



Oil Market Update

June 2015

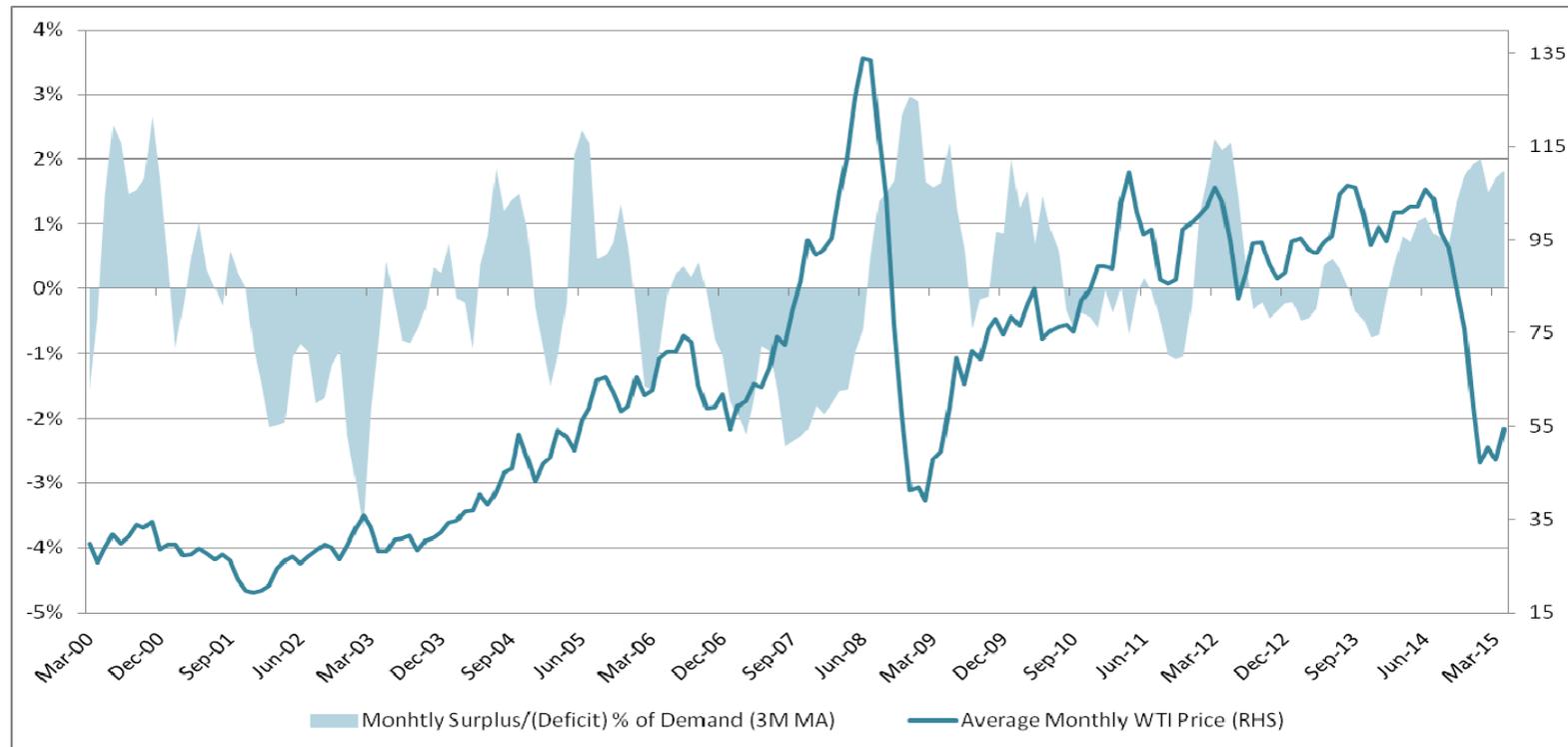
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Summary

- Worldwide supply response remains supportive to the stabilization of oil prices
- Emerging demand response could gradually return the oil market to balance as soon as the second half of 2015.
- The perception of persistent growth and flexibility in U.S. shale oil supply appears to have lowered the long-dated equilibrium prices.
- U.S. exploration companies active in the better shale formations may not need higher prices to earn attractive returns on capital.

Note the expectations expressed in this report may not be realized in the future.

Crude Oil: Supply/Demand Balance



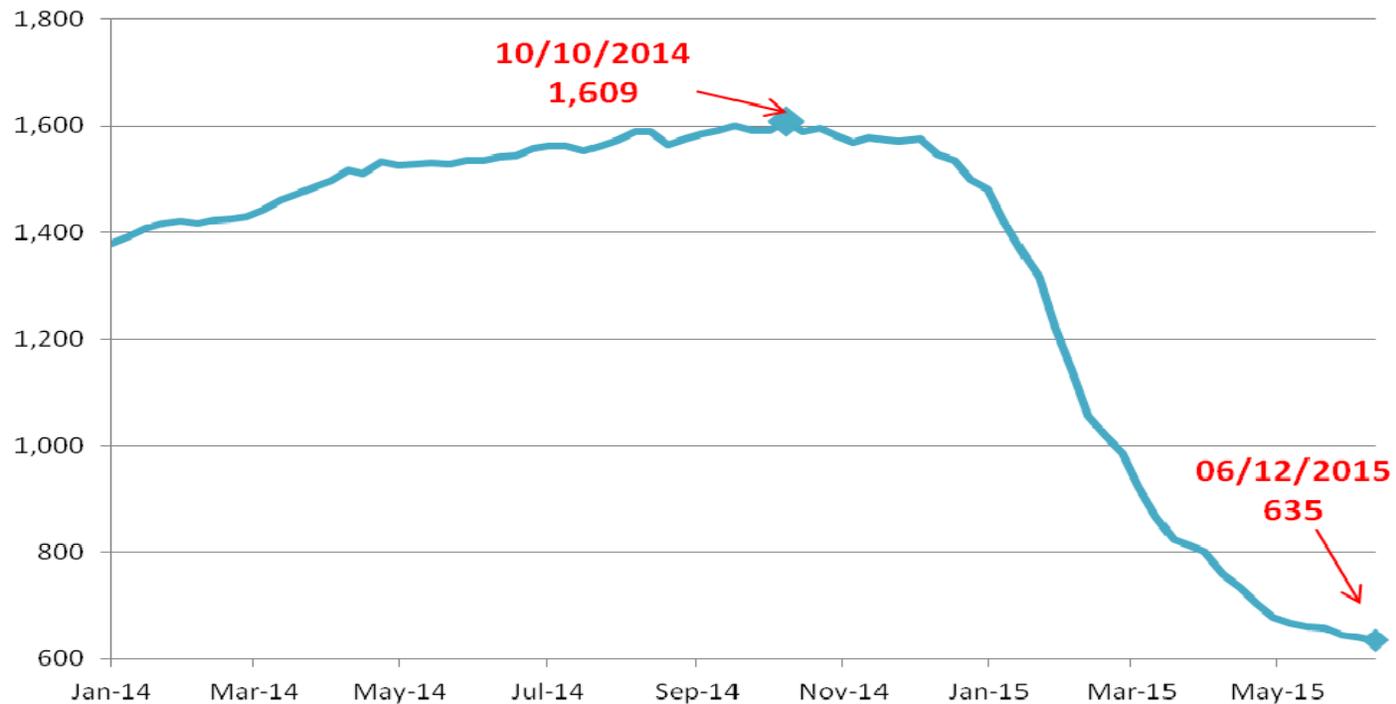
Source: Energy Information Administration (EIA)

