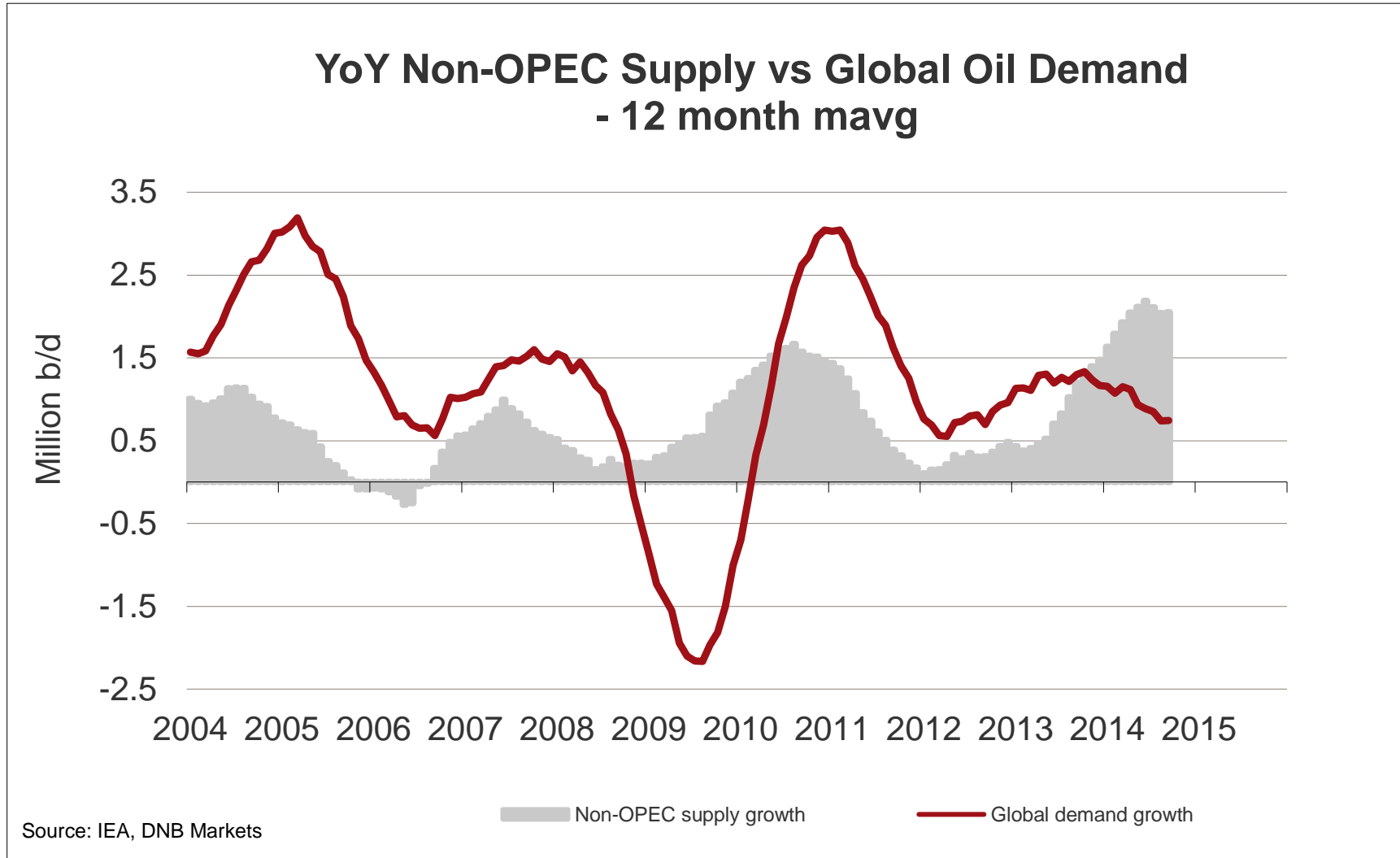


# Oil Market Outlook

