November | 2015

Radchem Products, Inc.

10730 W. 143rd Street | Suite 30 | Orland Park, IL 60462 | Phone: (708) 966-4044 | Fax: (708) 966-4100

Market Report
by Bill Radostits

I was fortunate to attend a speech given at The National Association of Chemical Distributors (NACD) last week by Alan Beaulieu, President of ITR Economics at the Annual Meeting for the NACD. Alan gave an overview of what is happening in the U.S. economy at large, as well as an overview of North America and the rest of the world. There are some leading indicators that are beginning to turn upward suggesting good news for our economy in 2016. Alan said the U.S. GDP will be strong 2016, 2017, and 2018, but in 2019 Alan is predicting a significant recession. Alan believes that oil prices will go up to $60 per barrel by March or April of 2016 as demand will drive the market up again.

Alan reported that 89% of the energy America consumes is produced in the United States. As the U. S. continues to pull out our military presence of the Middle East because Middle East oil is not as important to our economy as it was just 5 years ago, Alan believes that China will eventually fill the void in the Middle East because they need Middle East oil and petroleum feedstock. China, unlike Russia, does not have their own oil fields to take care of their demand so it is important to their national security to be there.

Alan and the CEO of his firm, his brother Brian Beaulieu, are predicting another severe depression in year 2030. Public debt in the U.S. is only going to grow and continue to grow. The United States still represents over 50% of the world economy, while China represents 13.4% and all of Europe represents 25.2% of the world economy. It is clear we are still the largest consumer of goods in the world and that China's economic growth is not as important to the world economy as is the United States and Europe. For example, ITR predicts home sales in the U.S. will be in the double digits in the next two years. However, ITR is predicting the Federal Reserve Bank will be under pressure to raise interest rates to prevent inflation, and that growth in home sales may slow down by 2018 because they believe interest rates will go up as high as 6-7 %.

Alan recommended a book called "How Capitalism Saved America" by Thomas DiLorenzo.

This week crude oil continued to drop. On Friday, November 13th crude oil closed at $40.74 per barrel which was down from $48 per barrel 9 days prior. Gasoline, diesel fuel, jet fuel, Kerosene, and other petroleum products including hydrocarbon solvents should be affected if the oil prices stay down or continue to drop. Your Radchem Region Sales Manager will advise of any changes as soon as we are aware of them. Suncor in Sarnia is down for maintenance, and Flint Hills Resources is in the middle of a turnaround at their Corpus Christi Refinery. This loss of production will create a snug market for Aromatic 100, 150, and 200 Hydrocarbon Solvents in late November and in December.

The cowardly terrorist attacks in Paris have shocked the world. World leaders are meeting in Turkey and in Vienna to address this tragedy and many other issues. Our hearts go out to the people of France. We are all praying for the victims and their families and for justice to be served.

	Aug. 2015	Sept. 2015	Oct. 2015	Nov. 2015
Crude Oil	$45.94	$44.07	$46.73	$43.92
Diesel	$1.59	$1.53	$1.53	$1.45
Gas	$1.74	$1.44	$1.36	$1.31

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What has driven the Recent Oil Market *by Alan May*

I recently went to the Annual NORA (National Oil Recyclers Association) Annual Conference. One of the seminars was "What is driving the Oil Market" by Loren C. Scott.

The paradigm of the oil industry has shifted over the last twelve months. This article is an analysis of the shale fracking industry, what has driven the market to the recent lows, and what we can expect.

Shale oil production has increased 85% since 2008. This is the highest growth of any country in the world during that period. This increase in domestic production has had an adverse effect on crude oil imports:

<u>**2015**</u>
U.S. Production 9.4 mmb/d U.S Imports 7.2 mmb/d (43%)

<u>**2008**</u>
U.S Production 5.0 mmb/d U.S. Imports9.8 mmb/d (66%)

North Dakota's Bakkken Field has greatly increased production since 2003:

2003: 10,000 b/d produced
2015: 1,200,000 b/d produced – 120 fold increase

North Dakota surpassed Alaska as the 3rd largest source of domestic oil since March of 2012.

There are approximately 23 active shale field plays in the lower 48 states. Each represents different breakeven points based on different shale composition of the region. North Dakota's Bakken Field is a hard rock shale, while the Mississippi and Louisiana Tuscaloosa Fields are Clayey Shale which is more expensive and drives the breakeven point higher.

Break Even Points of Region Shale Plays

Monterey CA.	$36.00	Eagle Ford TX.	$49.00
Bakken ND.	$50.00	Granite Wash OK.	$57.00
Niobrara CO.	$66.00	Tuscumbia MS.	$69.00

At the same time, technological advances has caused dramatic reductions in drilling costs by 20% and fracking costs by 32% over the past year. Oil and natural gas production per rig has increased on average 7 fold between 2007 and 2014.

<u>**EOG (Bakken)**</u>

*<u>Time to Drill well:</u>	*<u>Completion</u>:
2009: 18 days	2012: $10.5 mm
2015: 7.5 days	2015: $8.2 mm

What has caused a barrel of oil to drop so dramatically so quickly?
During the oil embargo of the 70's, Congress passed a law prohibiting the export of unprocessed crude oil. "Processed" crude is considered to be a different "product". Because of the excess volumes of crude produced through fracking, the oil companies wanted to export crude and therefore questioned the definition of what is a "product." The question addressed was "Is a field level facility that strips off volatile propane and butane so condensate can safely flow through pipelines change the composition of crude and make it a "product"?

It was challenged in the courts and the oil companies won.

The biggest "loser" of U.S. domestic crude production is Saudi Arabia. They lost 2 mmb/d due to fracking. With the threat that the U.S. would export oil, and OPEC Cartel cheating, Saudi Arabia opened the "faucet" and increased production to protect their global market share. For the first time has shipped into Sweden and Poland, poaching new customers in the Kremlin's traditional backyard. This has caused an oversupply and an erosion of oil pricing which has resulted in in a dramatic reduction in the U.S. drilling rig count, the suspension of exploration, and the capping of the most costly wells. The majority of the cartel wants to cut production to stop the pain. This would stabilize pricing. The wild card is the pending lift of sanctions against Iran in 2016 which would add global crude volume. There are two schools of thought going forward:

- Global demand is recovering and prices will rebound in 2016 as the market comes back into balance. The forecast an increase in a barrel of crude to $60.00 by mid second quarter.
- There is a global oil glut and we will see a barrel of oil at $20.00 per barrel.

Time will tell.