- Global supply surplus is approximately 1.5 million barrels per day or 1.5% of demand.
- The current period of over-supply is now in its 15 month
 - Average duration of oversupply has lasted 6 months and the longest period during the 2008-2009 recession spanned 13 months.



Supply Response

US Supply Response

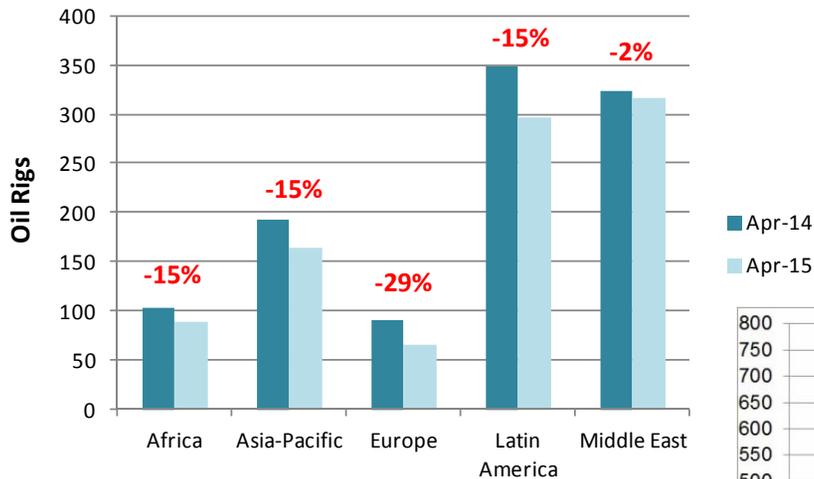


Source: EIA

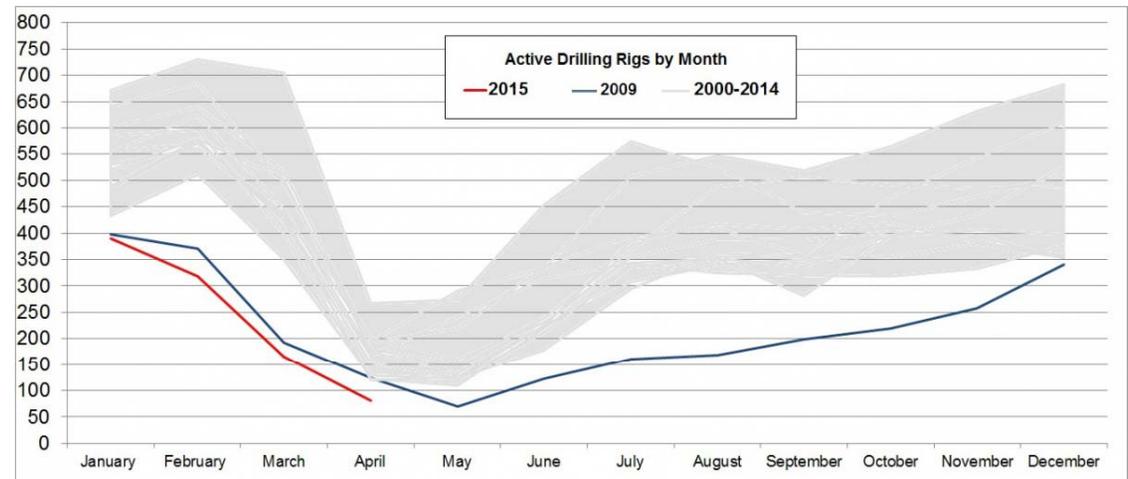
- At the level of 635 oil drilling rigs, rig count has fallen 61% below the October 2014 high
- These reductions in onshore drilling should restrain oil supply growth over the medium term.
 - As of May 2015, EIA expects 2015 US production to average 9.19m B/D which is down 2.44% from the 2015 estimate released in November.

* It is important to note more rigs are required in shale oil drilling than in conventional fields. As a result, comparisons of changes in rig counts are less reliable as the proportion of shale oil drilling rigs increases in the overall mix.

