and misinformation to continue influencing (sadly) our Government and hold our resources and economy hostage.

For a more comprehensive look at the mini budget, the following is a report from our Economics and Strategy team LINK.

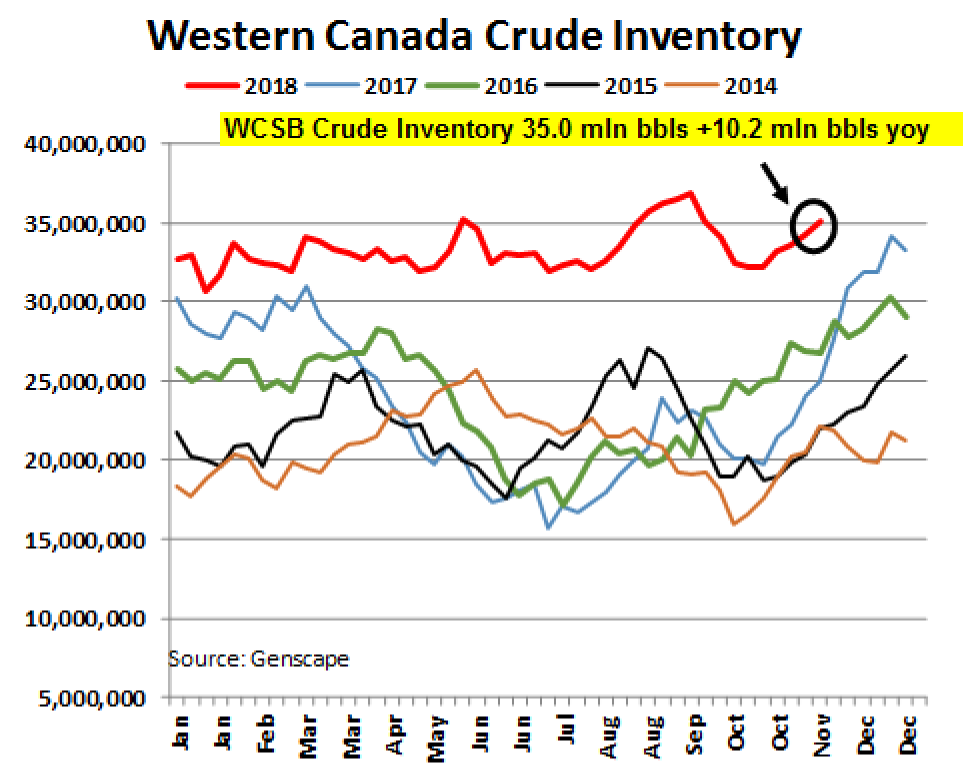
Economics

Trudeau Cuts Canadian Business Taxes, Defers Deficit Reduction

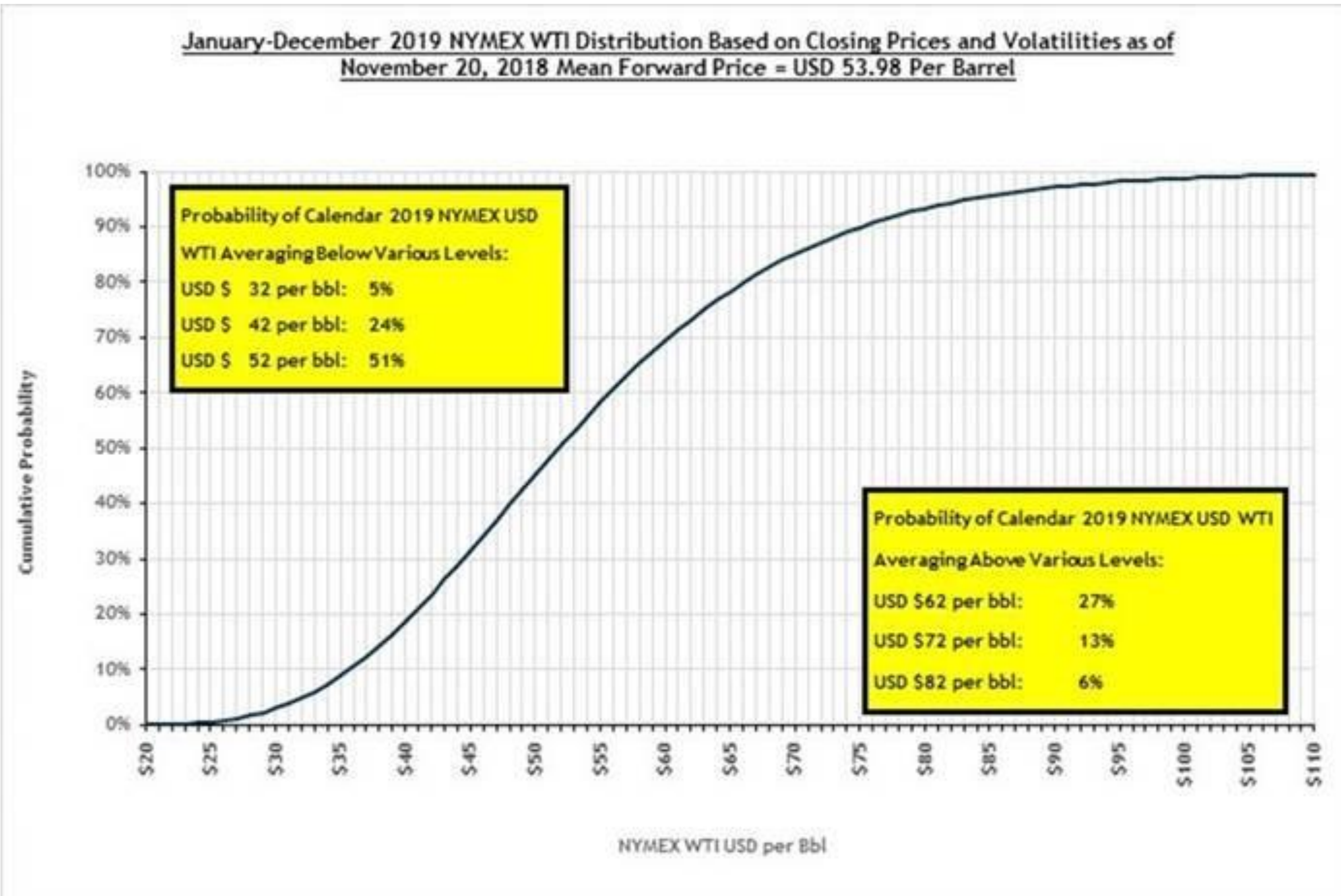
By Josh Wingrove
November 21, 2018, 2:03 PM MST

- Cumulative 5-year budget deficits to rise to C$83.5 billion
- Liberals opt against targeted support for Alberta oil sector

Canadian crude oil continues to be weighed down by inventory levels. In addition to the Genscape numbers (which we noted here yesterday), the AER's lagged inventory data continues to show an incremental ~35MMb, which puts total Canadian inventory back at the 70MMb mark, in line with numbers from earlier this fall. Current Genscape data shows the surplus is still a sizeable +10MMb above year ago levels – and if you