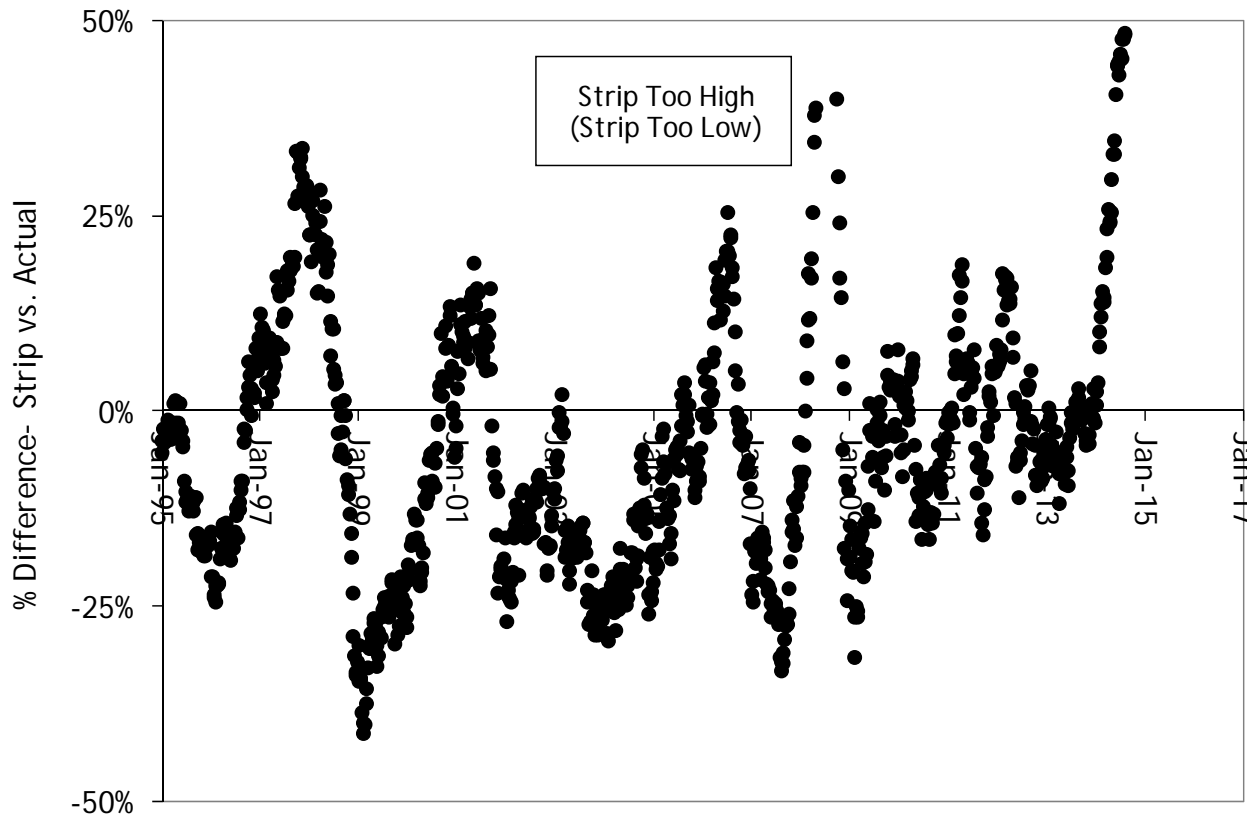




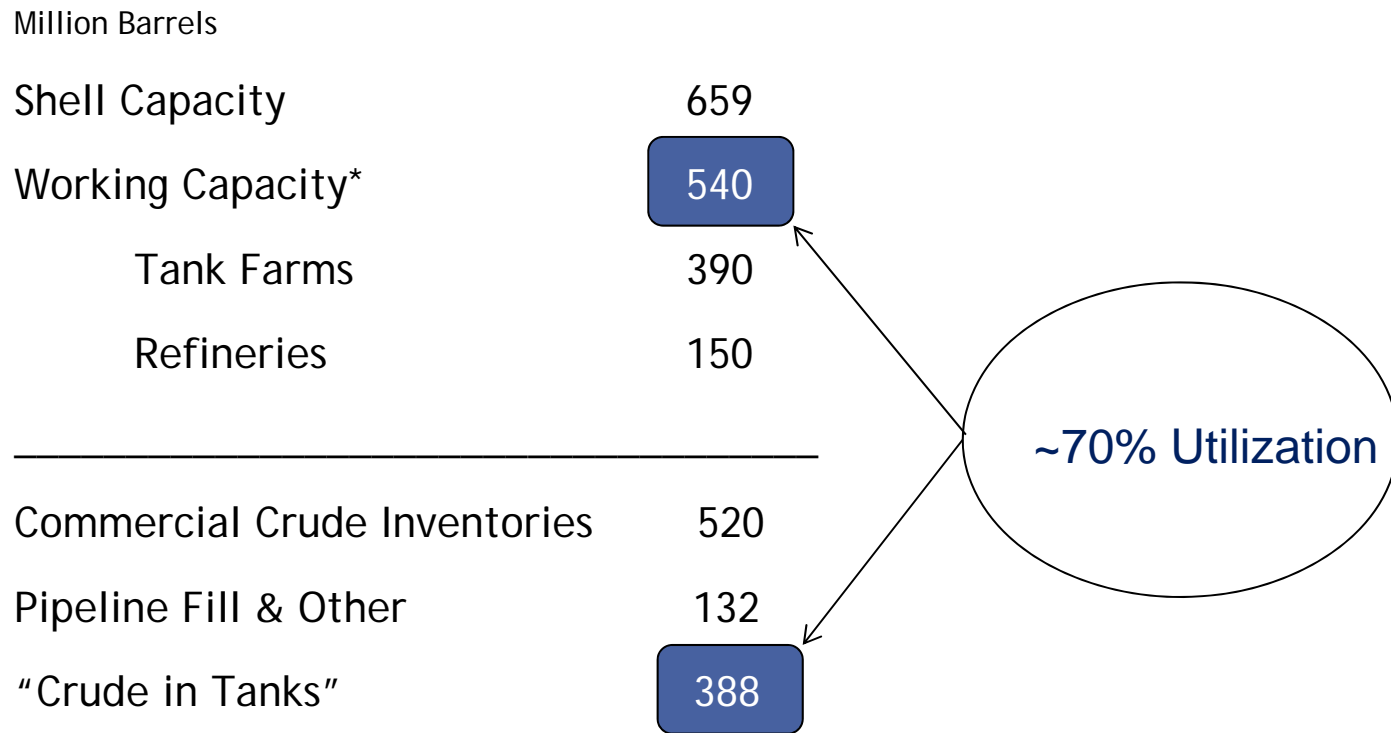
Improving Oil Markets...or Why Lower For Longer Won't Happen

But the NYMEX Futures Say.....!!!!



That's mathematics, son! You can argue with me, but you can't argue with figures!
Foghorn Leghorn

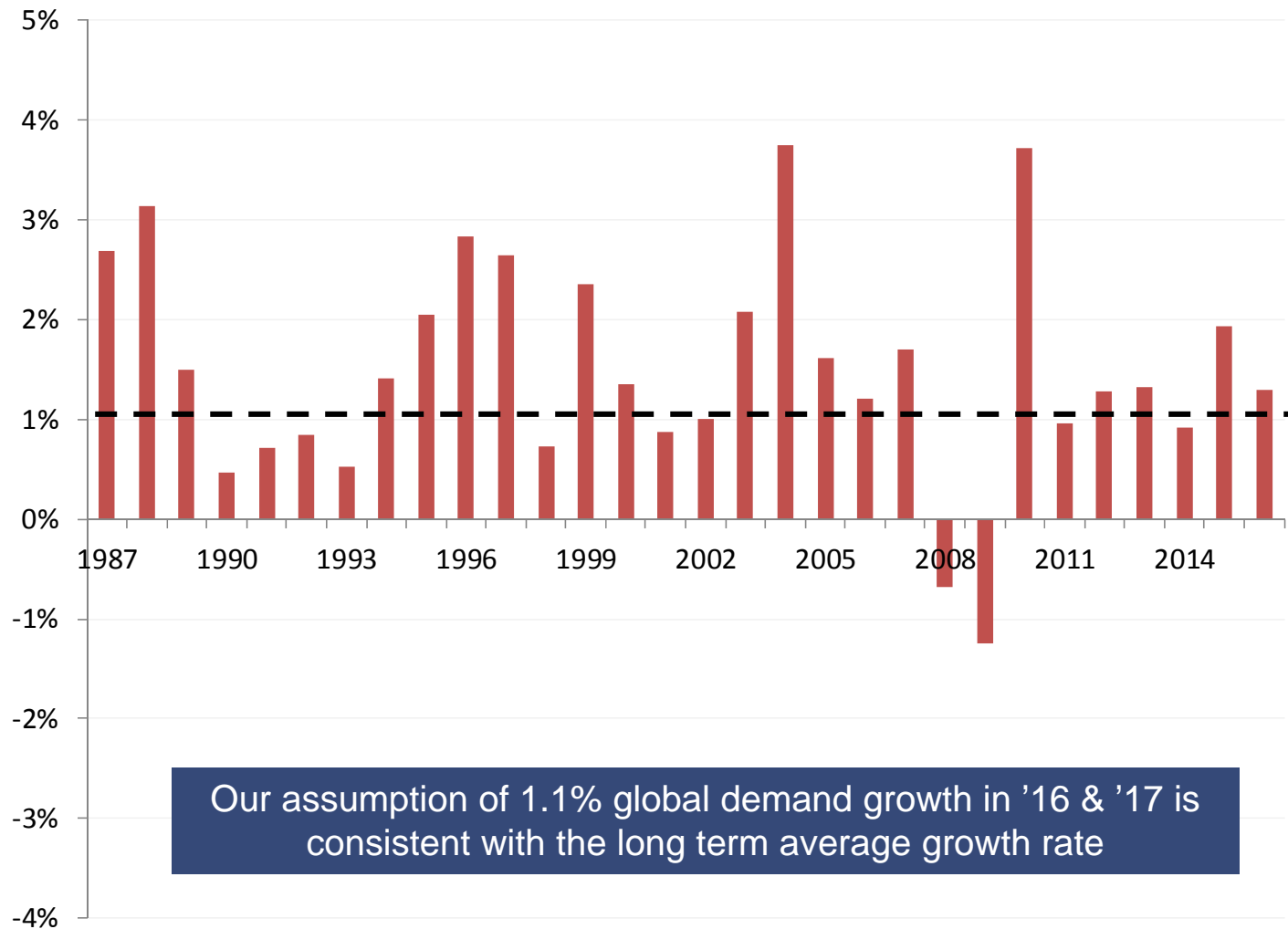
Full US Oil Storage?