International Supply Response



Source: Baker Hughes



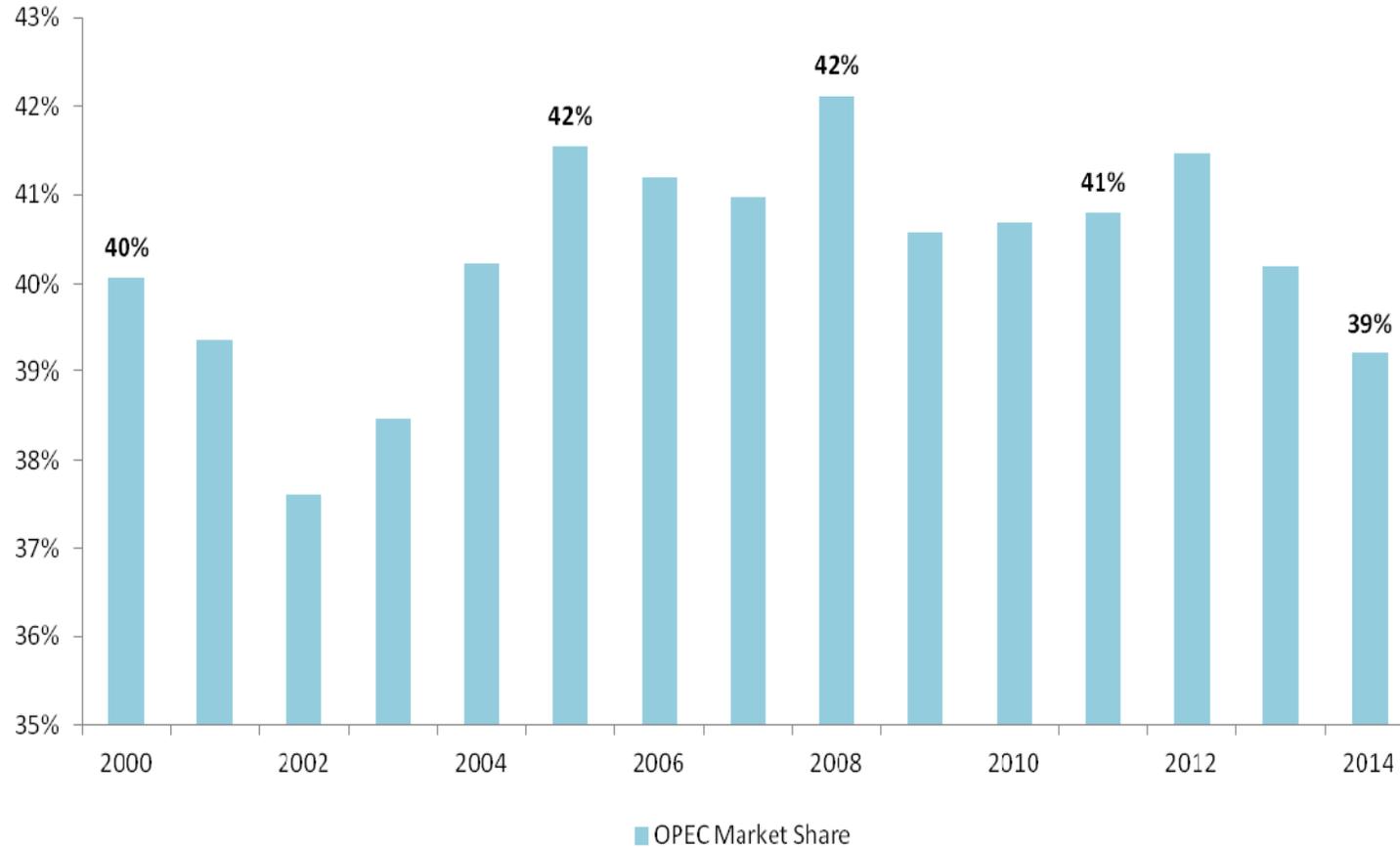
Source: The Canadian Association of Oilwell Drilling Contractors

- Oil rig counts are declining across regions in response to lower oil prices.
- Overall, we believe these worldwide reductions in drilling should meaningfully restrain oil supply growth in the visible horizon.

* It is important to note more rigs are required in shale oil drilling than in conventional fields. As a result, comparisons of changes in rig counts are less reliable as the proportion of shale oil drilling rigs increases in the overall mix.

OPEC – Market Share

- Market share has remained relatively stable over the past 15 years

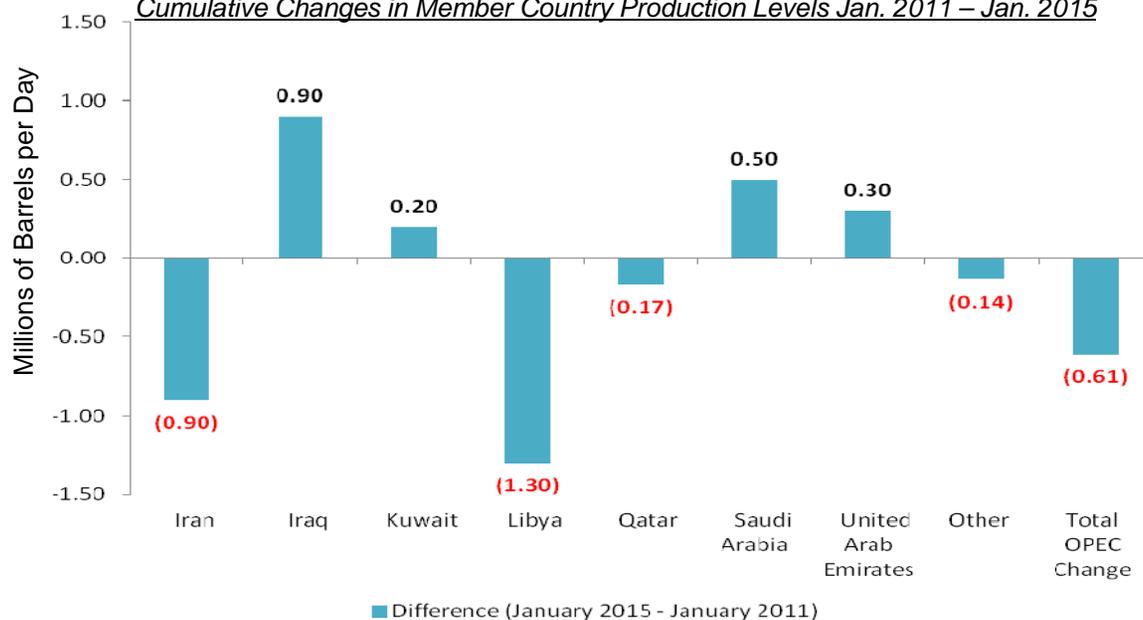


* Includes OPEC Other Liquids supply (e.g. Natural Gas Liquids)