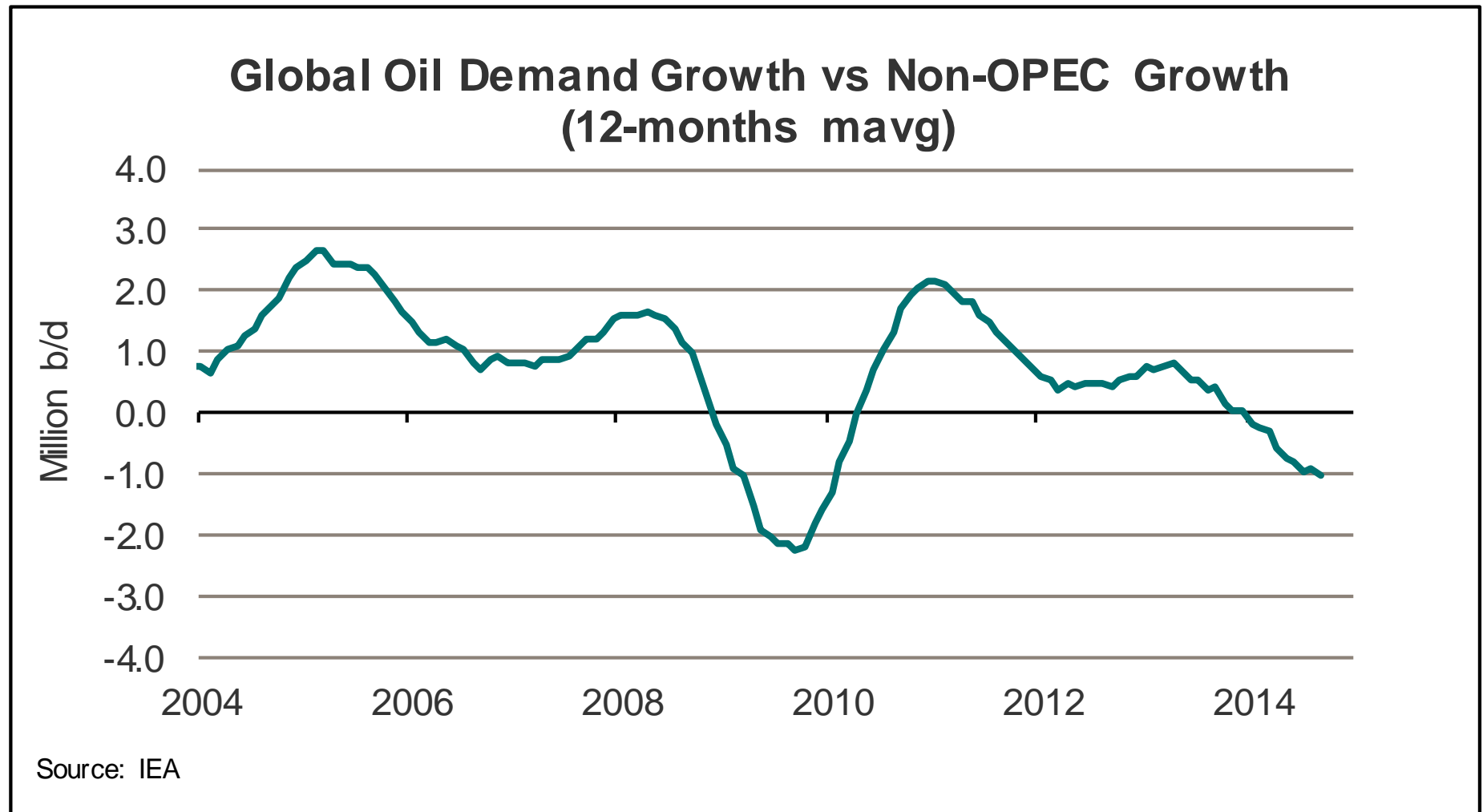
Will we see a test of OPEC or on the economy of US shale?