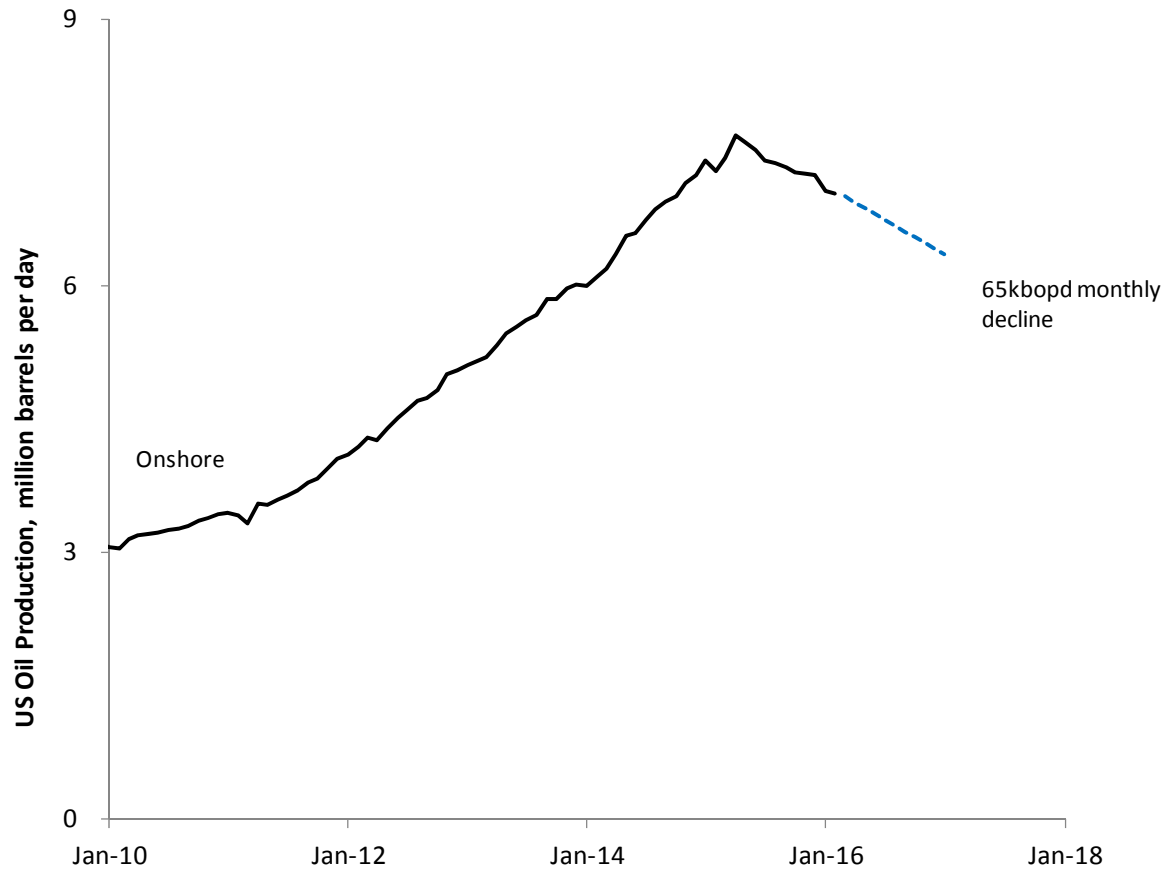
*82% of Shell Capacity

“The mind is the only weapon that doesn't need a holster.”
 Paul Blart Mall Cop

Global Demand – The Big Uncertainty?

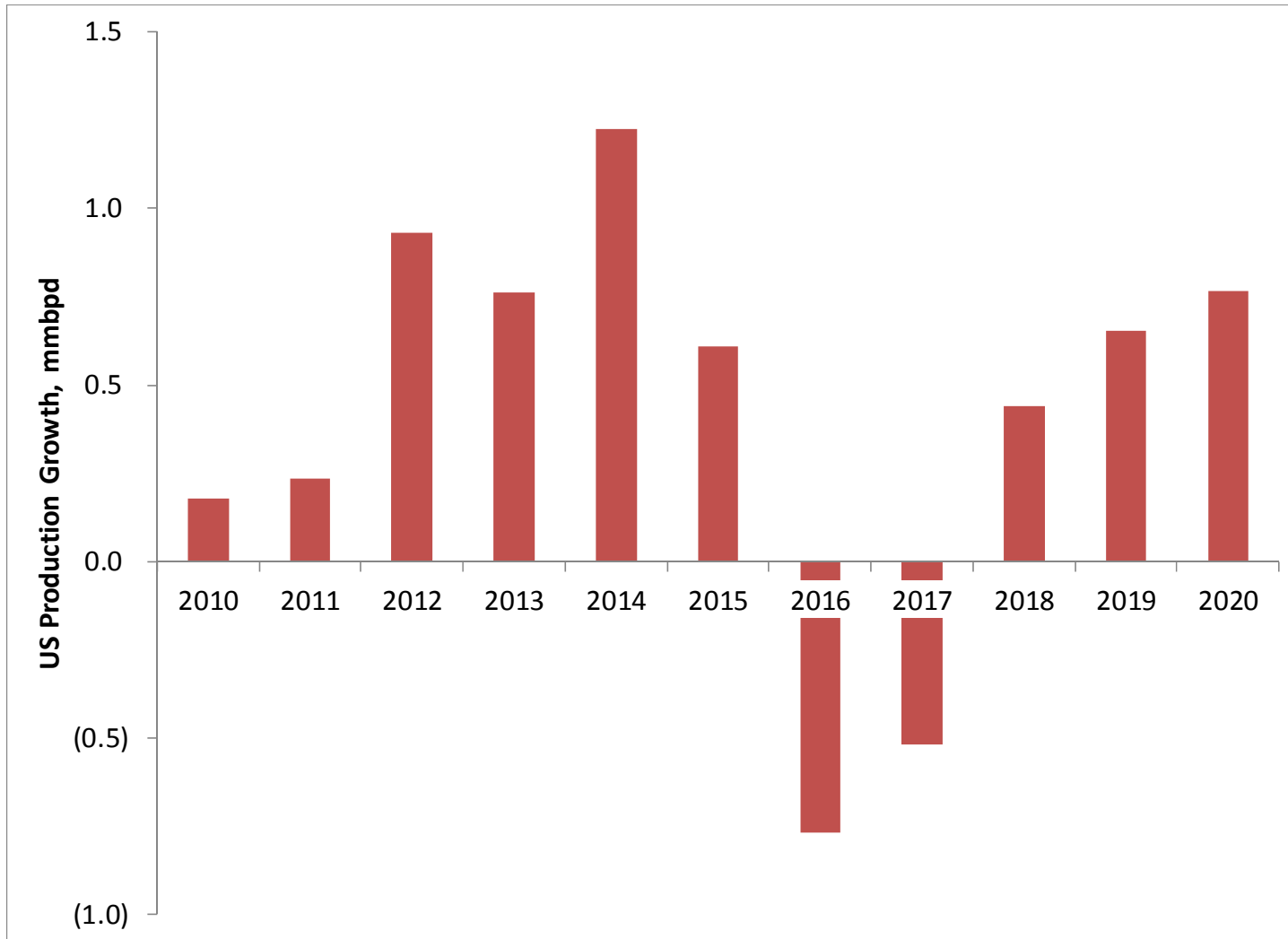


US Oil Production is Declining...Now!

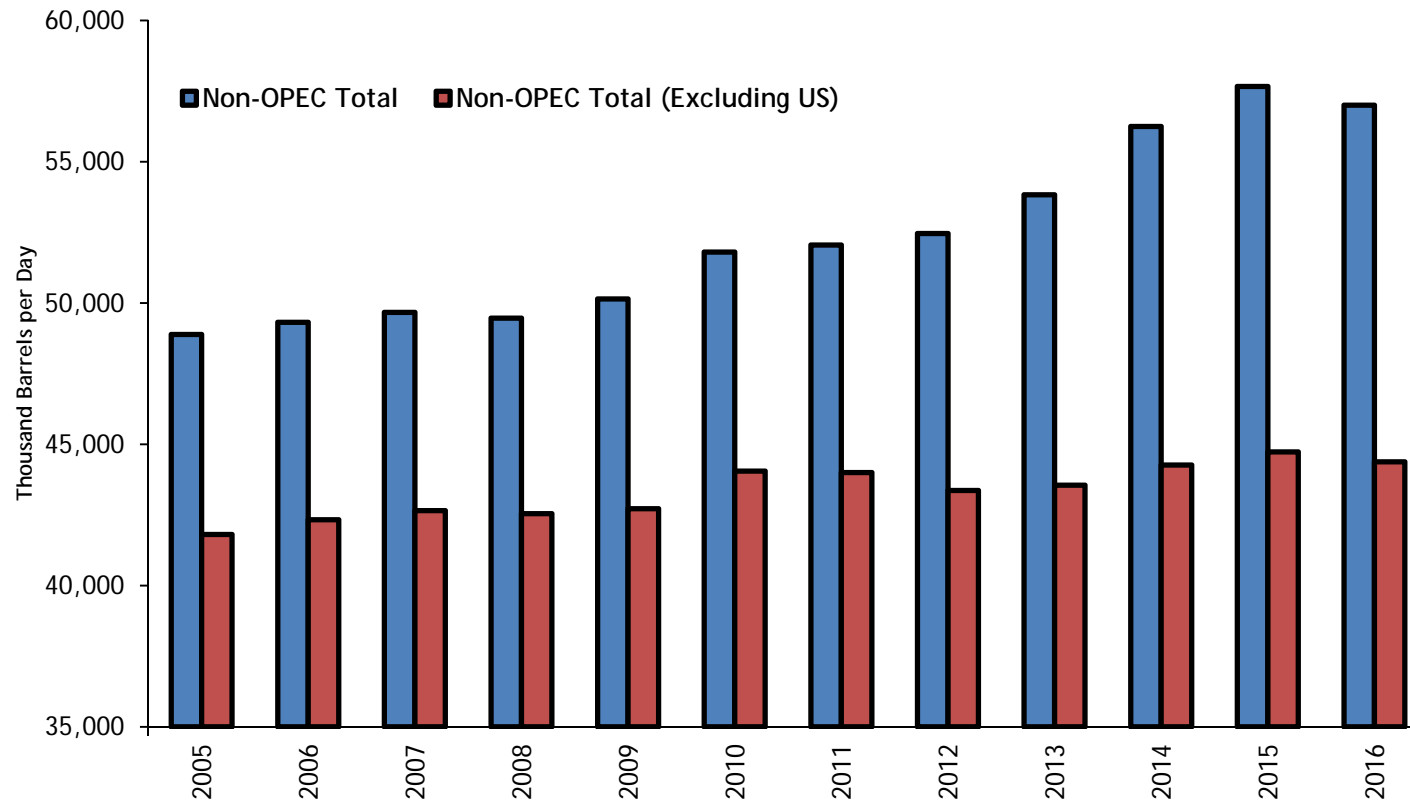


US onshore production has been declining since April' 15 and should decline 1.5mmbpd by Dec'16 (from peak).