Source: EIA

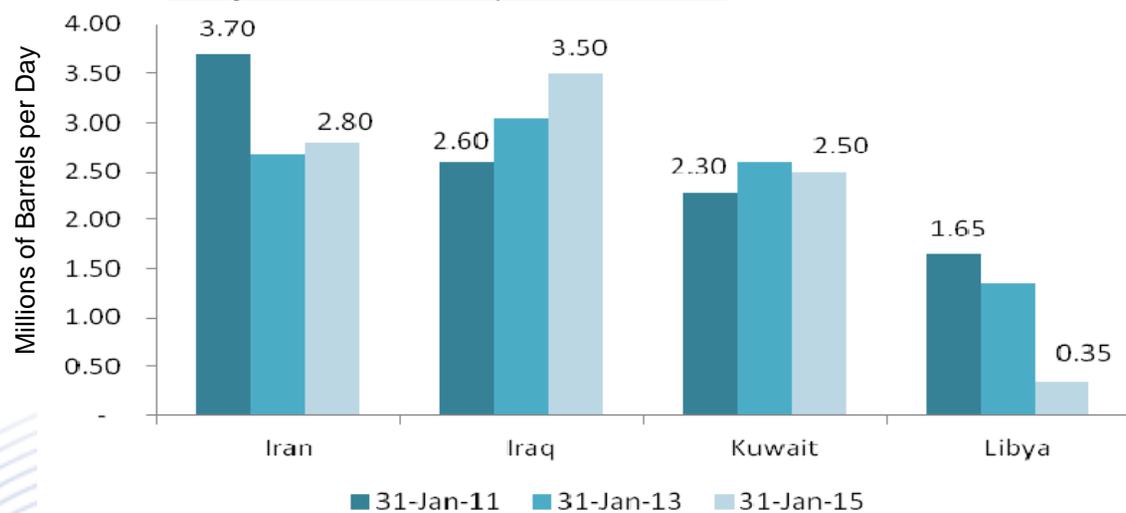
OPEC - Stable market share masks significant production volatility

Cumulative Changes in Member Country Production Levels Jan. 2011 – Jan. 2015



- Production OPEC member countries tends to be volatile
- Saudi Arabia acts as the swing producer to ensure OPEC's overall targeted production levels
- Significant amount of world supply located in unstable regions

Changes in Selected Country Production Levels



Troubled Nation	% of World Production*
Iran	3.2%
Iraq	4.0%
Libya	0.4%
Nigeria	2.4%
Total	10.0%

* Based on January 2015 production

Source: EIA & OPEC

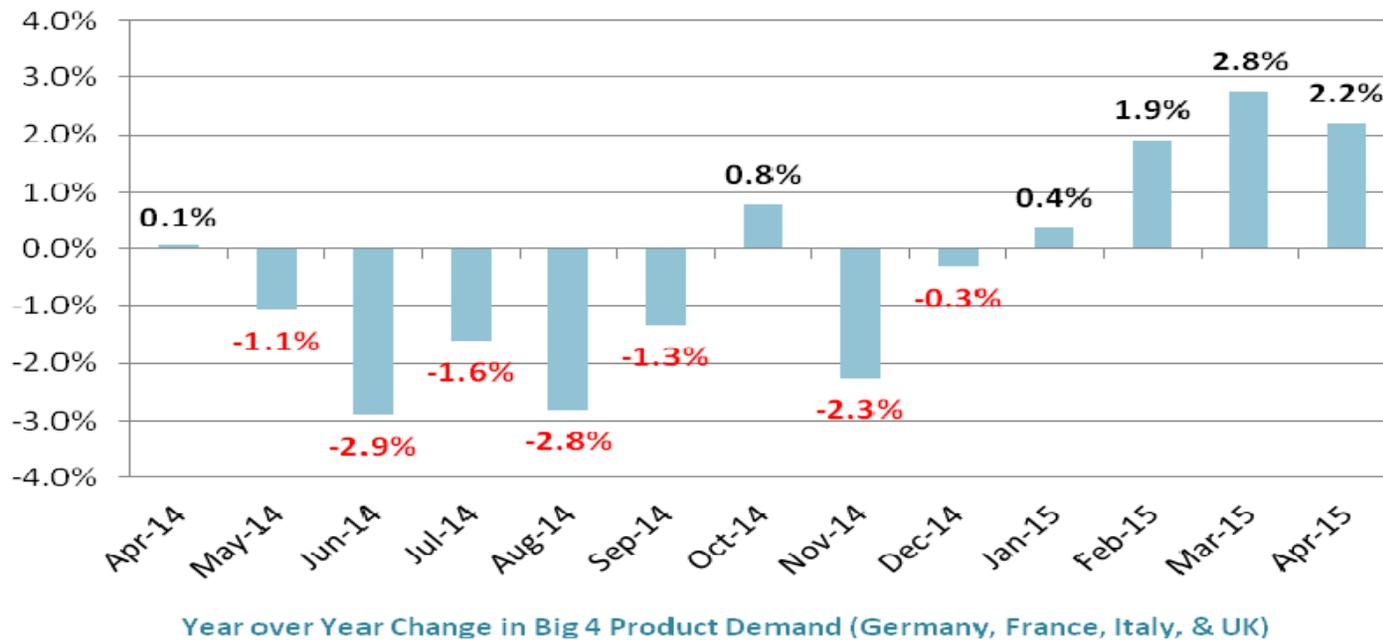


Demand Response

European Liquids Demand Recovering

“The overall pace of European oil demand growth is not only at its strongest in nearly twenty years but it even exceeds the post-Great Recessionary bounce of mid-2010.”