look at the trajectory of that curve into the back half of the year, particularly in the 4th quarter – inventory is still likely to head higher. And that has also led to some of the pressure we see in WCS differentials, which then slides into Q1.



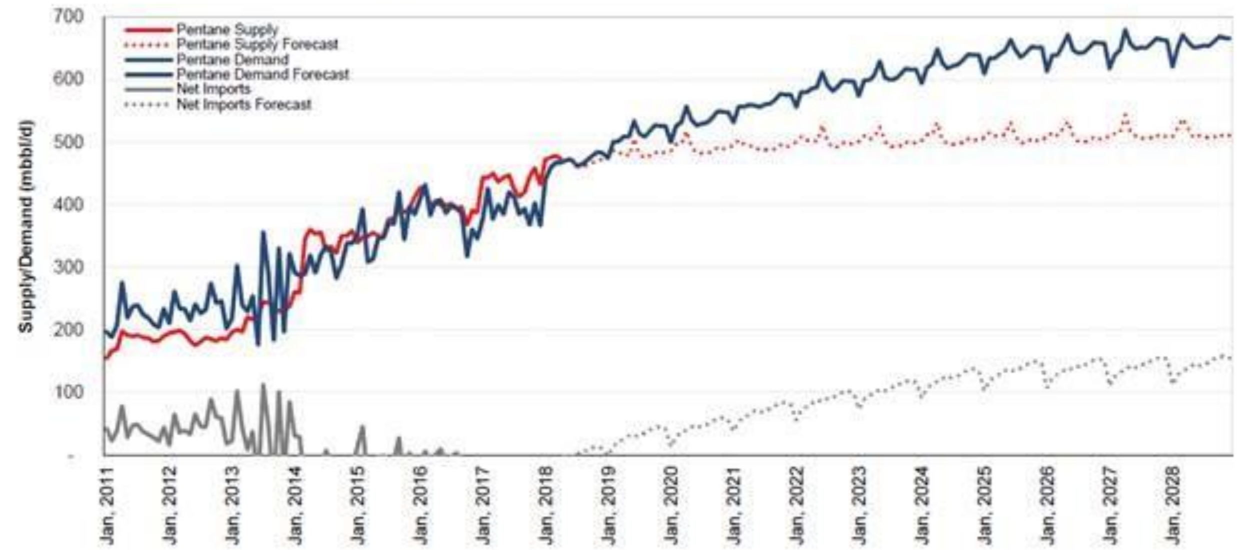
After Tuesday's step function down in the WTI complex, our commodity group updated the probability distribution table for WTI which shows the Cal '19 price mean of just under $54/b (this likely lifted modestly yesterday). The distribution work here is not biased as it uses market implied volatility levels when calculating expected values for next year's price. Thus as of Tuesday, there is a 51% probability of WTI being below $52/b and only a 27% chance of WTI being above $62/b – all in all a fairly tight range. Looking back at when prices peaked in early October, the Cal '19 swap peaked at $74.49/b. As of yesterday, the chart implies 90% chance of being below that level next year.