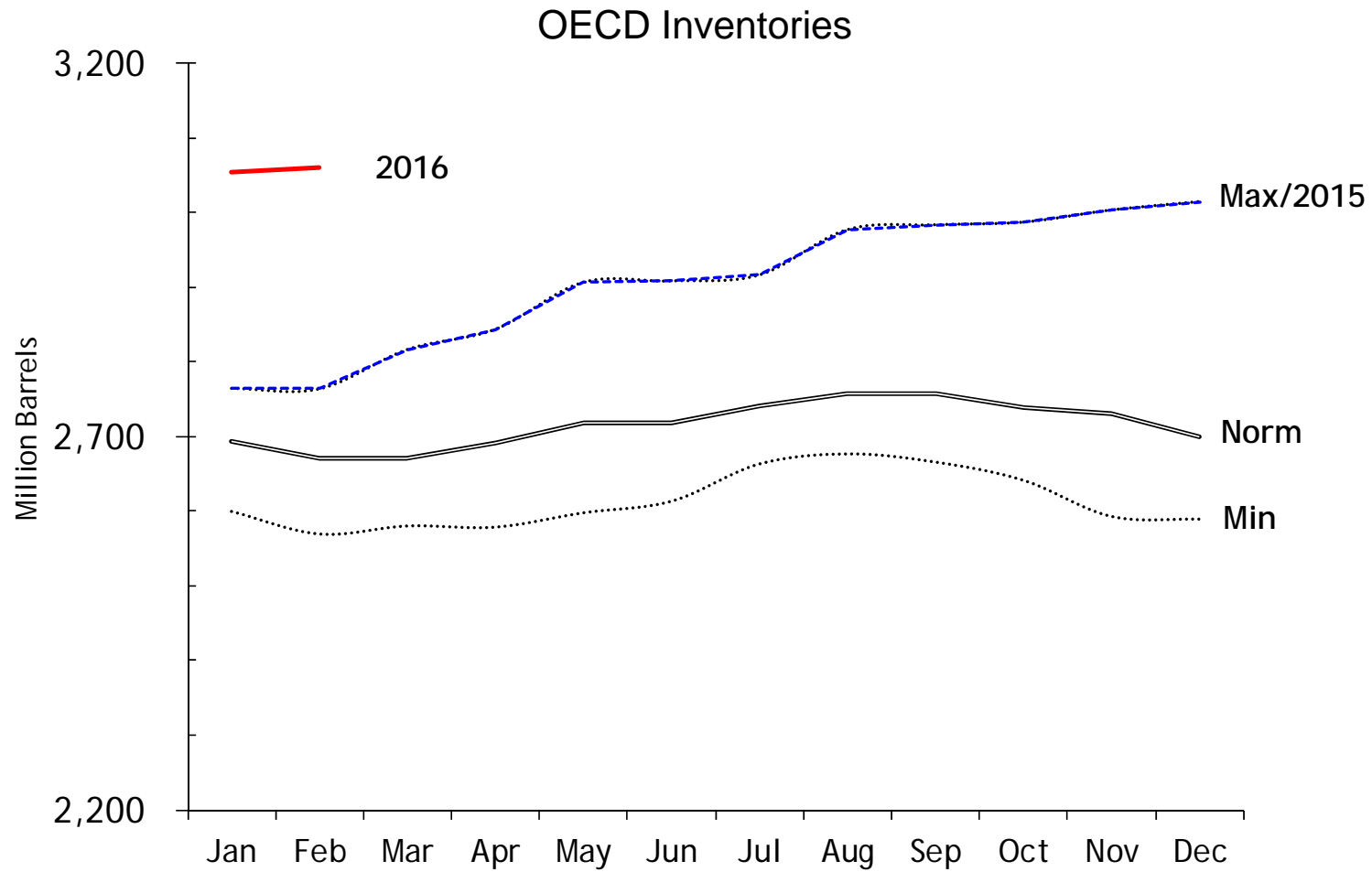
US Supply Declines are Balancing the Market



Non-OPEC Supply Breakout

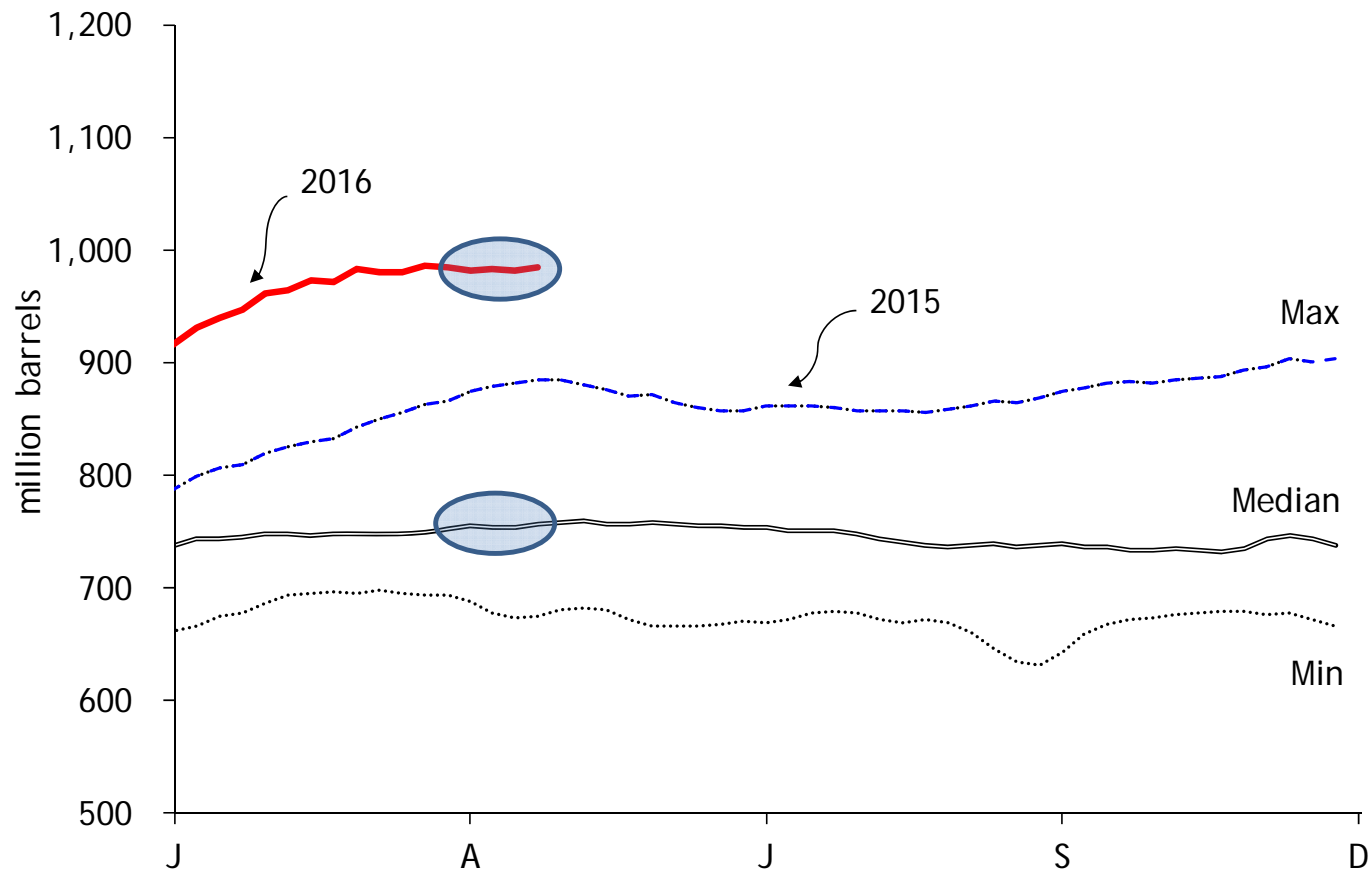


Inventories Say Market Oversupplied...but Not Massively



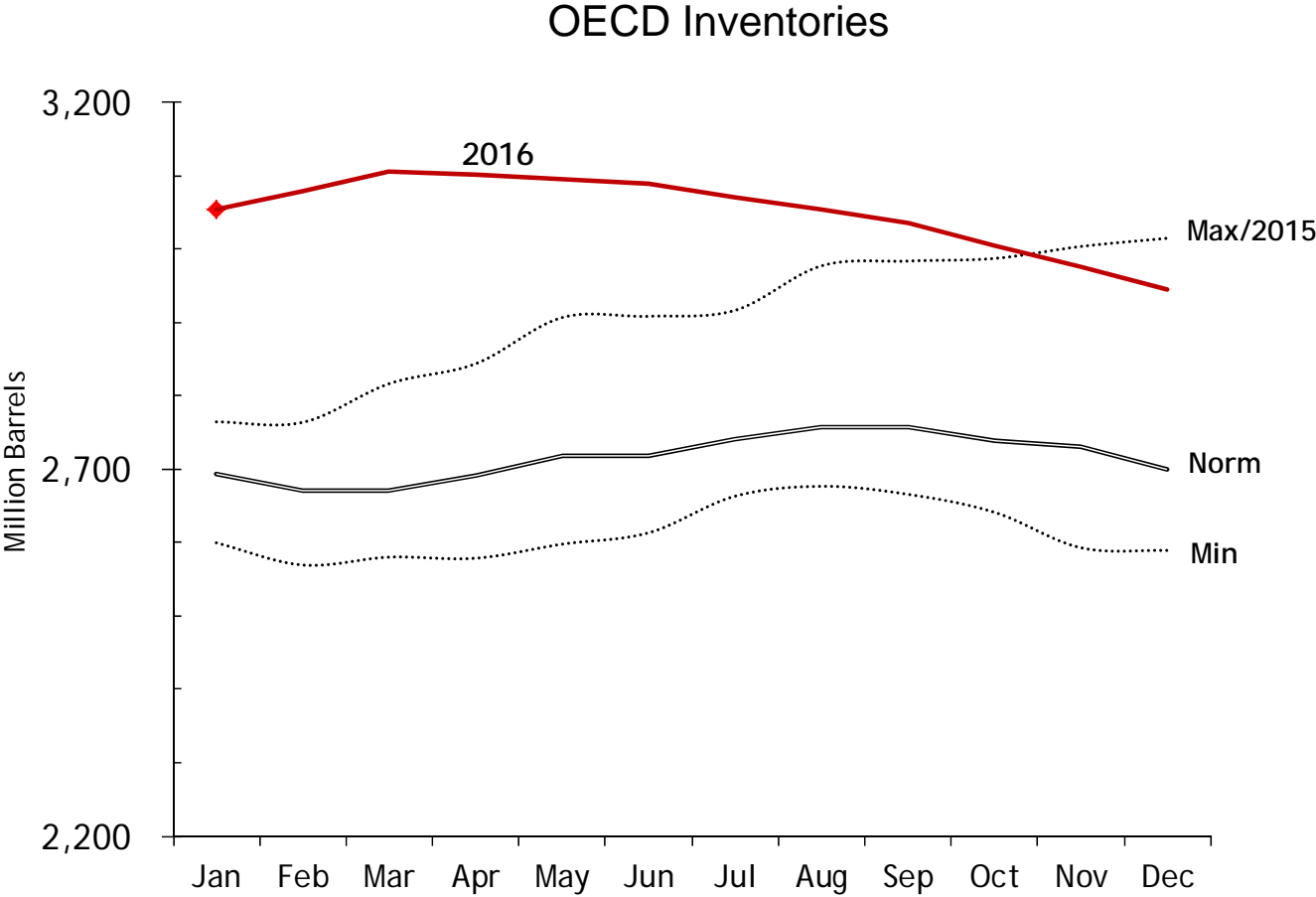
Recent US Data Suggest the Market is Tightening... Now!