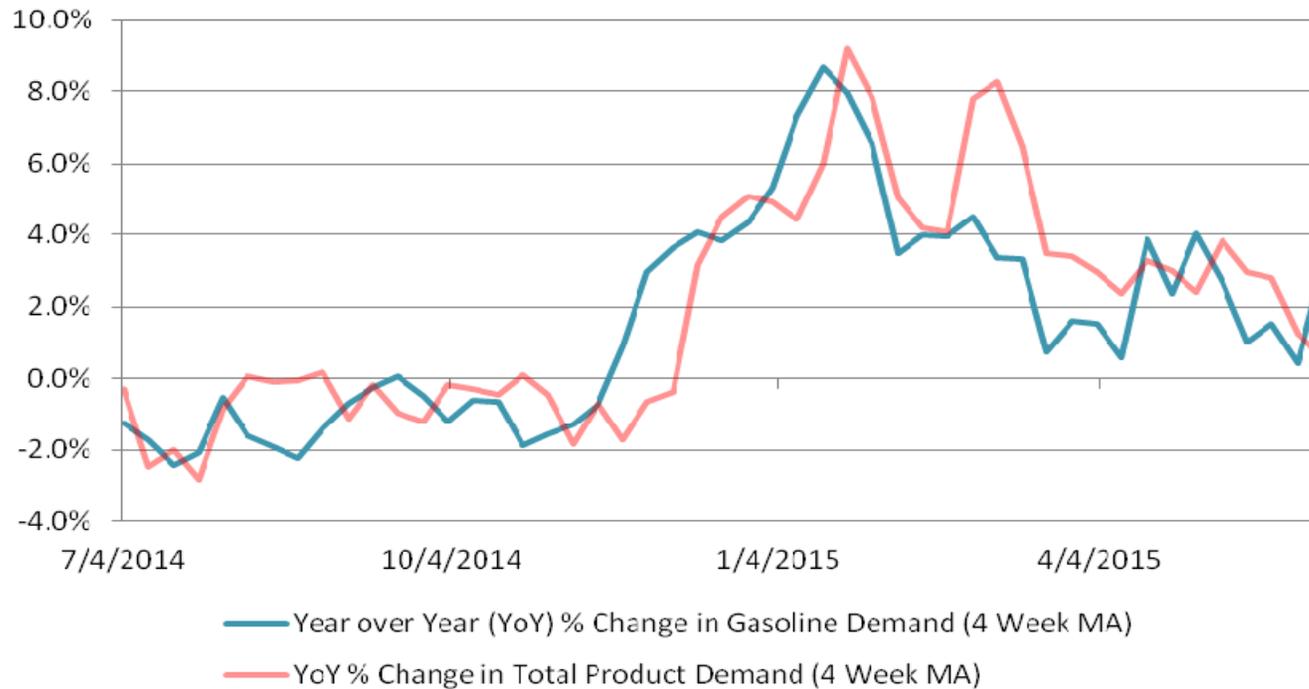
- International Energy Agency May 2015 – Oil Market Report



Source: OPEC

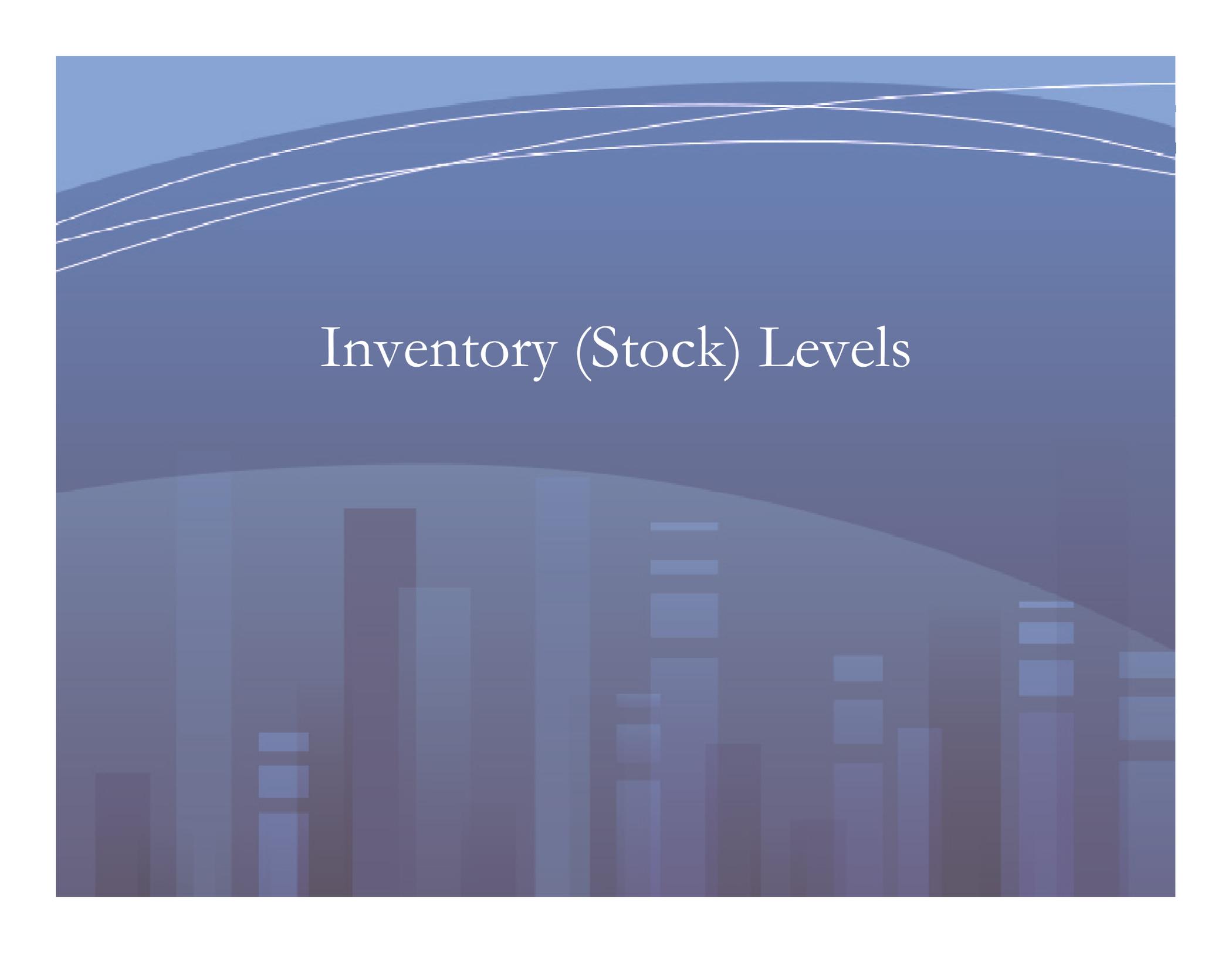
- Europe represents ~15% of world petroleum demand
- In 2014, European demand for petroleum products declined -1.2%.
 - In April 2015, oil demand from the Big 4 (Germany, France, Italy, and UK) grew 2.2% year over year continuing the positive momentum first observed in 2H2014.