Condensate supply/demand fundamentals have increasingly become a major topic in our conversations, and so we thought it was worthwhile to provide an update on this market with several charts courtesy of our Energy Research team. The condensate market in Alberta has tightened significantly over the last few months, which we see largely as a result of more domestic supply than anticipated, high inventory levels, and continued strong inflows on the two import pipelines (Cochin and Southern Lights). This should keep differentials for condensate wider than what we have experienced over the last several years, although we think there is light at the end of the tunnel. We are starting to see flows on Cochin (we can't see SL flows in real time) decrease while seasonality (oil sands bitumen requires more condensate for blending in the winter) should also stoke modestly higher demand. The last piece of this puzzle will be to see inventories start to moderate, and based on the latest

Genscape data we see, diluent inventories are now off their highs and have not built in the last couple of weeks. While pricing weakness could well persist through Q1/19, this should start to normalize and reflect more of a transportation differential to Mont Belivieu condensate – as long as it competes with US condensate supply for market share, we will likely not see pricing that was reflective of an insulated, undersupplied market. That said, it should remain at a competitive price once we have alleviated the near term pressures.

Canadian Condensate Supply & Demand Curve

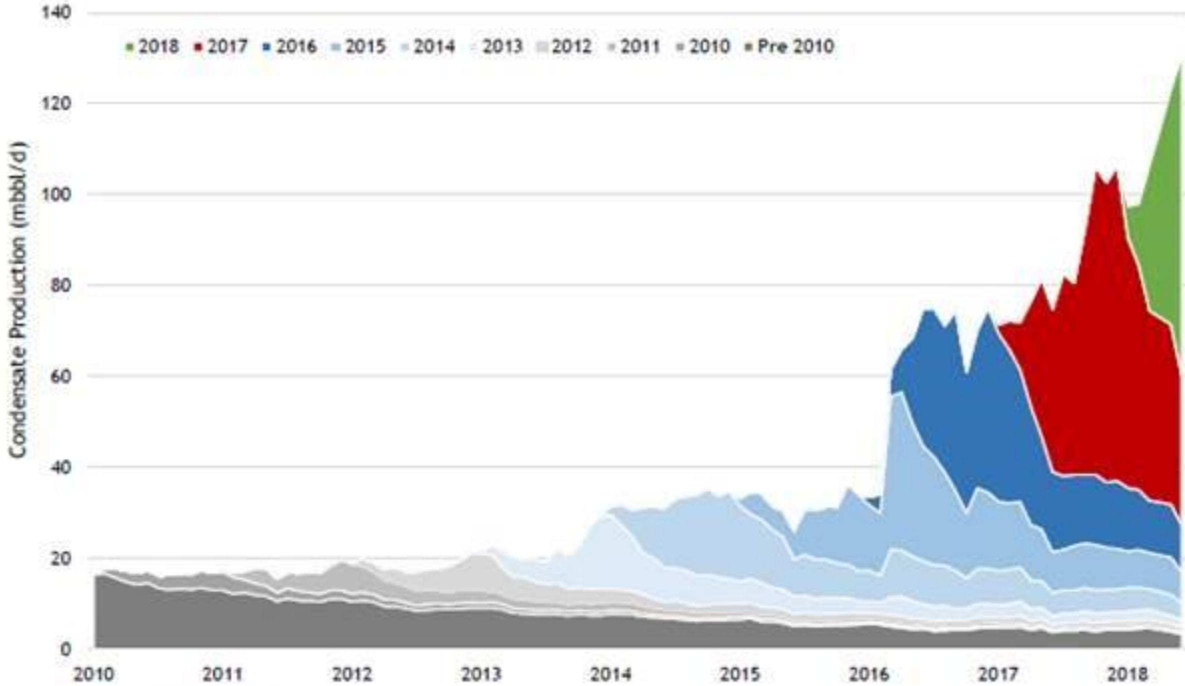


Source: NBF, geoSCOUT

	2011	2012	2013	2014	2015	2016	2017	2018
*Average Supply (mbbl/d)	182	187	223	331	369	399	438	470
Average Demand (mbbl/d)	221	235	258	310	362	386	393	468
Supply/Demand Imbalance (mbbl/d)	-39	-47	-35	21	7	14	45	2
Average Net Imports/Exports	39	47	35	-21	-7	-14	-45	-2

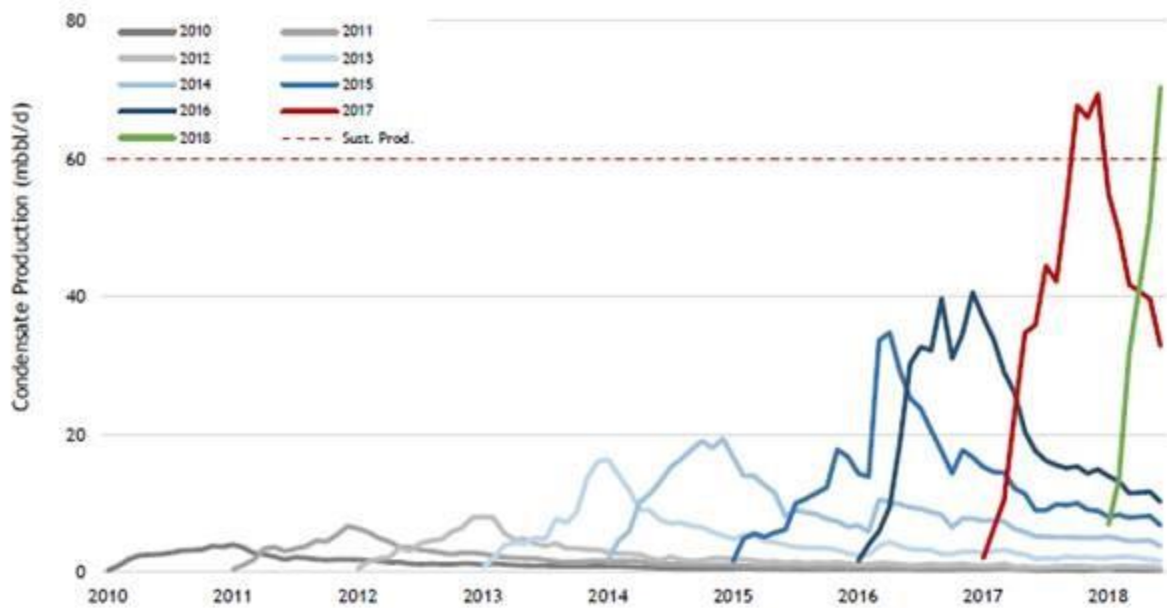
*Supply includes regional supply & committed volumes on Cochin/Southern Lights

FREE CONDENSATE (WELLHEAD) PRODUCTION



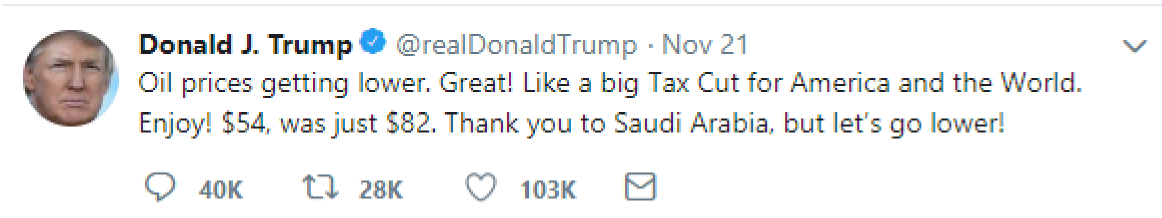
Estimated Decline: -46%

FREE CONDENSATE (WELLHEAD) GROWTH



Source: NBF, AER, geoSCOUT, Company Reports

Trump is at it again. Further to this we see reports this morning that the US Justice Department is formally reviewing antitrust legislation aimed at OPEC. This isn't new. The US House back in June approved the "No Oil Producing and Exporting Cartels Act" also known at NOPEC which would allow the attorney general the ability to file a suite against OPEC for trying to control oil production/prices.



