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2017: The Bumpy Road to Rebalancing

PESA Supply Chain Seminar
February 22, 2017

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Who We Are



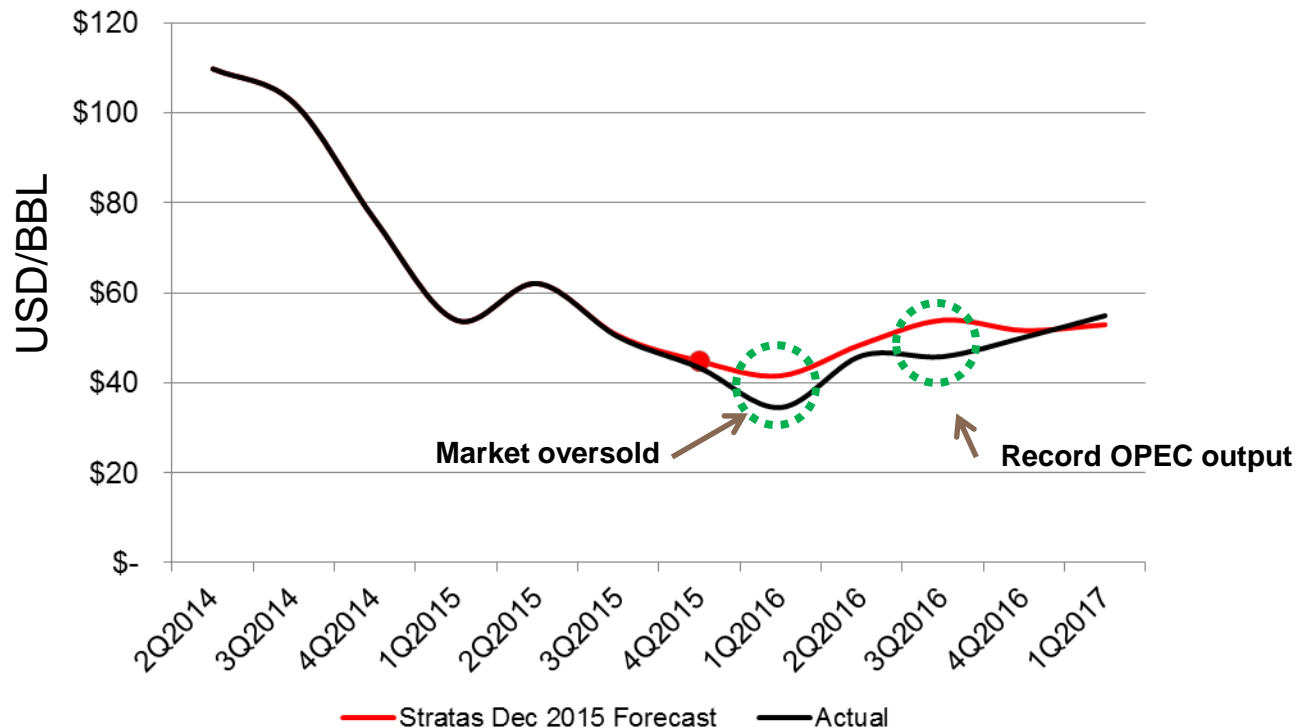
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www.stratasadvisors.com

- Stratas Advisors is a global consulting and advisory firm that covers the full spectrum of the energy sector and closely linked industries
- The world's leading businesses, governments and institutions turn to us for data, analysis and insight (IOCs, NOCs, independents, energy consumers and financial entities)
- We help our clients achieve tangible results through informed strategic decision-making and implementation planning
- Key differentiators include
 - Global coverage with deep local knowledge
 - Integrated analysis across the entire energy value chain, including macro-level analysis (geopolitics, macro-economics, policies and regulations)
- Our research and consulting staff comprises professionals located on the ground in key global energy market centers
- Combined, our team brings over 500 years of combined energy industry expertise, including
 - Technical (Petroleum Engineers, Geologists, Process Engineers)
 - Economists
 - Political Scientists
 - Financial Analysts

How Did Our Oil Price Forecast Hold Up In 2016?

Forecasted vs. actual Brent price outlook



Stratas Advisors predicted early 2016 bottom and tepid rebound to mid-50s in early 2017

Why Did the Price Rebound?