US Inventories - Crude and Key Products



Are you suggesting coconuts migrate?
Knight - Monty Python and the Holy Grail

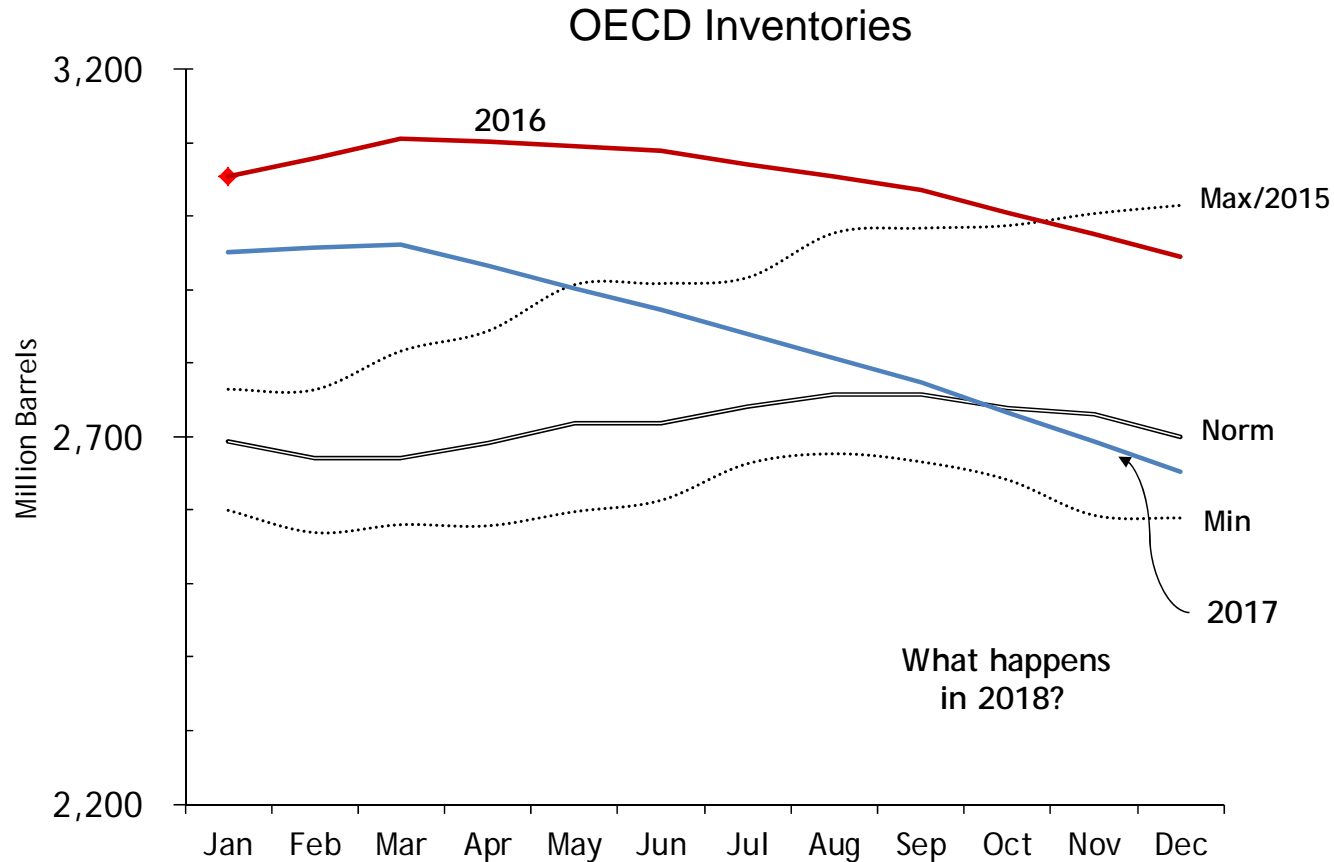
Tightening Market in 2016



Our base case supply and demand outlook shows inventory draws are at our doorstep.

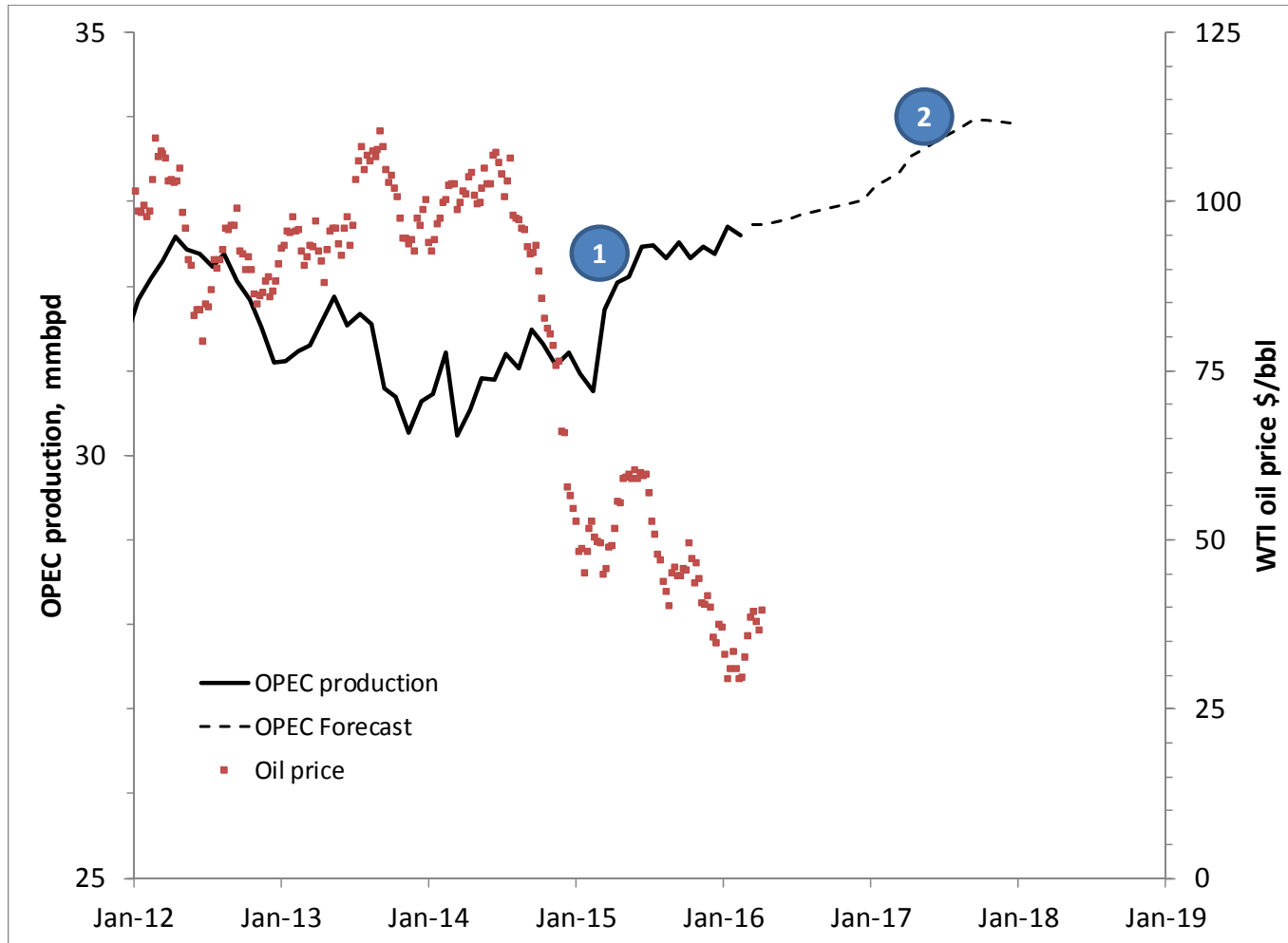
Source: IEA, TPH Research

Extremely Tight Market in 2017



To prevent OECD inventories falling from below 10-yr minimums, we increase OPEC by 1mmbpd in 2017, on top of the 500kbpd of neutral zone production added in mid-2016.

Current Cycle – Base Case



OPEC will need to produce at record levels as the market tightens in 2H16 and 2017 with less visible excess capacity.

Past Cycles – A Window Into 2017 Price Recovery?

