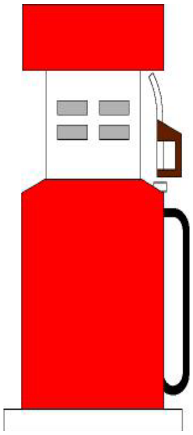


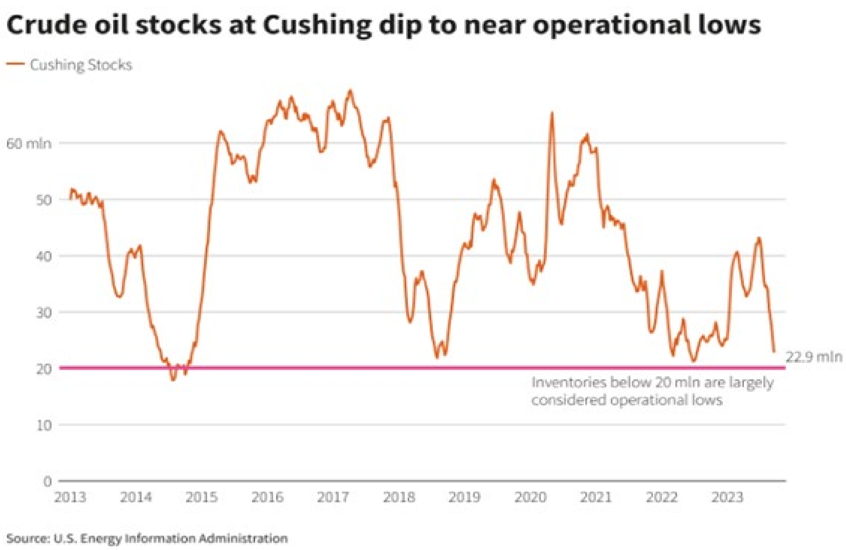
Energy Market Update, September 27, 2023

NYMEX Prices

Product	Month	Close	Wk. Change
Crude Oil	Oct 23	93.68	+3.40
RBOB Gas	Oct 23	2.5986	-0.0206
NYH ULSD	Oct 23	3.3147	-0.0121
Nat. Gas	Oct 23	2.764	+0.031

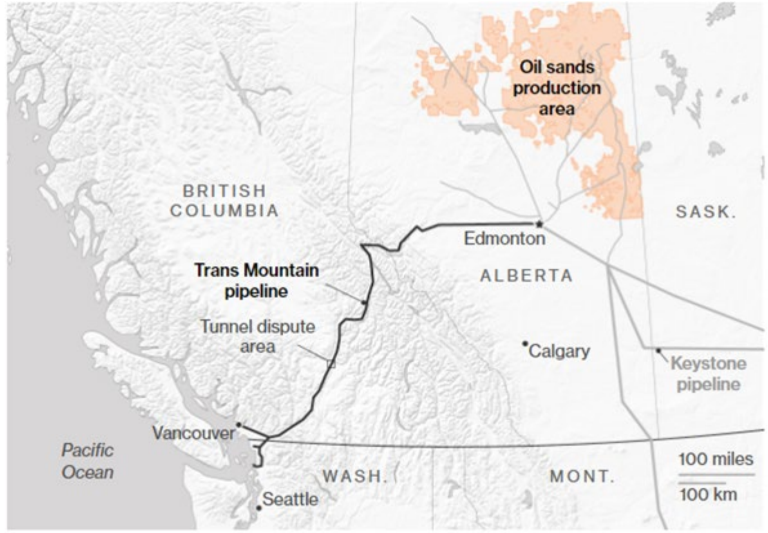
Gains expanded from morning highs as EIA news of crude inventories dropping 2.2 million barrels from the previous week was more than expected. U.S. commercial oil stocks are now riding 4% below the five-year average. A reported 1-million-barrel draw from Cushing is adding to crude's price momentum. According to industry experts, the current inventory of 21.96 million barrels at the storage hub is now within 2 million barrels of the minimum operational level of 20 million barrels. The hope is that higher-priced crude will flatten robust refining and export demand to replenish U.S. crude. To provide some context on today's market gains, crude finished nearly 4% higher, gasoline was over 1% higher, and diesel moved almost 3% to the upside. The jump in oil established a new 13-month intra-day high at $94.17 /bbl; the next psychological hurdle will be $95 /bbl as markets sort out the lasting effect of crude stock levels. Markets will likely be steered by supply tightness until it gets its next price driver, which could come from new PCE index numbers on Friday.