US Demand Growth



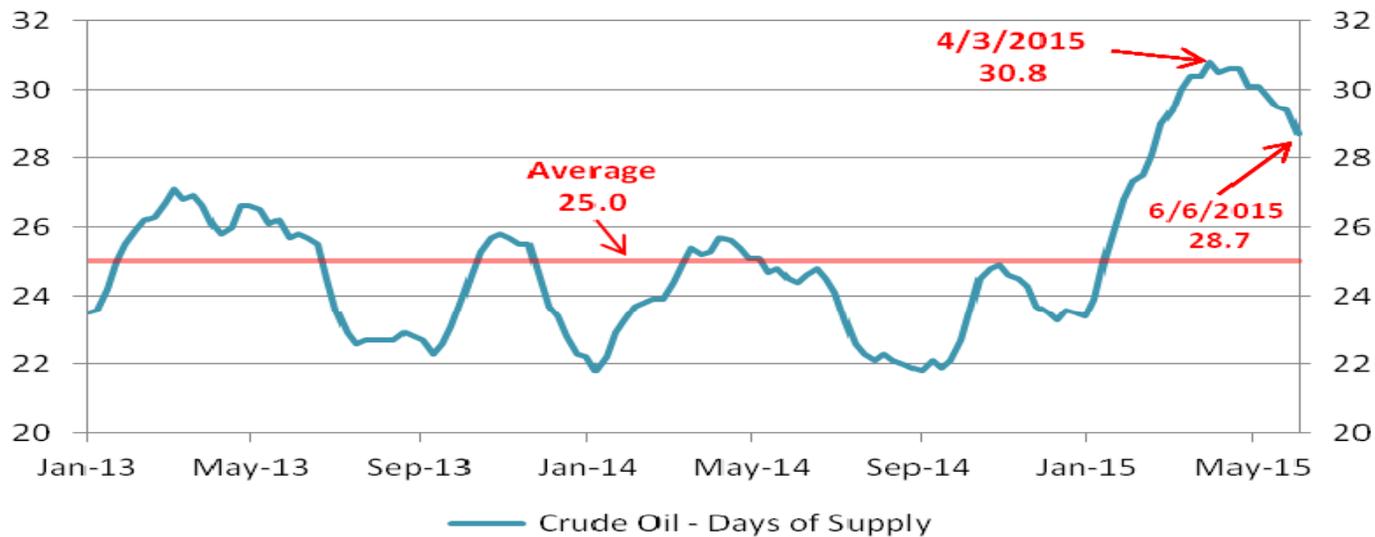
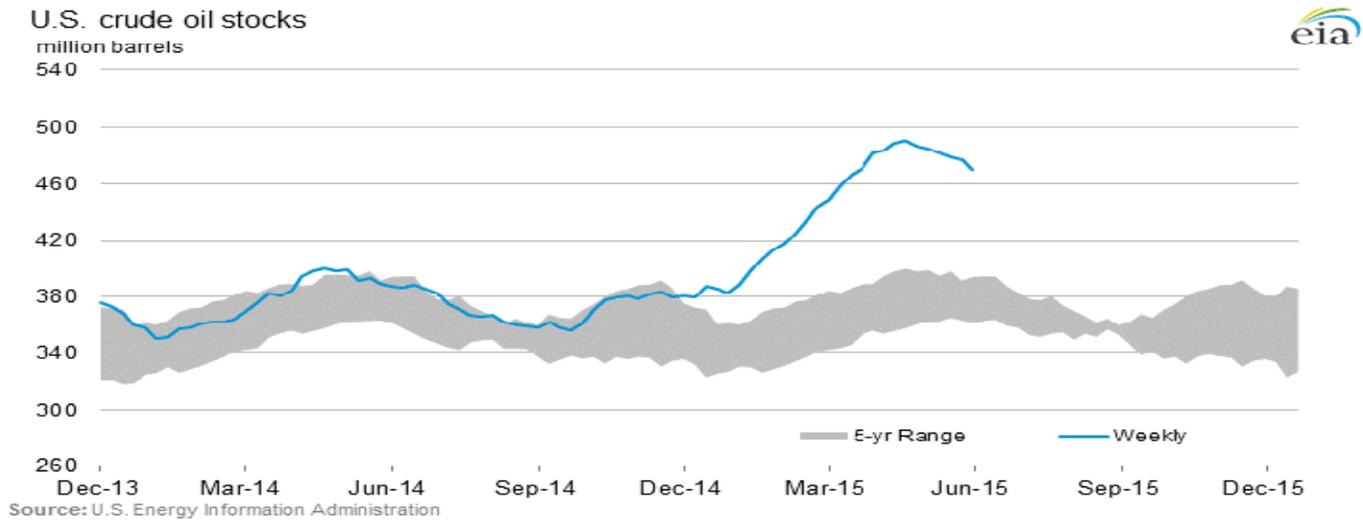
Source: EIA

- US represents ~21% of world petroleum demand
- In 2015, overall Gasoline and Petroleum Product Demand have showed positive growth momentum
 - 1H2015 vs. 1H2014 demand growth (as of June 06, 2015) for Gasoline and Petroleum Product demand was 3.4% and 3.8%, respectively.