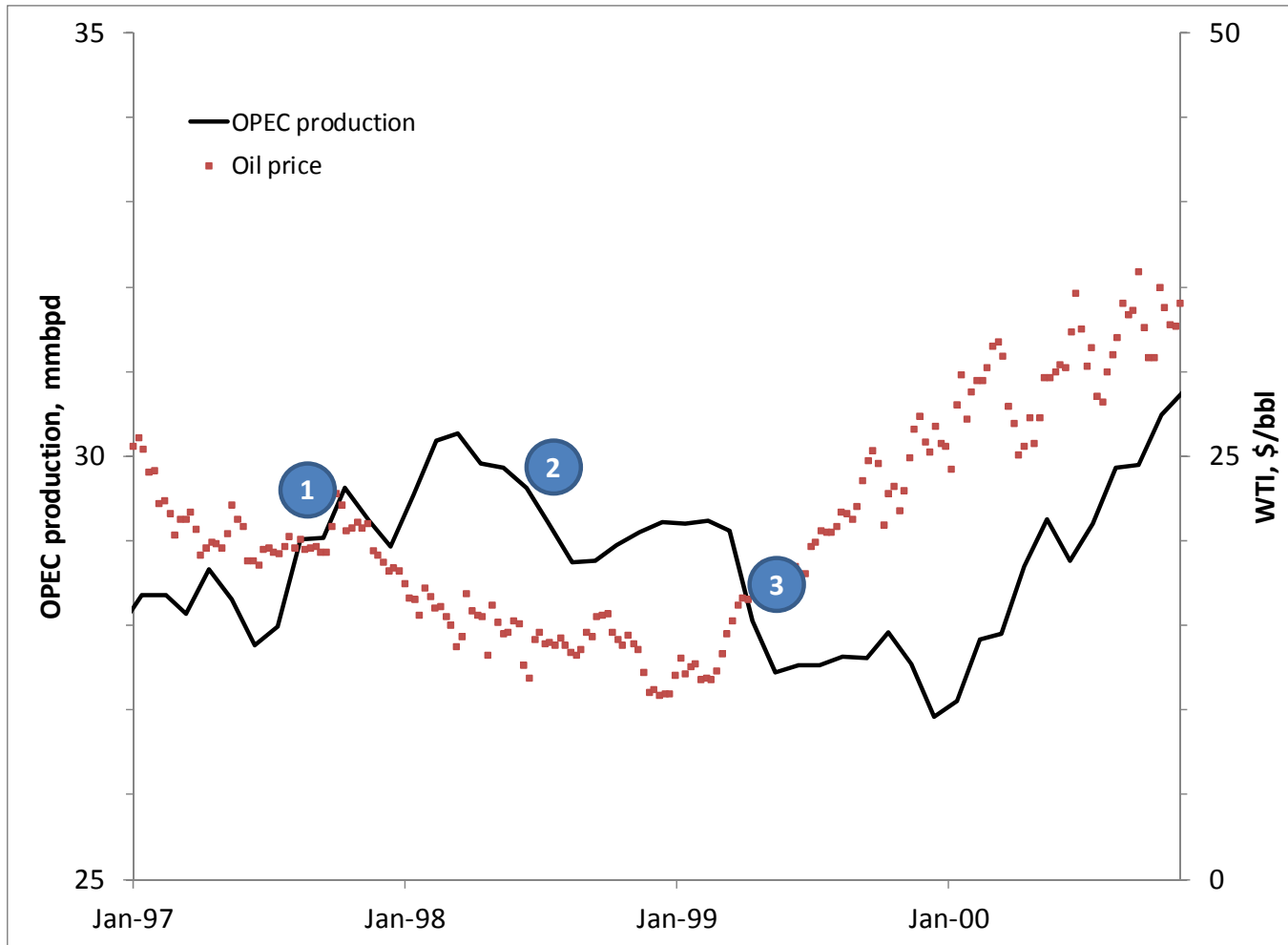
- Prior cycle OPEC cuts:
 - shortened the duration of low prices
 - created visible excess capacity
 - alleviated any scarcity premium/concerns
- This cycle:
 - No OPEC cuts
 - non-OPEC declines and demand growth are *fixing* the market

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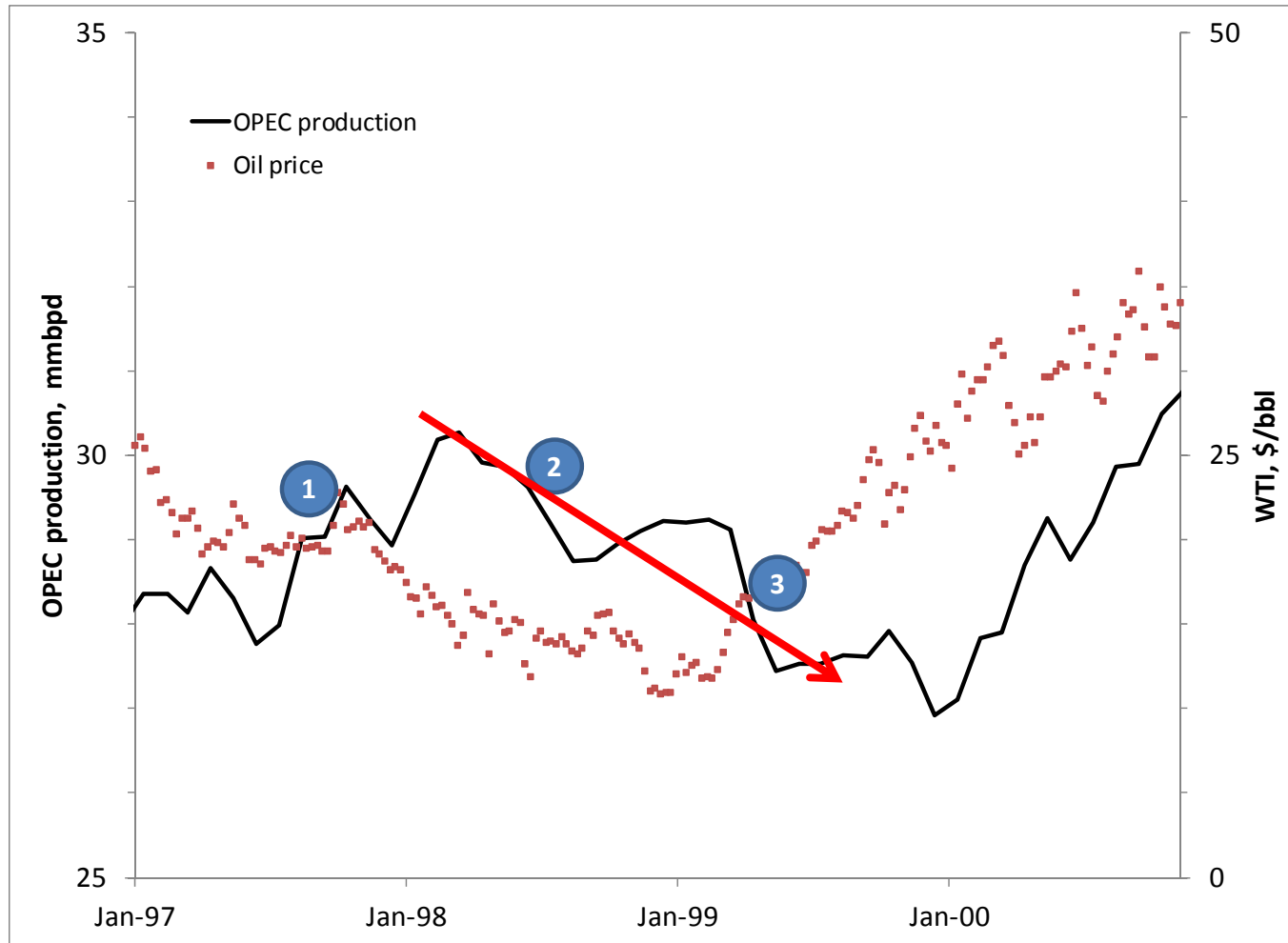
Prices could eclipse \$100/bbl as a scarcity premium could override the oil-price-capping “US can grow quickly” theme.

1998-99 Cycle



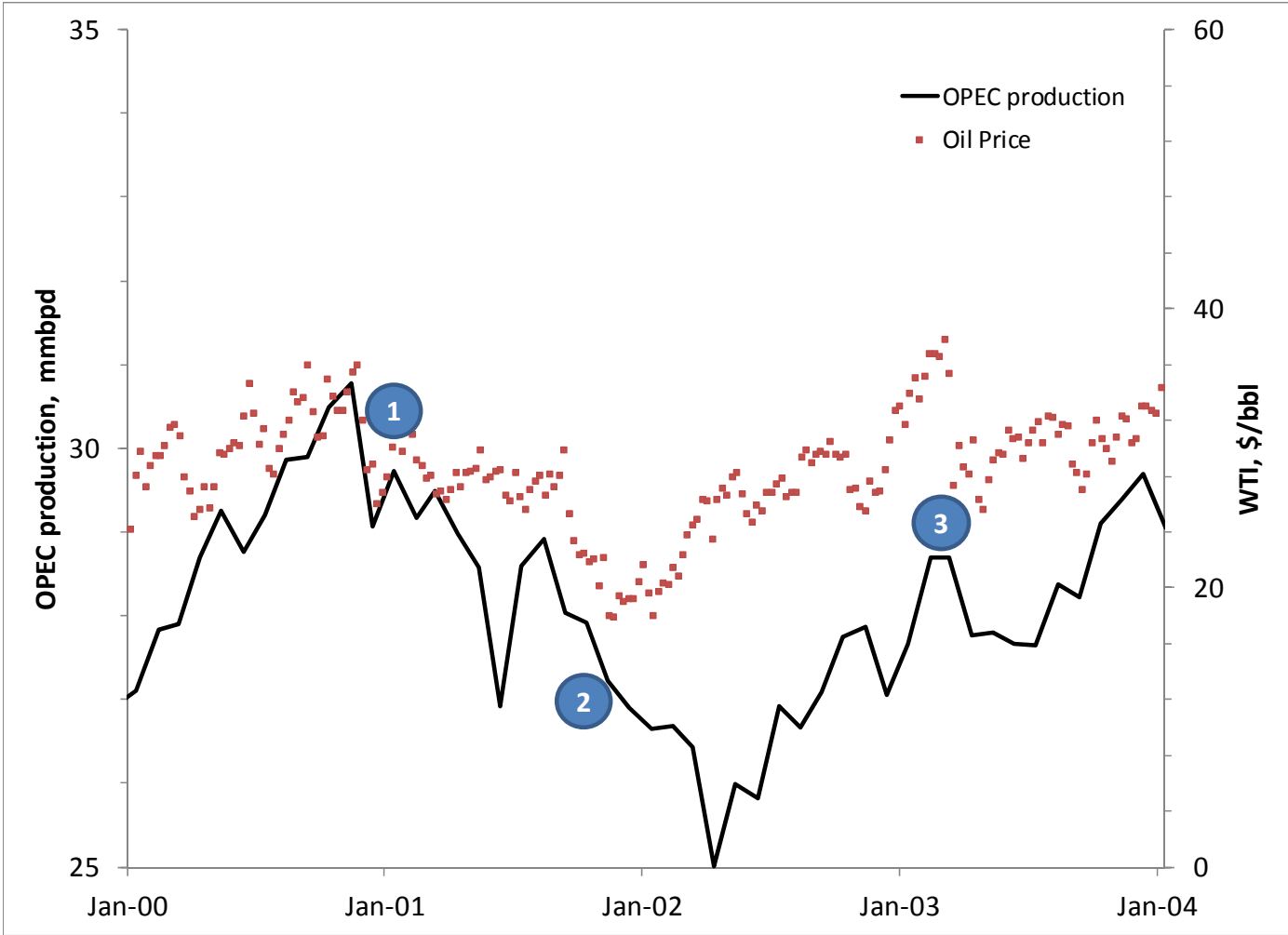
By Dec '99 OPEC had cut ~2.5mmbpd providing visible excess capacity as the market tightened and prices rebounded.