*The DNB oil story in pictures & graphs*

# Trend Line Growth Favors Supply – Not Demand

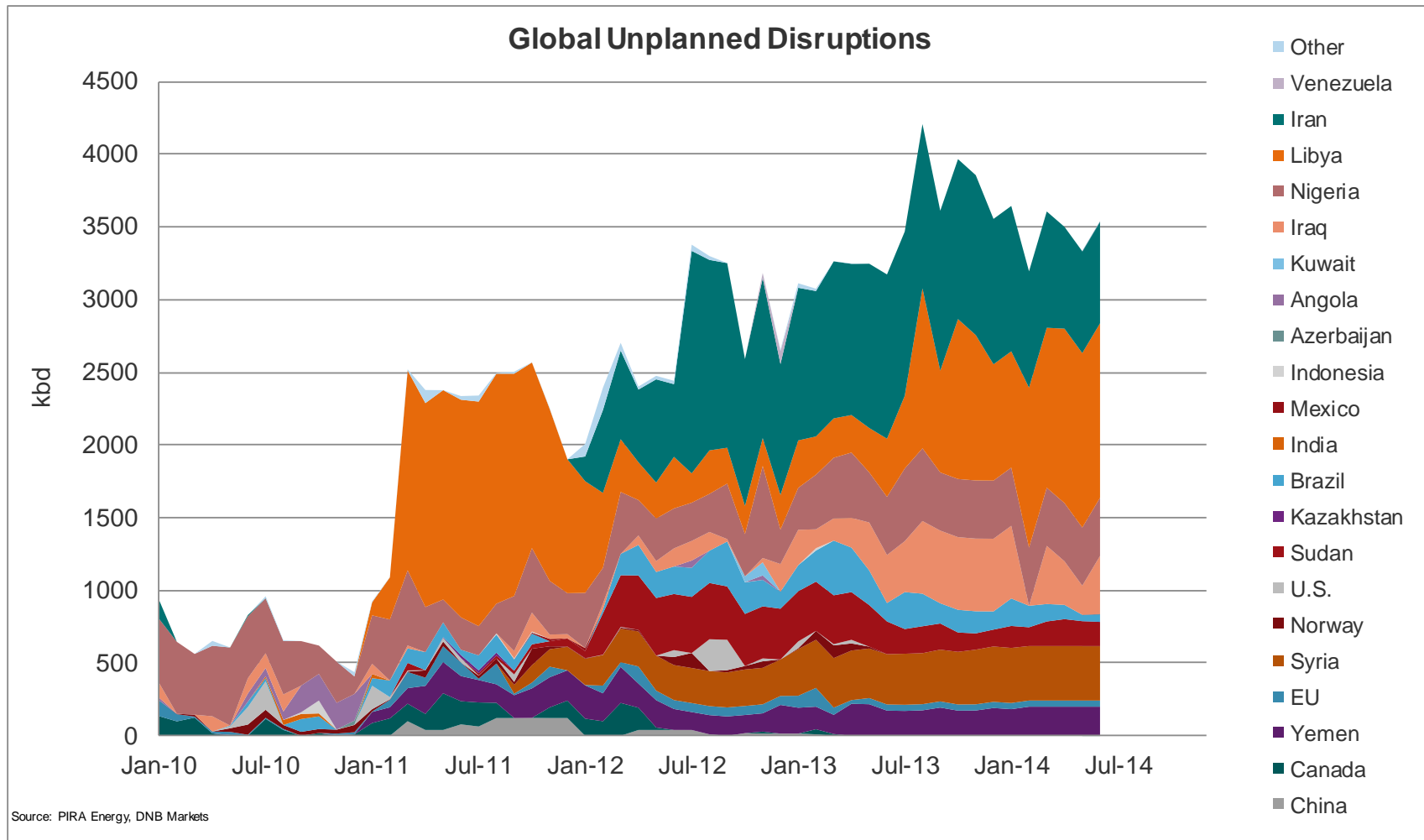


# Non-OPEC Supply Growing Quicker Than Global Demand



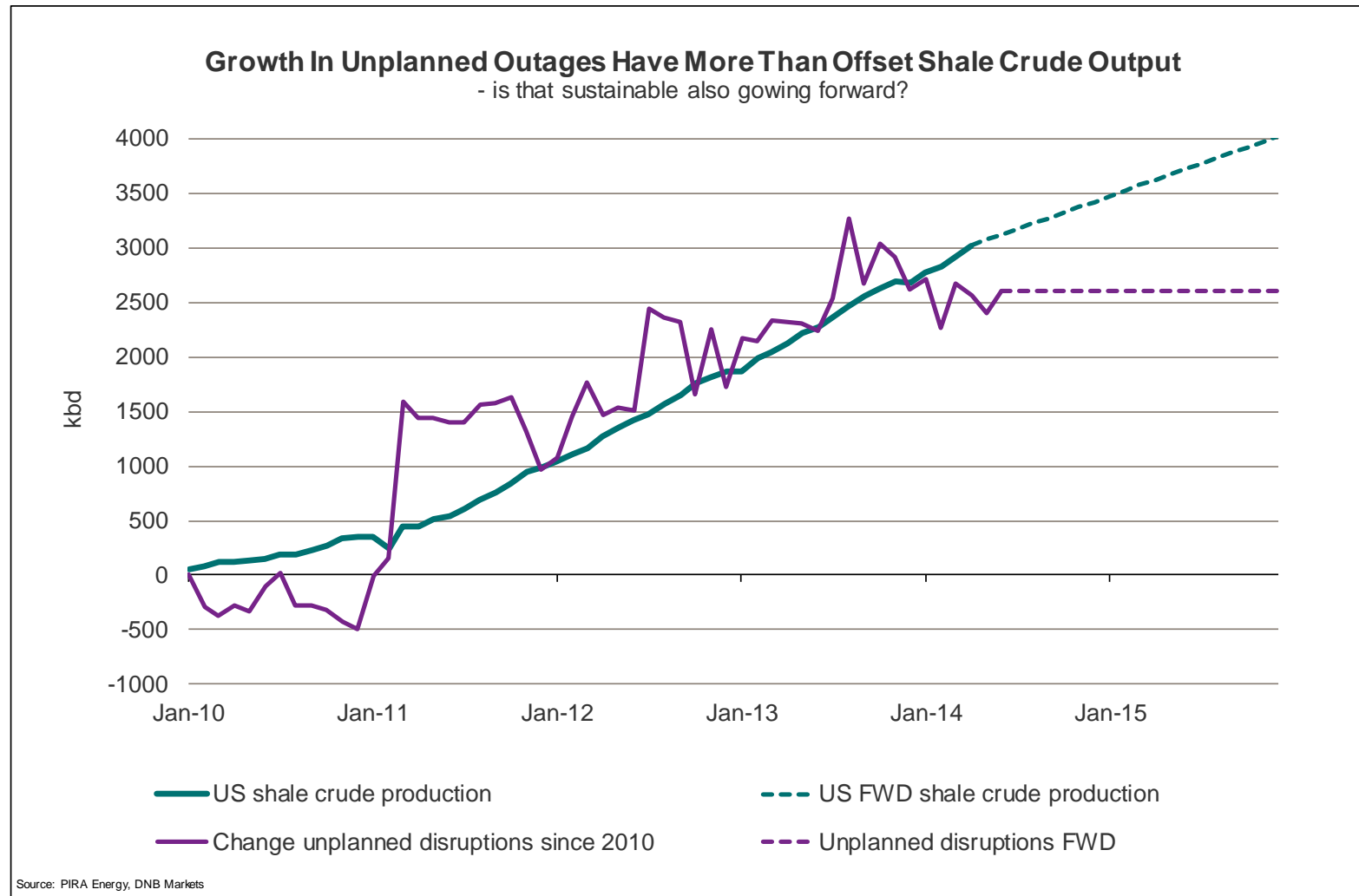
# Global Supply Disruptions Have Been Growing

- Will unplanned outages continue at the current high level for the coming 5-years?? What happens if these barrels return?



