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November 1, 2018

Megan Moore
Research Analyst
Montana Legislative Services Division

Dear Ms. Moore,

Thank you for your request to get out our “crystal ball” and try to come up with a forecast for crude oil prices going into the next fiscal year. I have always thought that if an individual could accurately make such a forecast they would be very wealthy individuals, yet I will attempt to share my outlook on crude oil pricing.

There are a couple of primary issues that I see affecting prices going forward.

International- OPEC turmoil, effects of Iranian Sanctions, world trade/healthy economies creating demand.

U.S. Dollar-Crude is traded in U.S. dollars. As the strength of the US dollar increases the price of crude drops.

Local Discounts-Our region has more production than take way capacity by existing pipelines. The balance of the oil is transported by rail and truck. The discount for our best crude is \$8-\$10 per barrel or something similar to a 20+% reduction on severance tax collection on all crudes.

Drilling activity-With a few exceptions new drilling looks continually bleak for Montana. Without new drilling crude oil production numbers decrease. Tertiary projects at Bell Creek and proposed tertiary projects at Cedar Creek are significant in effective use of CO₂ to generate otherwise untapped oil reserves increasing production potential.

Crude oil supplies are trending up once again. While there is some potential turmoil with the approaching US sanctions on Iran, Russia and the OPEC countries seem poised to make up any shortfall resulting from any ban on Iranian crude purchases. Additional U. S. impacts to crude supply include expanding pipeline infrastructure in the Permian Basin of Texas and potential impacts from the Keystone XL line bringing an additional 800,000 barrels per day of Canadian and possibly Williston Basin crude to gulf coast markets.

As the domestic economy appears to be growing, that could be an indicator of increasing crude oil pricing. A weak European economy along with a generally slowing global economy will also play a part in moderating crude oil prices. High crude prices lead to higher fuel prices that will contribute to higher consumer prices reducing sales of refined products that could lead to additional increases in crude stockpiles once again contributing to a drop in crude oil prices.

With those issues in mind I do not see a drastic downturn in crude oil prices. I believe the market will moderate and would look at a floor price of approximately \$60.00 per barrel and a ceiling price in the mid \$70.00 range based on West Texas Intermediate (WTI) for 2019.

We will not see those prices in Montana. Montana crude is faced with discount pricing for numerous reasons, transportation, quality of the oil produced, and number of crude purchasers. As an example, oil prices today, November 1st opened at;

Brent North Sea	\$73.18
WTI, NYMEX Futures price	\$65.12
WTI spot	\$61.75
ND Southern	\$57.25
NW MT	\$46.25
Central MT	\$44.46
WY/MT General Sour	\$32.25
Canadian Crude Index	\$23.87

This forecast is strictly my limited opinion and should not be used for speculation purposes.

Best Regards,



Alan Olson
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