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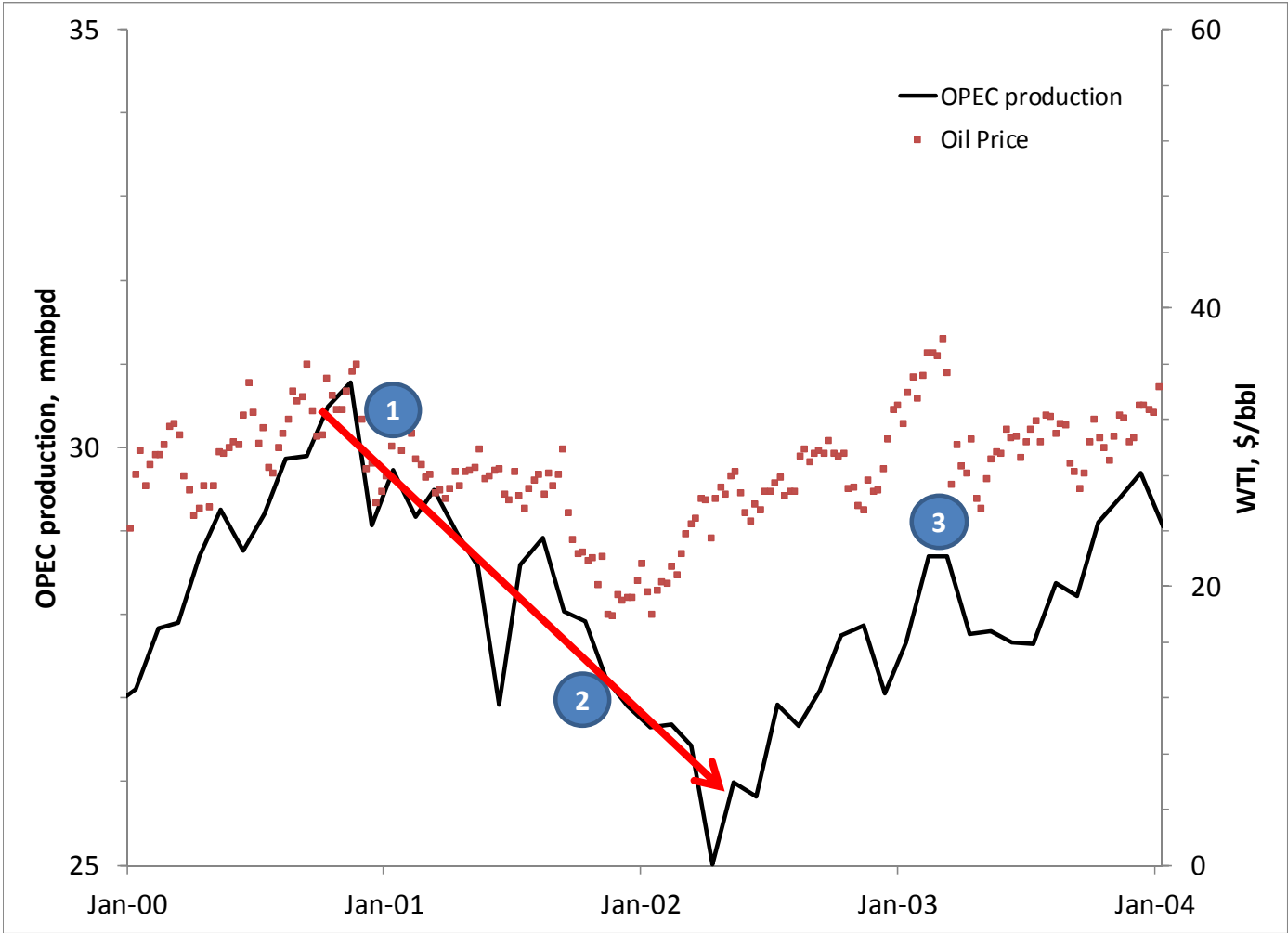
2001-02 Cycle



By early '02 OPEC-10 had cut over 3.5mmbpd providing visible excess capacity as the market tightened and prices rebounded.

Source: IEA, TPH Research

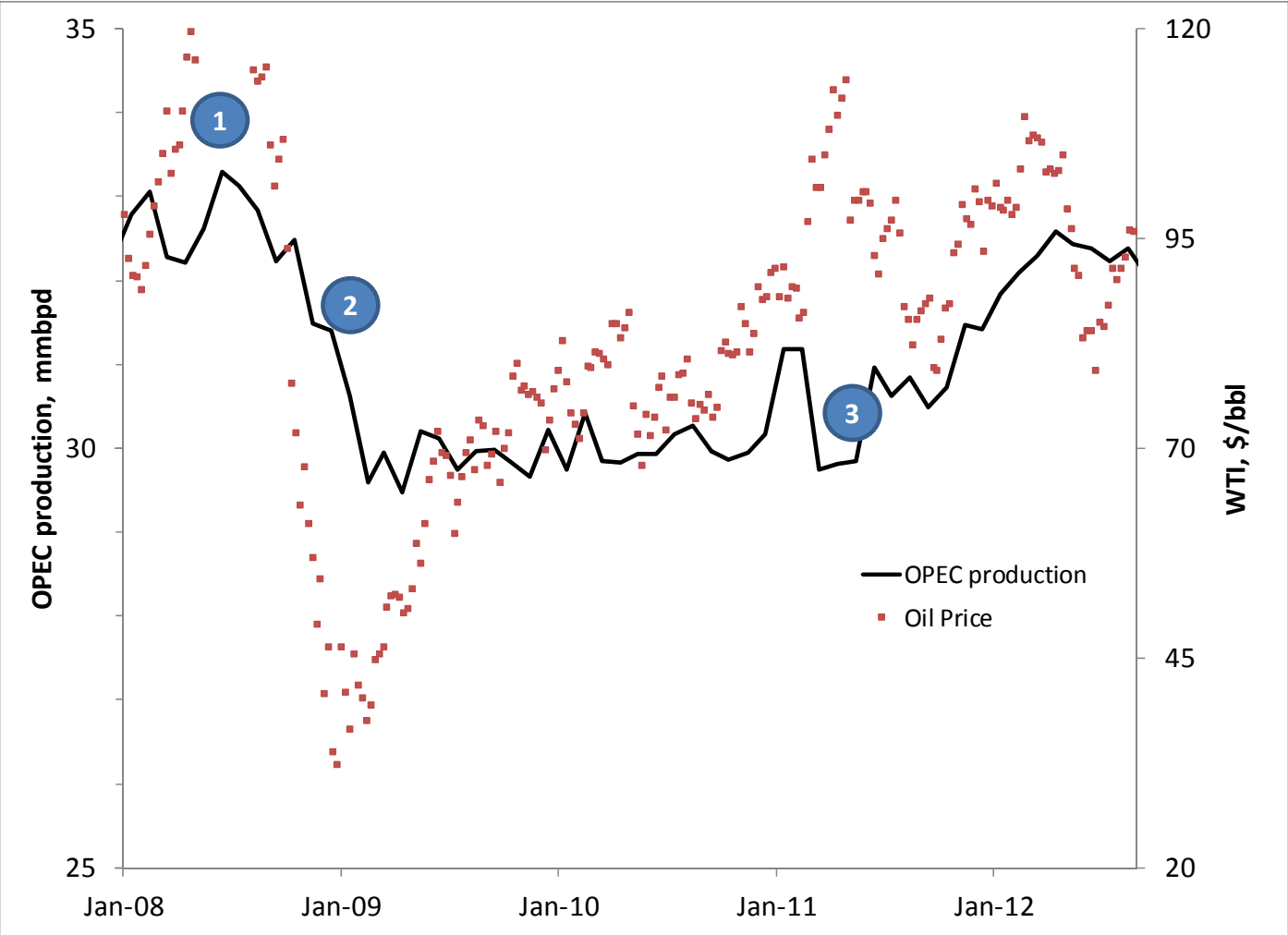
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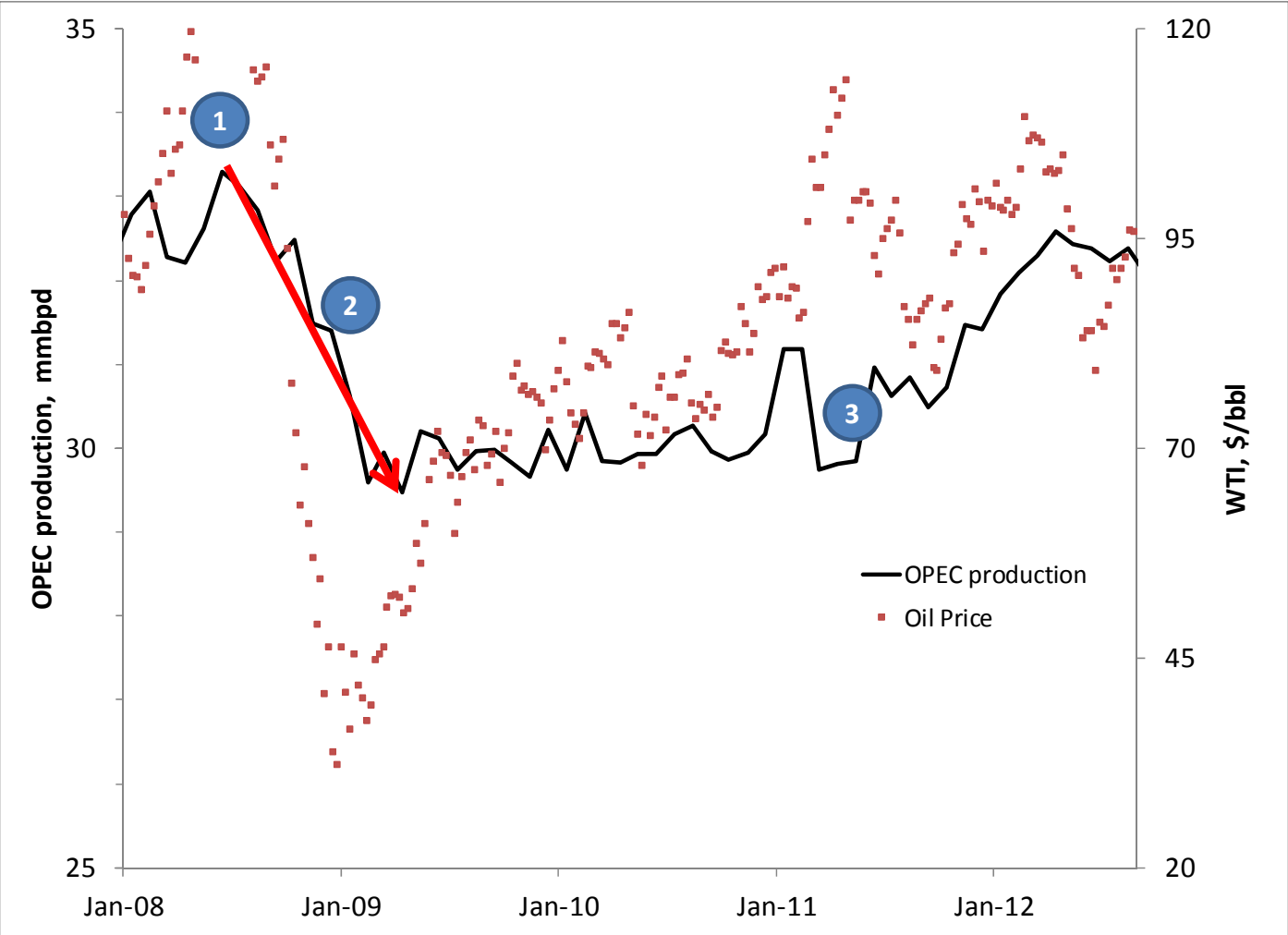
2008-09 Cycle



By mid '09 OPEC had cut nearly 2.5mmbpd providing visible excess capacity as the market tightened and OPEC could quickly react to Arab Spring events in 2011+.