Inventory (Stock) Levels

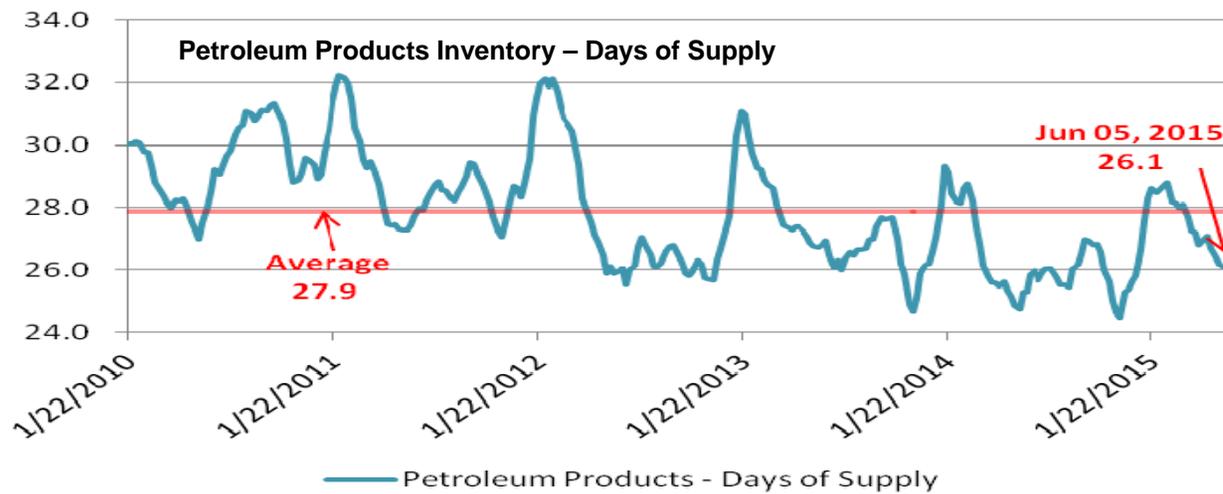
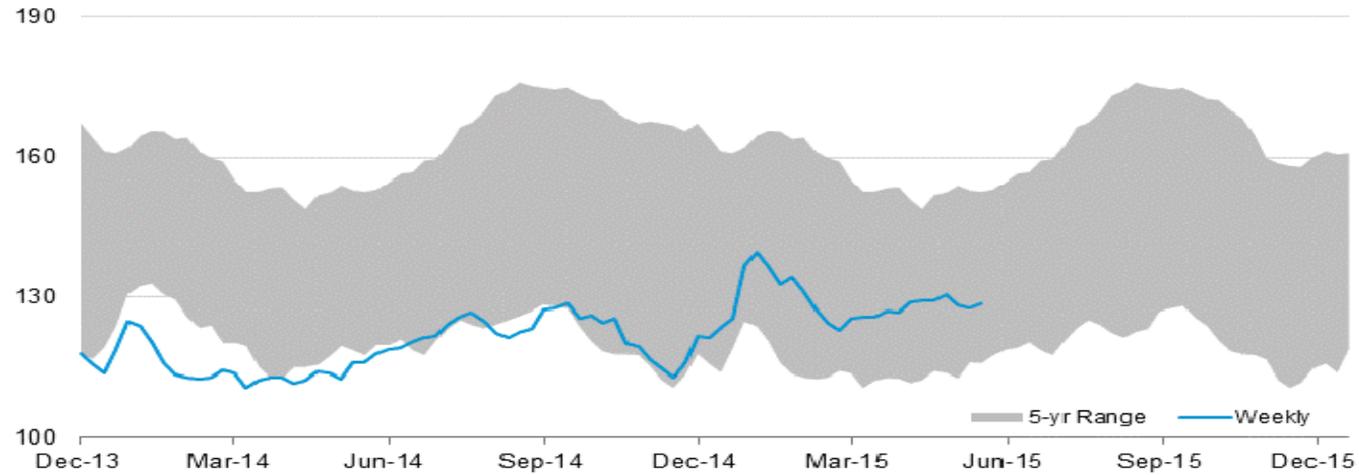
US – Crude Stock levels appeared to have peaked