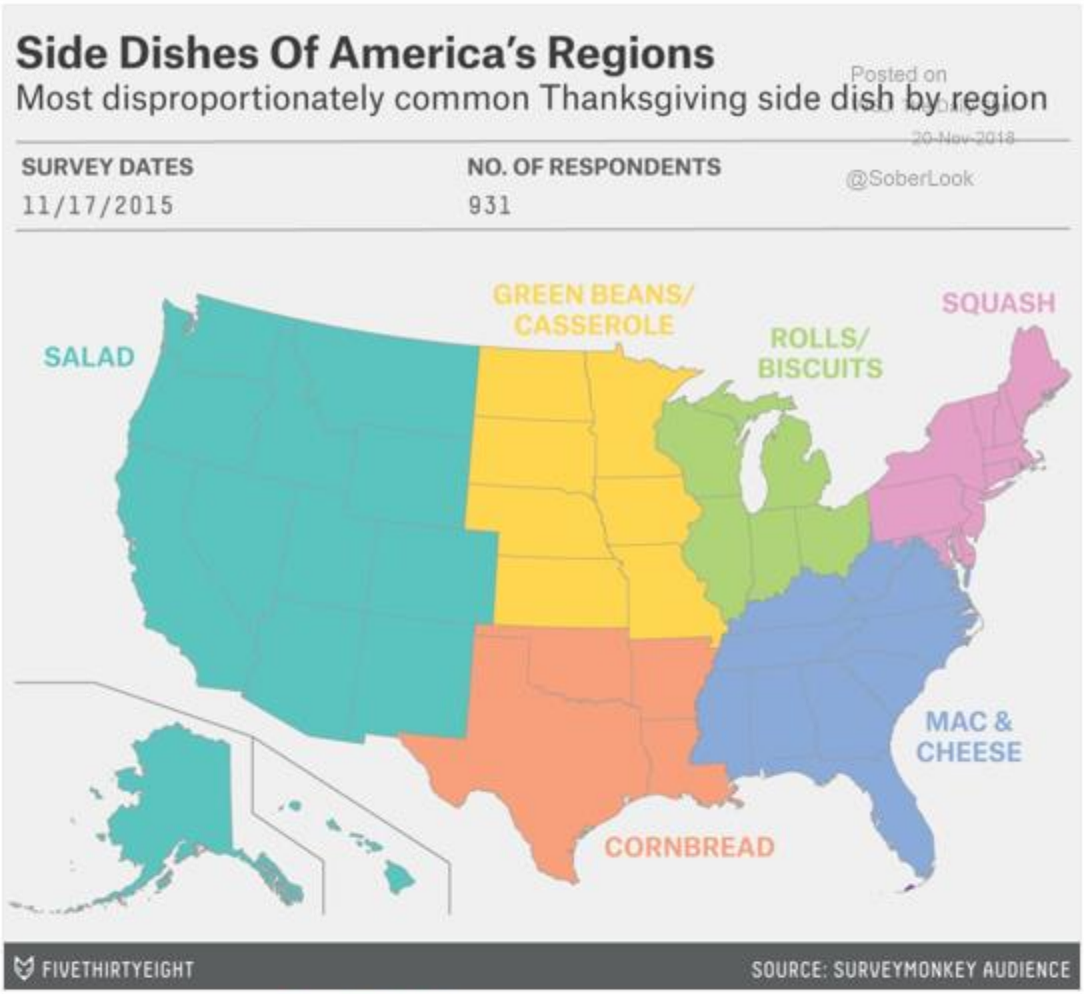
Thursday Reads

Timing the Market LINK;

The Momentum Factor is Real. Too Bad It Doesn't Work LINK;

Yards After Contact LINK;

Chart of the Day



Source: @FiveThirtyEight; Read full article

Energy News:

Oil falls on rising U.S. inventories, OPEC talk of cut limits loss: Oil prices fell on Thursday after U.S. crude inventories swelled to their highest level since December LINK;

Alberta could avoid losing $2.9 billion in revenues by forcing oil producers to cut output: Dramatic, controversial intervention could mandate 4% production cut by all oil companies in the province LINK;

Notley adds $1.1 billion to fund Alberta petrochemical development: Alberta has more than doubled its available funding for projects that add value to the province's natural gas value stream LINK;

Economic Turmoil Could Send Oil Even Lower: The economic and financial turmoil could bleed over into a broader slowdown, which raises pitfalls for oil prices LINK;

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