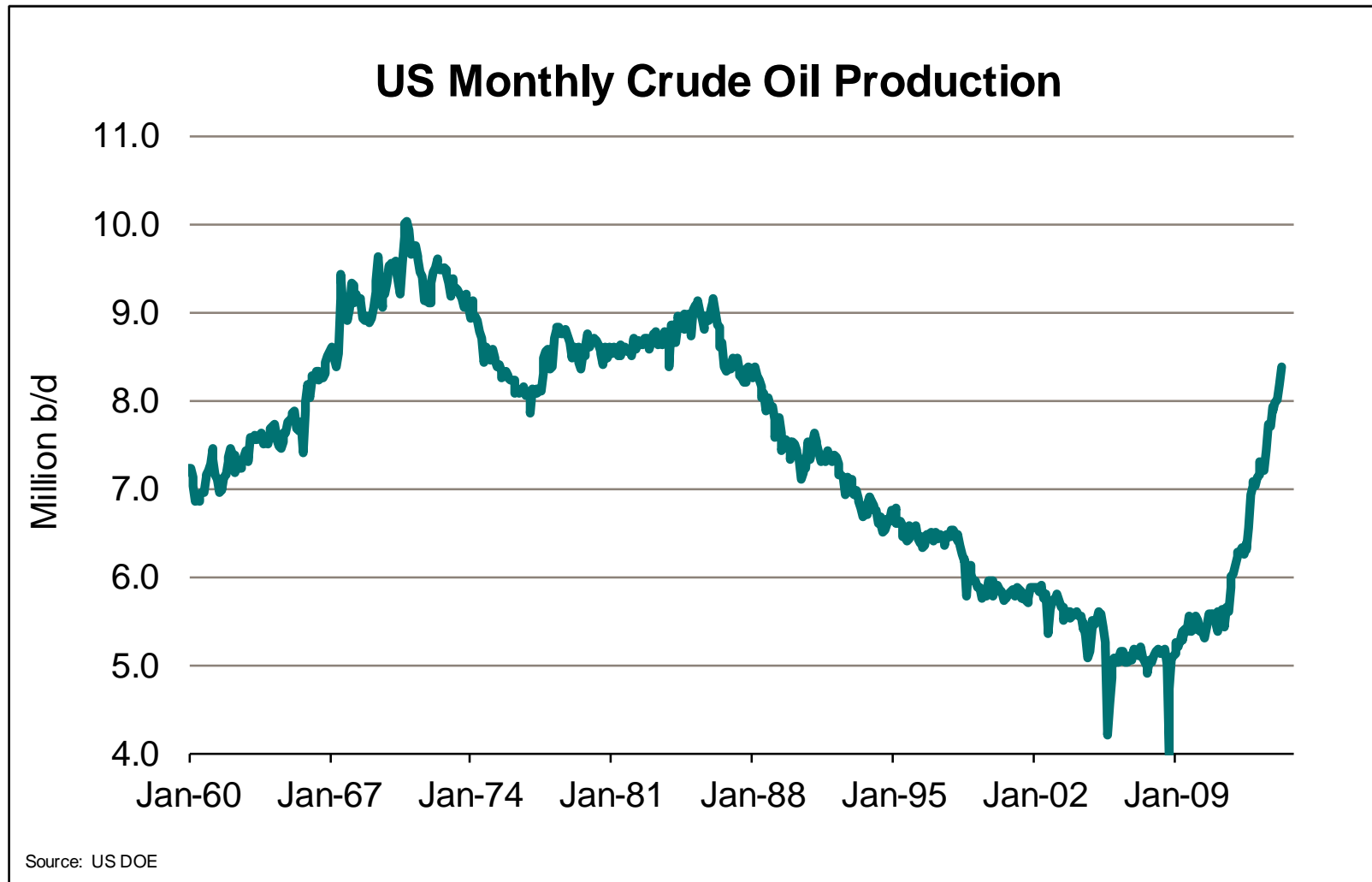
# Shale Crude Output Growth Has Been Offset By Outages

- Shale crude production growth is starting to catch up – What happens next three years with unplanned outages??