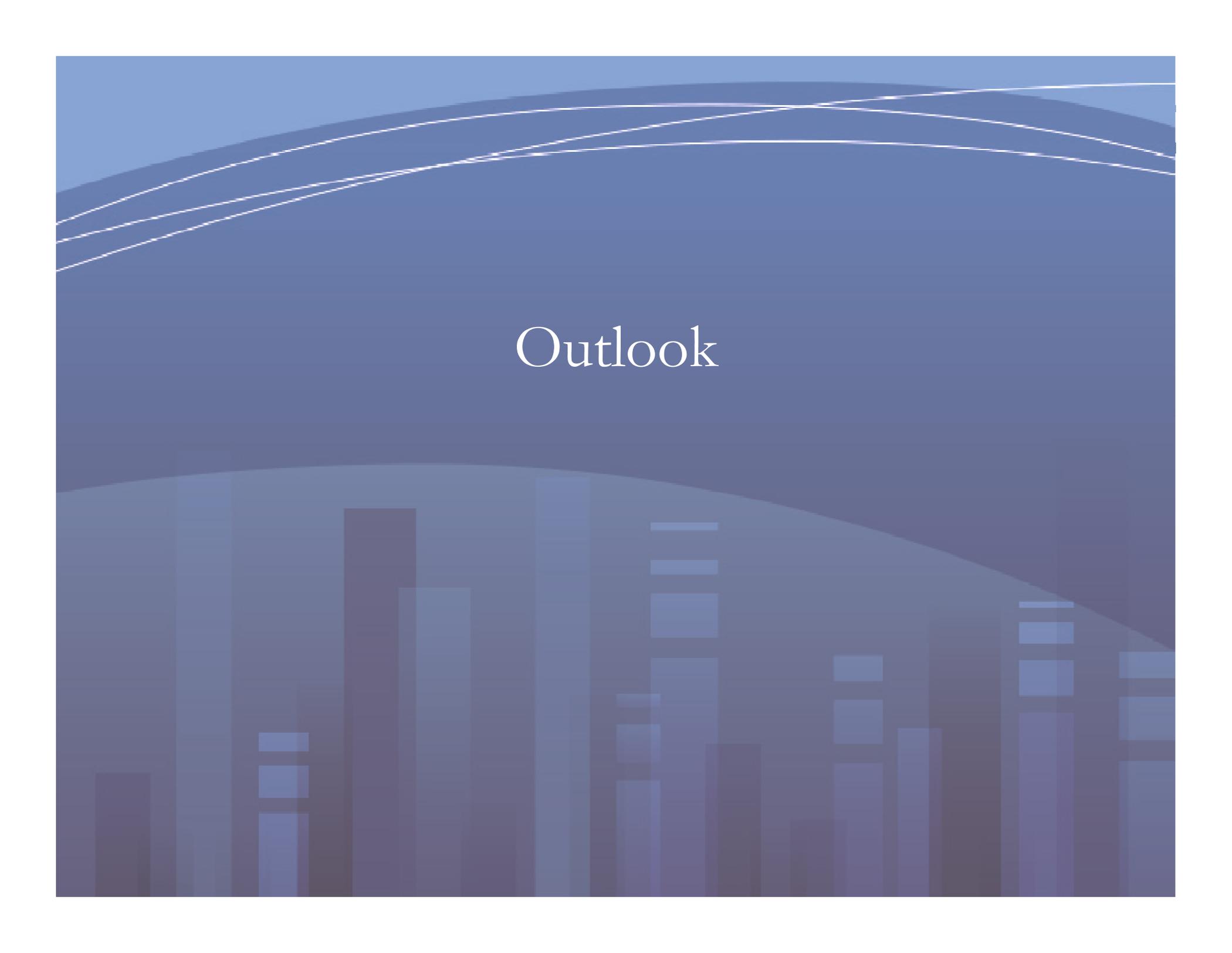
Source: EIA

US – Petroleum Product Stock levels appear more normalized

U.S. distillate stocks
million barrels

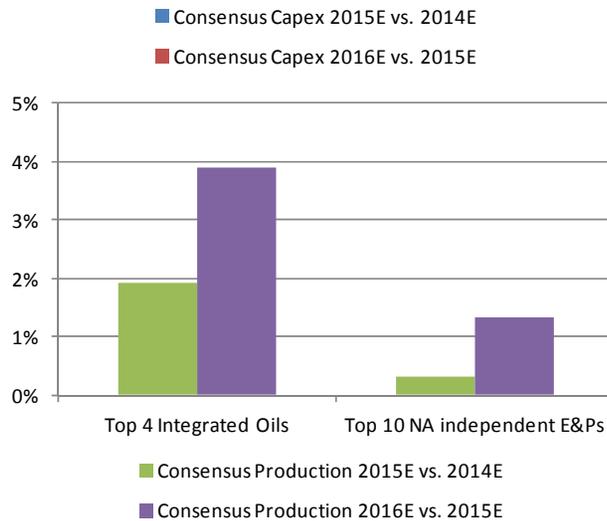
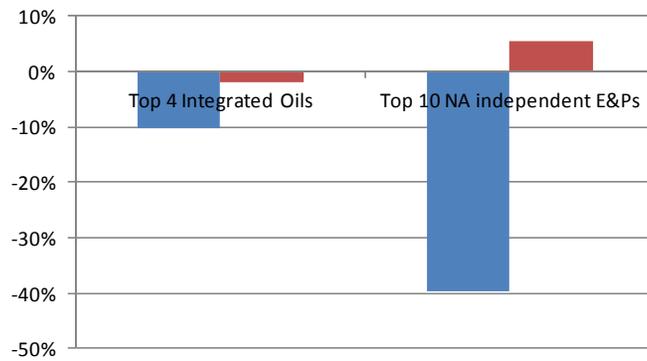


Source: EIA



Outlook

North America Independent E&Ps: Flexibility in Operation

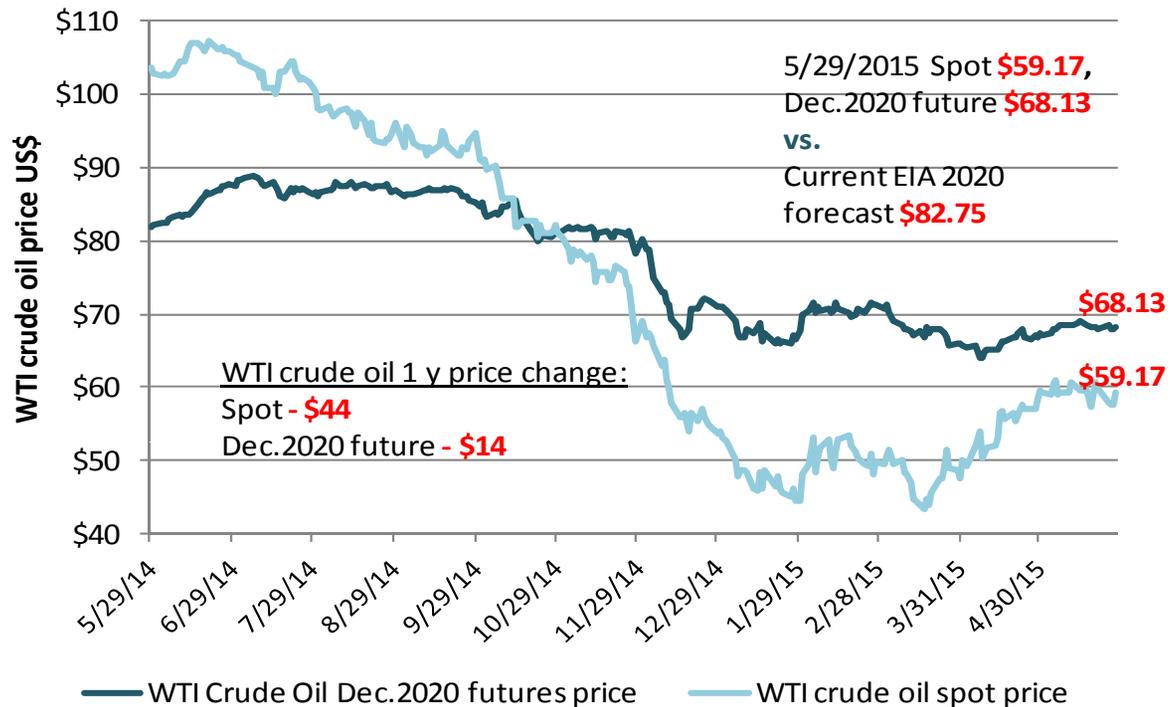


Top 4 Integrated Oils	
	Exxon Mobil Corp
	Chevron Corp
	Royal Dutch Shell PLC
	BP PLC
Top 10 NA independent E&Ps	
	ConocoPhillips
	Occidental Petroleum Corp
	EOG Resources Inc
	Anadarko Petroleum Corp
	Canadian Natural Resources Ltd
	Devon Energy Corp
	Apache Corp
	Pioneer Natural Resources Co
	Hess Corp
	Marathon Oil Corp

Source: Bloomberg

- Significant Capex slash among NA independent E&Ps to support oil market balancing in 2015.
- The return of Capex perhaps would be a function of oil prices going forward.

Crude Oil Market to Balance with Reduced Price Expectations



Source: Bloomberg and EIA

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- Overall, we believe these worldwide reductions in drilling should meaningfully restrain oil supply growth in the visible horizon.

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