Underlying market factors

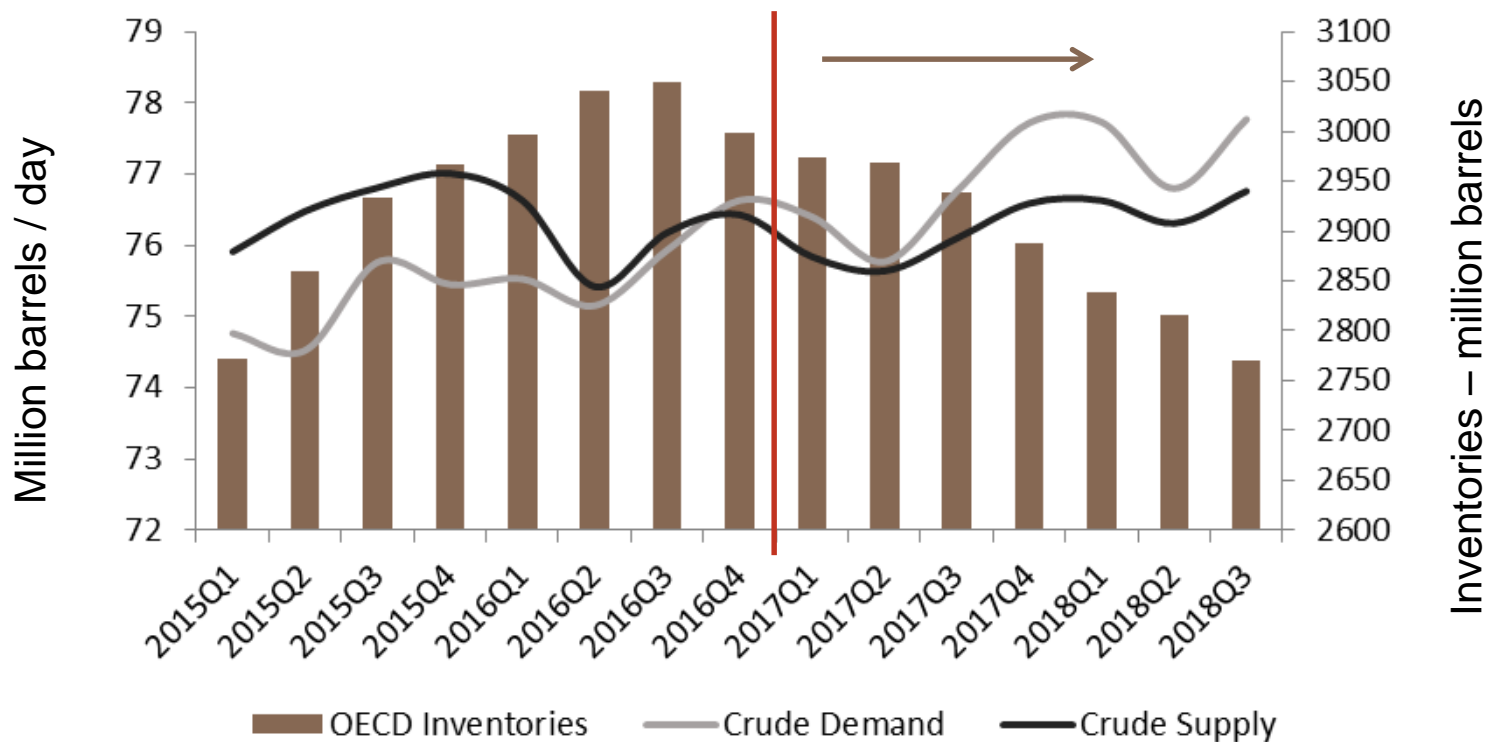
- China economy – not as bearish as expected
- US dollar – weakening not strengthening
- US economy – holding up with strong gasoline demand
- Trader sentiment – closing short positions
- Iran – limits to production and export increases
- US production – continuation of production falloff
- Storage – still room left for additional inventories



...then the oil price hit a ceiling...