	Crude				Gasoline				Distillate Fuel			
	Change	Total	3-Yr. Avg.	5-Yr. Avg.	Change	Total	3-Yr. Avg.	5-Yr. Avg.	Change	Total	3-Yr. Avg.	5-Yr. Avg.
EIA	**-2.2**	**416.3**	457	456	**1.0**	**220.5**	236	236	**0.4**	**120.1**	146	148
Est.	+2.600 / -4.000				+1.700 / -2.000				+1.100 / -2.600			
Propane	**Total 101.4 0.7**				**Midwest 26.6 -0.3**				**Gulf Coast 59.4 0.4**			
API	Crude 1.59 Cushing -0.828				Gasoline -0.1				Distillates -2			

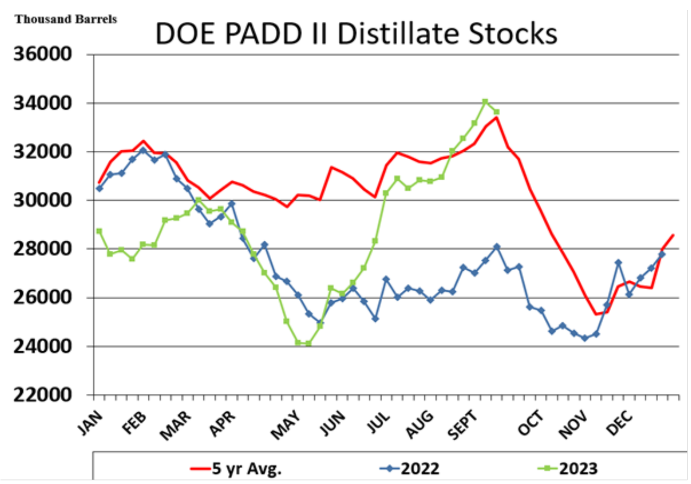


After reaching a 2-year high in June, crude stocks at Cushing have nearly halved sitting at 22.9 million barrels, a 14-month low and within 2 million barrels of setting a new 9-year low mark. An explanation for the plunge in inventories centers around sizable refinery draws and overseas demand. Some questions are starting to arise about the condition of oil remaining in storage and the possibility of available barrels falling below bottom operable levels. If crude at Cushing dropped low enough it could become hard to extract due to water and sediments settling at the bottom of tanks, comprising quality standards. Storage of only 20 million barrels or less is considered near the operational low mark. Traders are emphasizing concern for Cushing's low levels in an already compressed energy market. Having outlined some of the negative's further reduction in storage at Cushing could cause, it also seems unlikely U.S. energy stakeholders would allow inventories at the storage hub to fall much further as the consequences could be far reaching.

The expected completion next year of Canada's Trans Mountain pipeline (once a tunnel dispute has been resolved) could alter flows of Canadian oil (thru Enbridge's Mainline pipeline) into Midwestern markets and potentially boost oil and fuel prices in the region once the new pipeline is up and running. Transmountain, which was purchased by the Canadian government in 2018, is expected to boost flows from Canada's oil sands region along the original westward pipeline by nearly 600,000 bbls/d, equal to the daily output of Azerbaijan, to a port on Canada's Pacific Coast. Once the pipeline is completed, the oil is expected to be exported to Asia and potentially in the future to US West Coast refineries. Last year, Canada accounted for 100% of oil imported by Midwest refineries and a third of the foreign oil used on the US Gulf Coast. Competition for Canadian sourced oil could help narrow the discount of $17.00 per barrel for Western Canadian oil to benchmark US crude oil to single digits and this could potentially boost oil and fuel prices in the Midwest as Midwestern refineries pass along the higher cost of imported Canadian oil.



Source: Trans Mountain Corp.



After climbing for five consecutive weeks to their highest levels in more than three years at the start of September, Midwest distillate (PADD 2) inventories dropped last week. According to the latest data from the EIA, PADD 2 distillate inventories which peaked at the beginning of the month at 34M bbls, their highest level since Sept. 2020, dropped by nearly 400,000 bbls or one percentage point last week. The drop in inventories is likely attributable to increased demand and reduced supplies due to refinery maintenance. The decline could be a signal that seasonal decline in inventories that occurs most years could have begun. If these factors continue to strengthen, they could act to tighten supplies further and provide a spark to Midwest diesel prices in the coming months.

Crude oil production among OPEC and its allies is limiting the global supply of medium, sour, and heavy grades of crude oil. These cuts increase prices for these grades compared with sweet crude oils, reversing typical price relationships. Crude oil is classified based on the oil's density and sulfur content. Light, sweet crude oils typically trade at a premium compared with any sour crude oil because sweet crude oils cost less to refine and produce higher yields of more valuable products.