Source: IEA, TPH Research

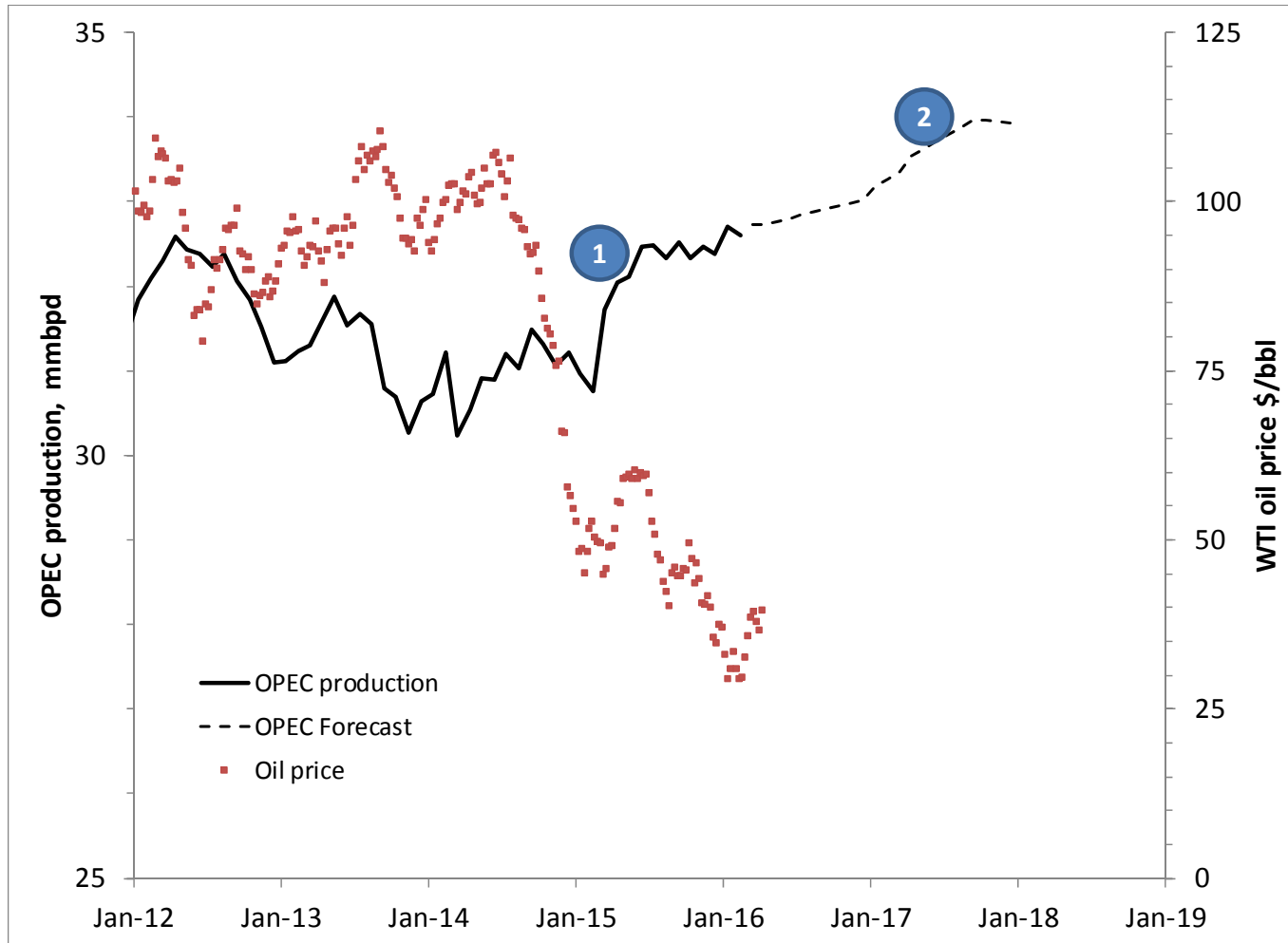
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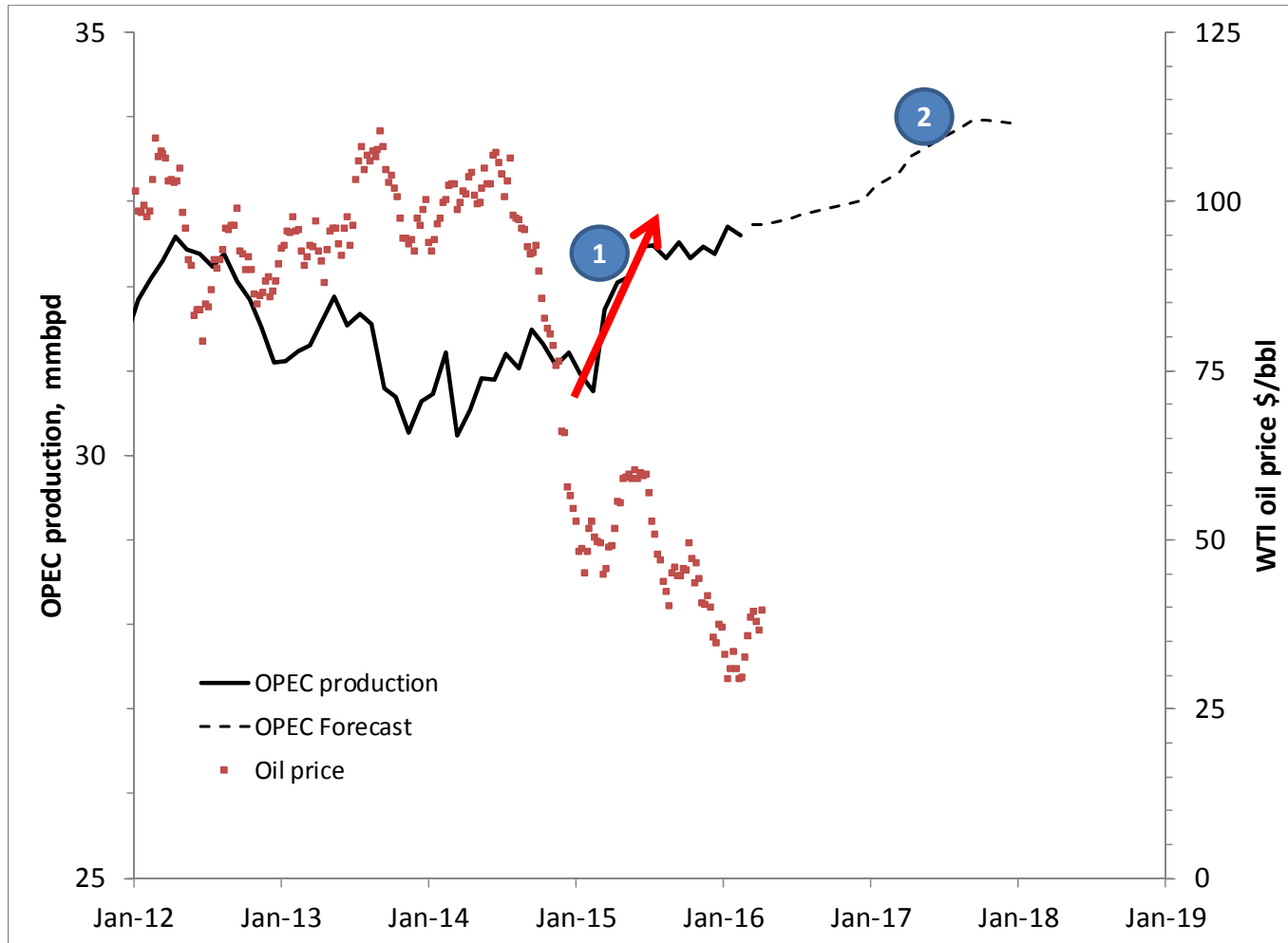
Source: IEA, TPH Research