Market Will Rebalance in 2017, but Inventories Remain

Under just a 60% compliance scenario, demand exceeds supply



Early compliance data on OPEC is strong; demand growth view is cautious at 1.3 mmb/d

Mixed Bag for Key Economic Indicators

Sentiment is growing more positive, but headwinds remain

		Inflation & monetary policy		Demand- Side Indicators			Supply-Side Indicators		Overall View
		CPI (relative to target)	Real interest rates	Retail sales	Consumer confidence	Net exports	Industrial production	Unemployment	
Developed	United States								
	Japan								
	Eurozone								
	Great Britain								
	Canada								
	Korea								
	Australia								
Emerging	China								
	India								
	Russia								
	Turkey								
	Brazil								
	Mexico								
	Indonesia								
	South Africa								

Policy uncertainty in the US, Brexit in the EU, currency shifts in India and growing debt loads in China are just a few of the key areas to watch

Impact of President-Elect Trump

The good, the bad and the unknown for oil and gas stakeholders

The Good

- Environmental deregulation
- Cabinet selections

The Bad

- Tariffs, border adjustments and potential trade disputes

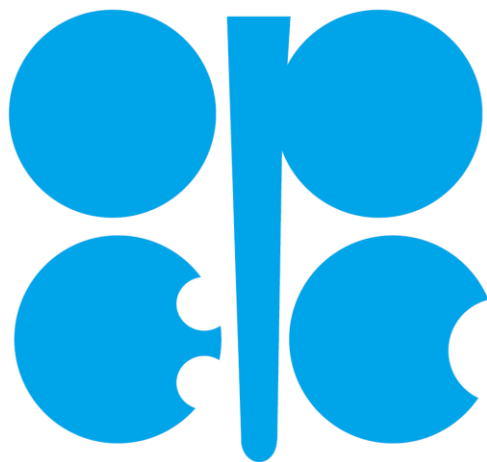
The Unknown

- Foreign policy
- Taxation on carbon, expensing of capital, etc.
- Fiscal stimulus



OPEC Faces Three Key Outcomes in May

What will OPEC do at their next regular meeting?



OPEC Ends Cuts

- Not likely
- Represents failed strategy in the past
- Members not able to sustain painful downturn again

Cut Remains Through Year End

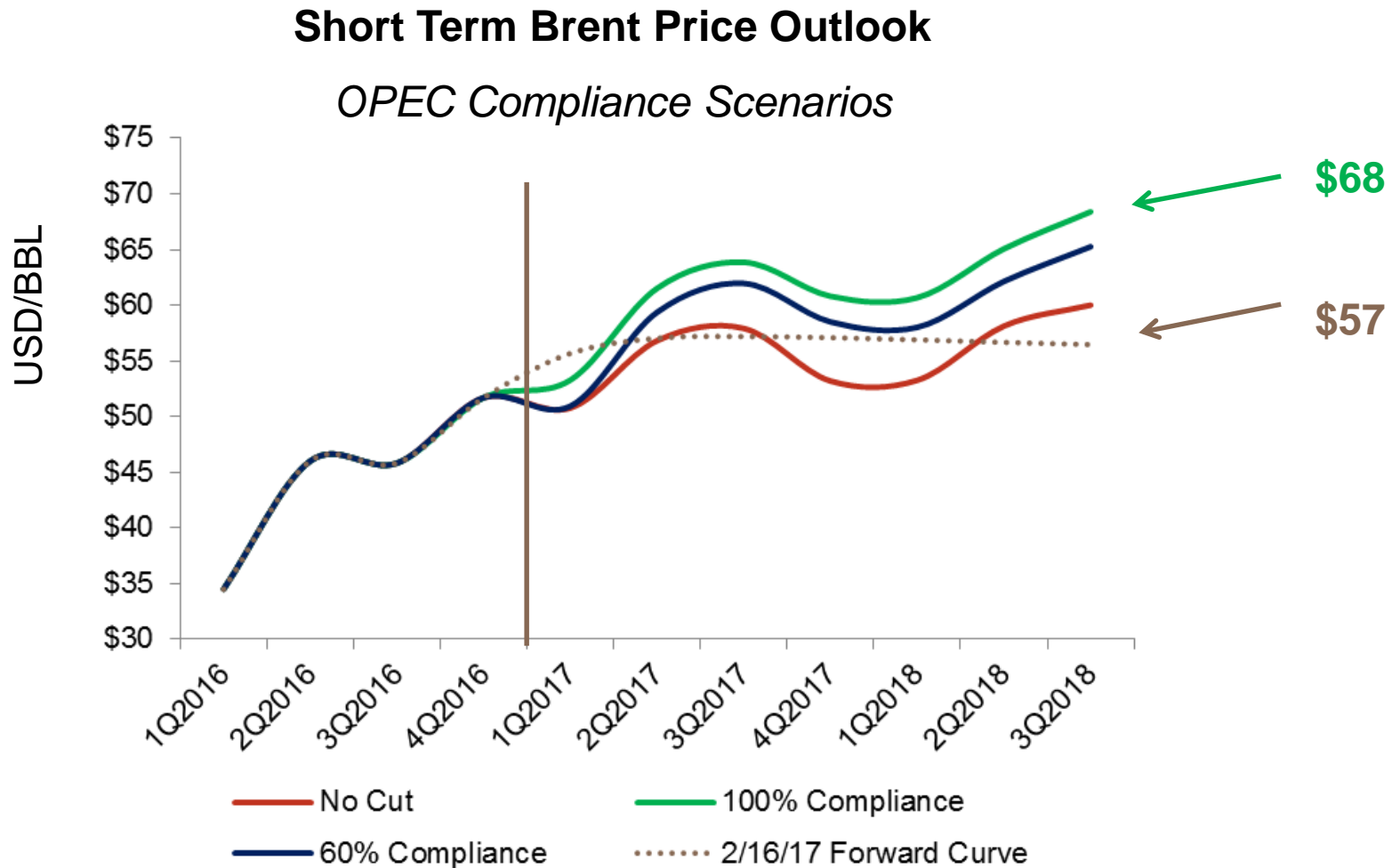
- Most likely outcome
- Frustrations mounting as shale resurges and prices stagnate

OPEC Cuts More

- Becoming more likely based on rhetoric
- Could be strategy to push prices out of current range
- Market share risks

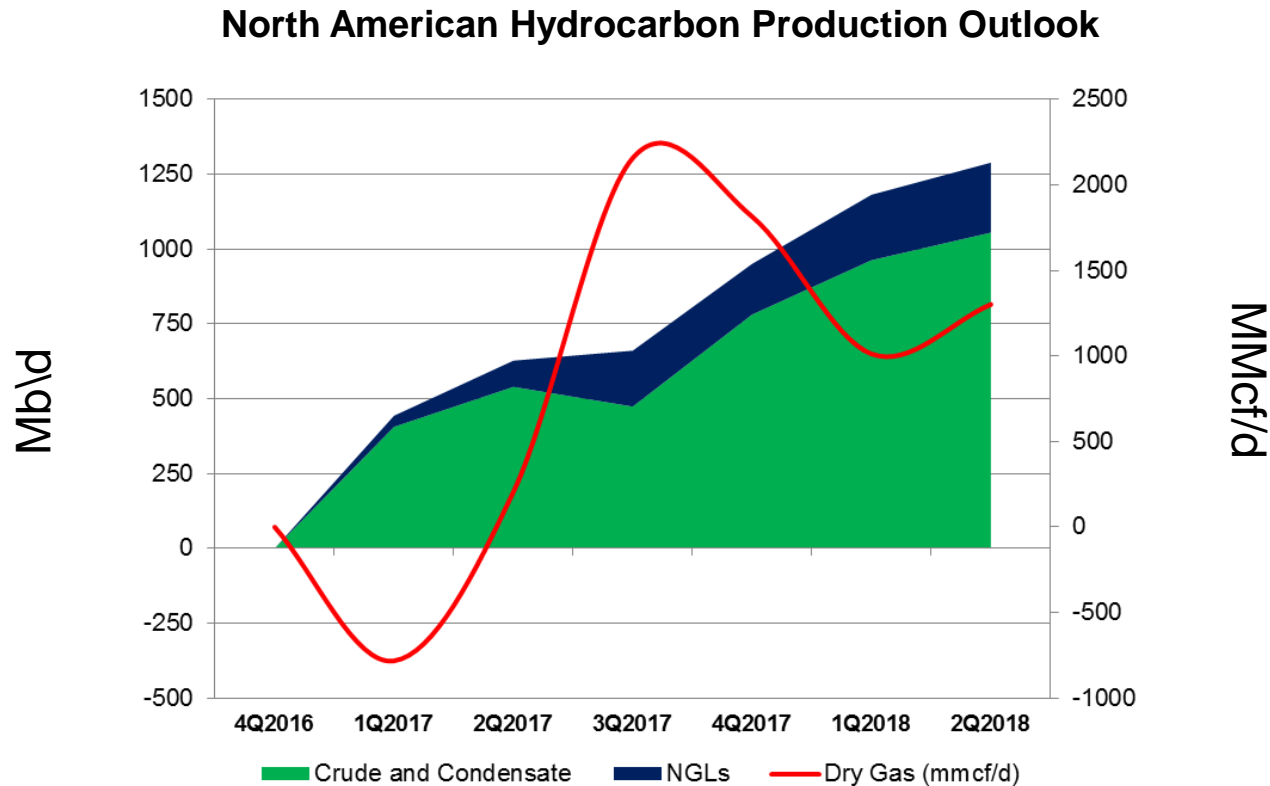
The Market Remains Cautious

Despite recent pops, forward selling and market skepticism keep things flat



North American Supply Returning

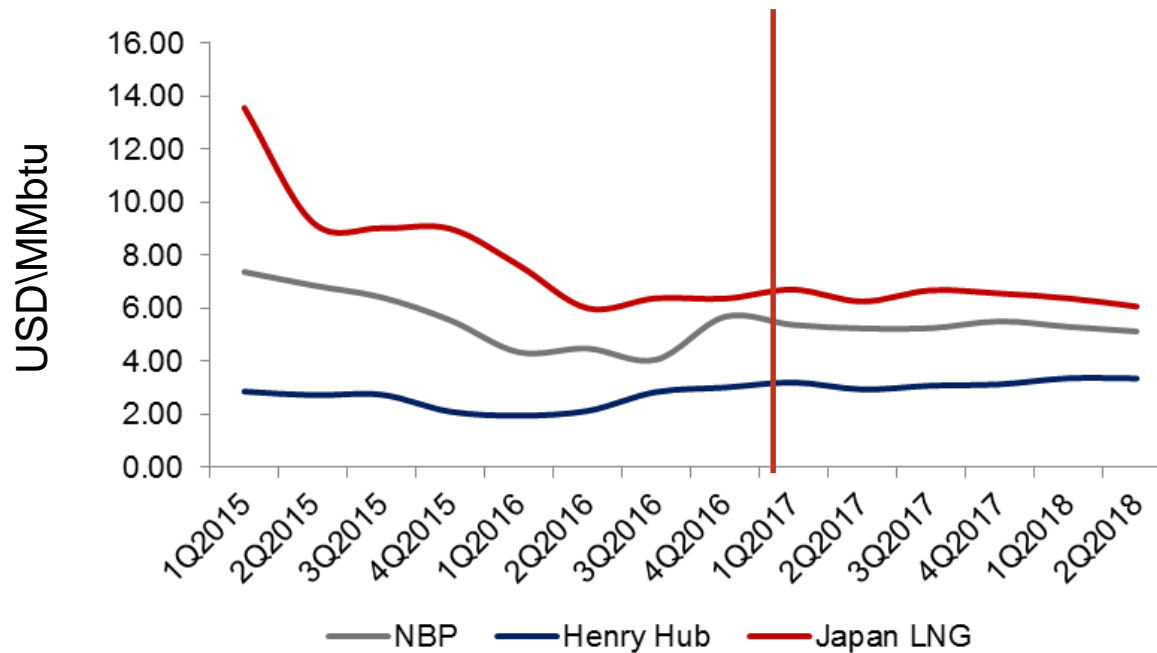
Permian and SCOOP/STACK in focus



Crude production from Shale will rise by roughly 750 mb/d this year assuming OPEC and non-OPEC cuts stays in place through 2017

Natural Gas Price Outlook

US prices will remain stable assuming normal weather patterns



Recent jumps in European LNG pricing creates opportunities for US exporters, but Asia remains challenged

Key Takeaways

Cautious optimism driving current market sentiment

- In 2017 the oil market will balance based on Stratas' reference case outlook, with 1.3 mmb/d of expected demand and a roughly 60% OPEC cut compliance
- While the OPEC deal and Trump presidency have both created substantial optimism, crude prices reflect some concern – both on supply and demand
- Key unknowns remain around economic outlook, tax policy, and geopolitics – issues not likely to go away soon
- North American production coming back strong but some estimates remain overly optimistic as service sector costs rise and hedging limits realized returns
- Oil prices have room to run if OPEC cuts hold while gas prices will remain stable with normal weather