Current Cycle – Base Case



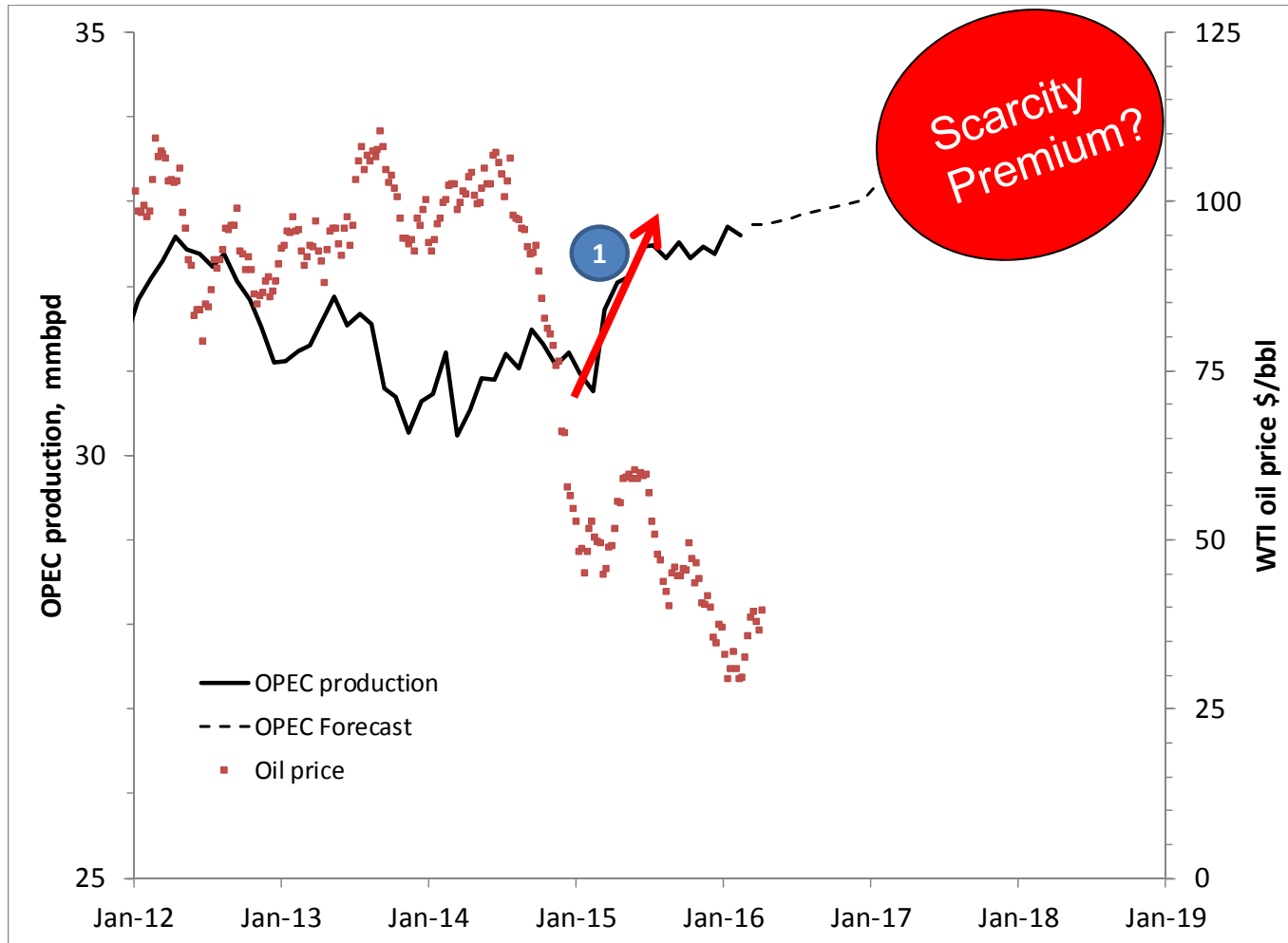
OPEC will need to produce at record levels as the market tightens in 2H16 and 2017 with less visible excess capacity.

Current Cycle – Base Case



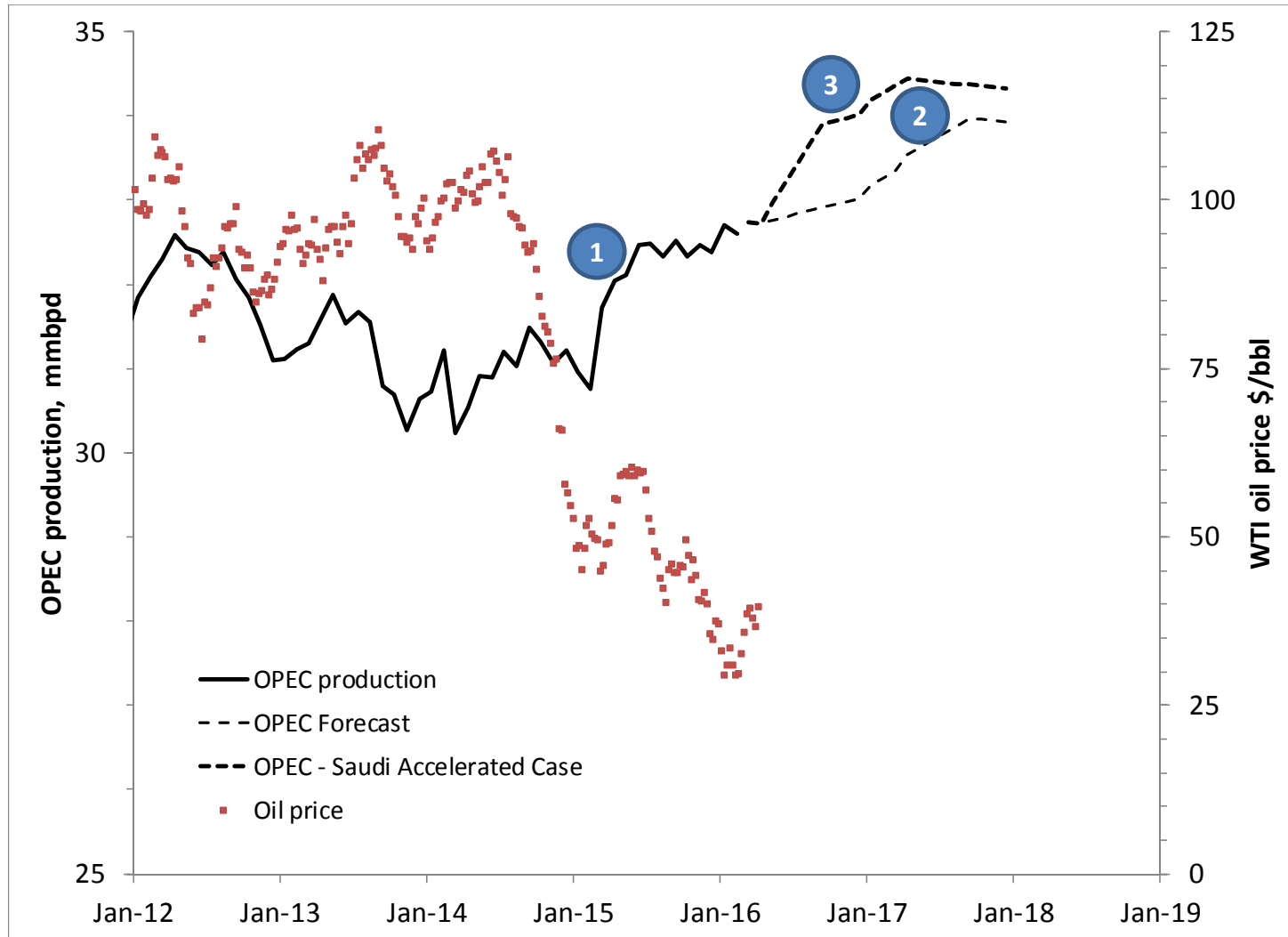
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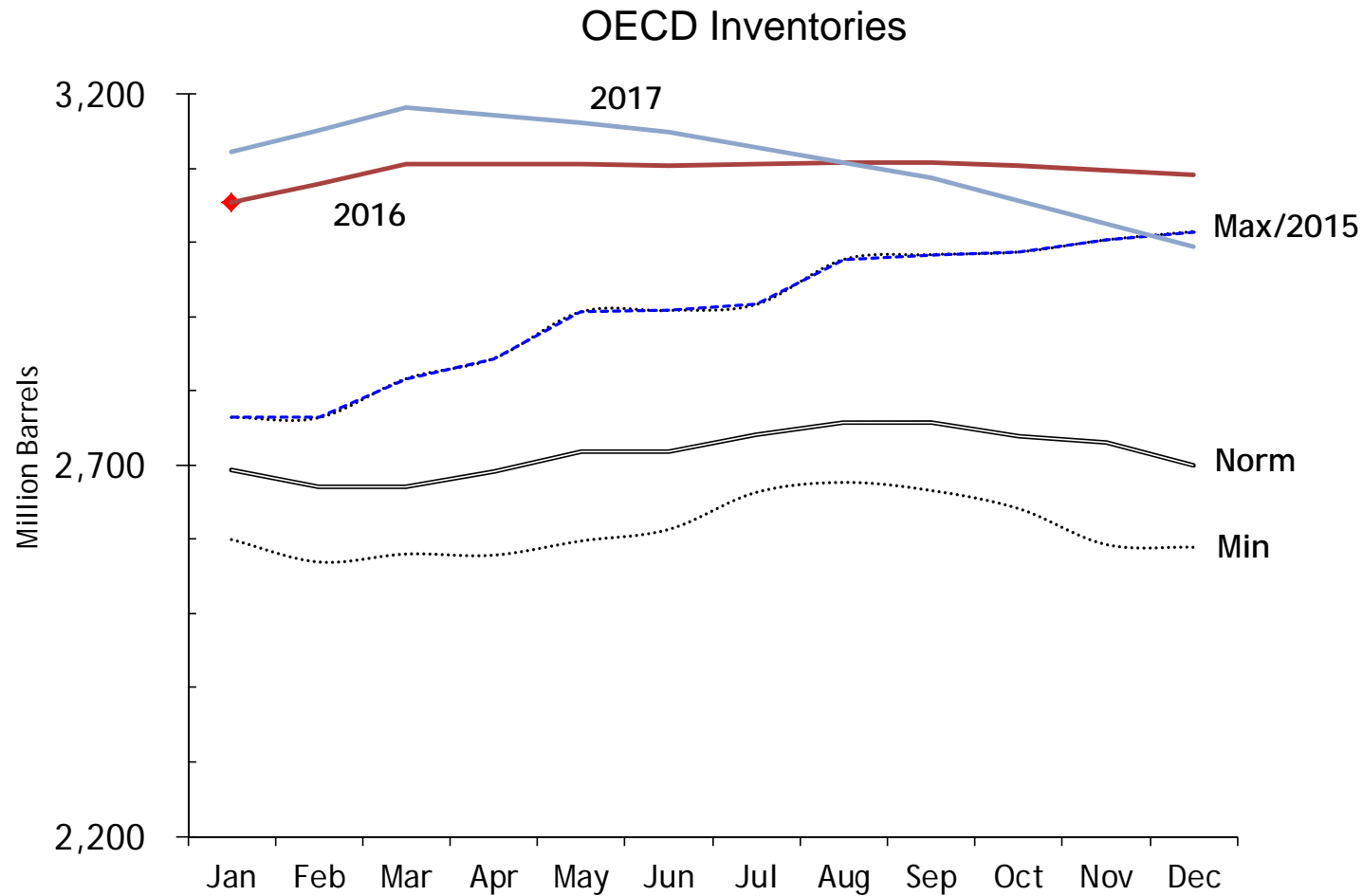


OPEC will need to produce at record levels as the market tightens in 2H16 and 2017 with less visible excess capacity.

Monster in the Closet: What if Saudi Ramps in 2016?



Saudi Ramp in 2016 – Recovery delayed 2H17



Fundamental / price improvement delayed until mid-17 if Saudi ramps +1mmbpd in 2016 with neutral zone +500kbpd and Libya improves in '17.

What can go right?

- *Demand* – we are comfortable with our '16 global +850kbpd growth **but if consensus is right at +1.3mmbpd...buckle up.**
- *Non-OPEC (ex/US)* – we model <1% declines in '16 and '17. The potential for these **declines to be steeper is very high.**
- *OPEC* – What is **Saudi's sustainable capacity?**

“You could stand me up at the gates of hell, But I won't back down”
Tom Petty and the Heartbreakers – I Won't Back Down

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