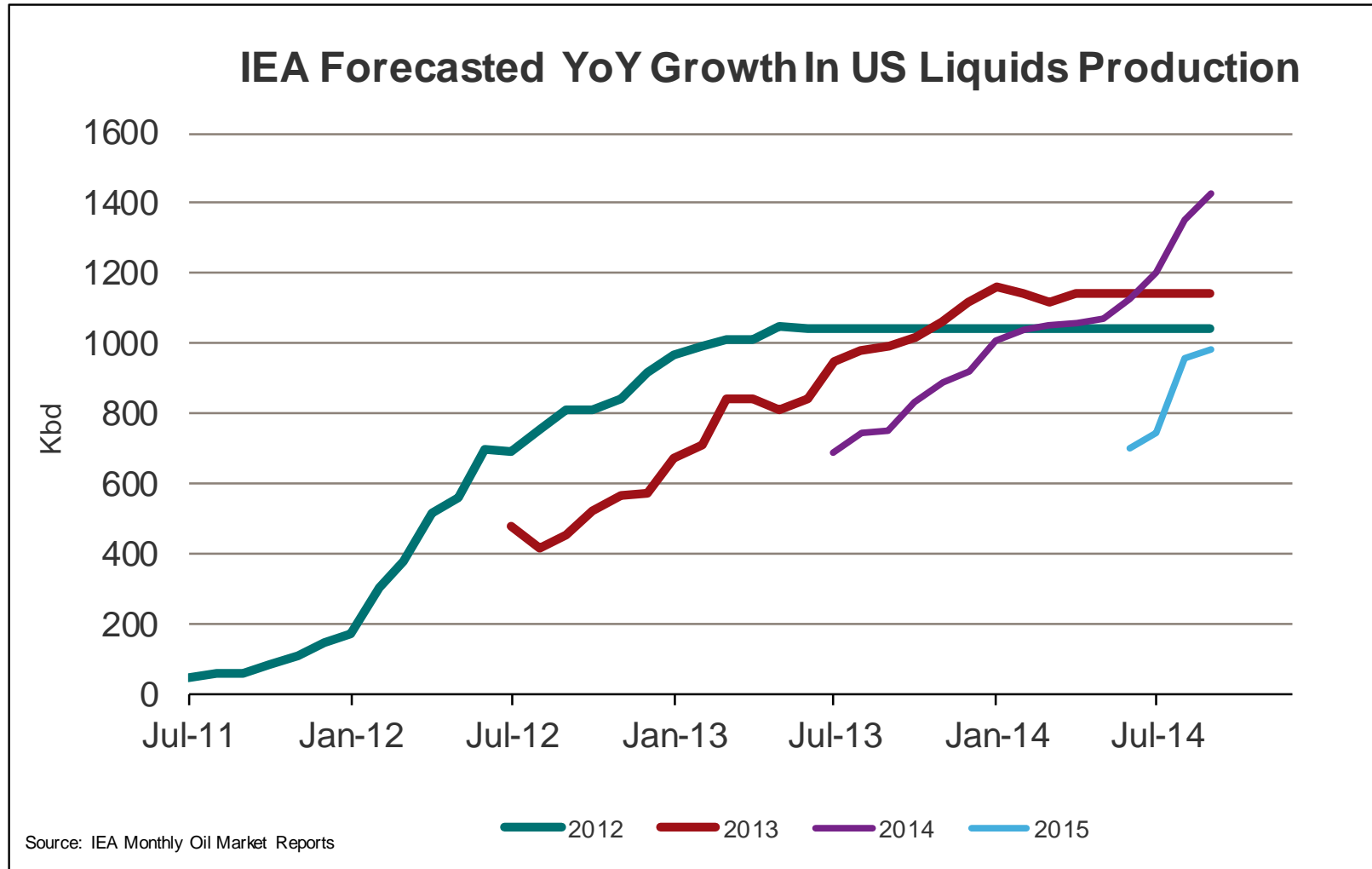
# US Crude Production Back On The Rise – The Shale Revolution

- After more than 20 years of steep production decline, US production is rising again



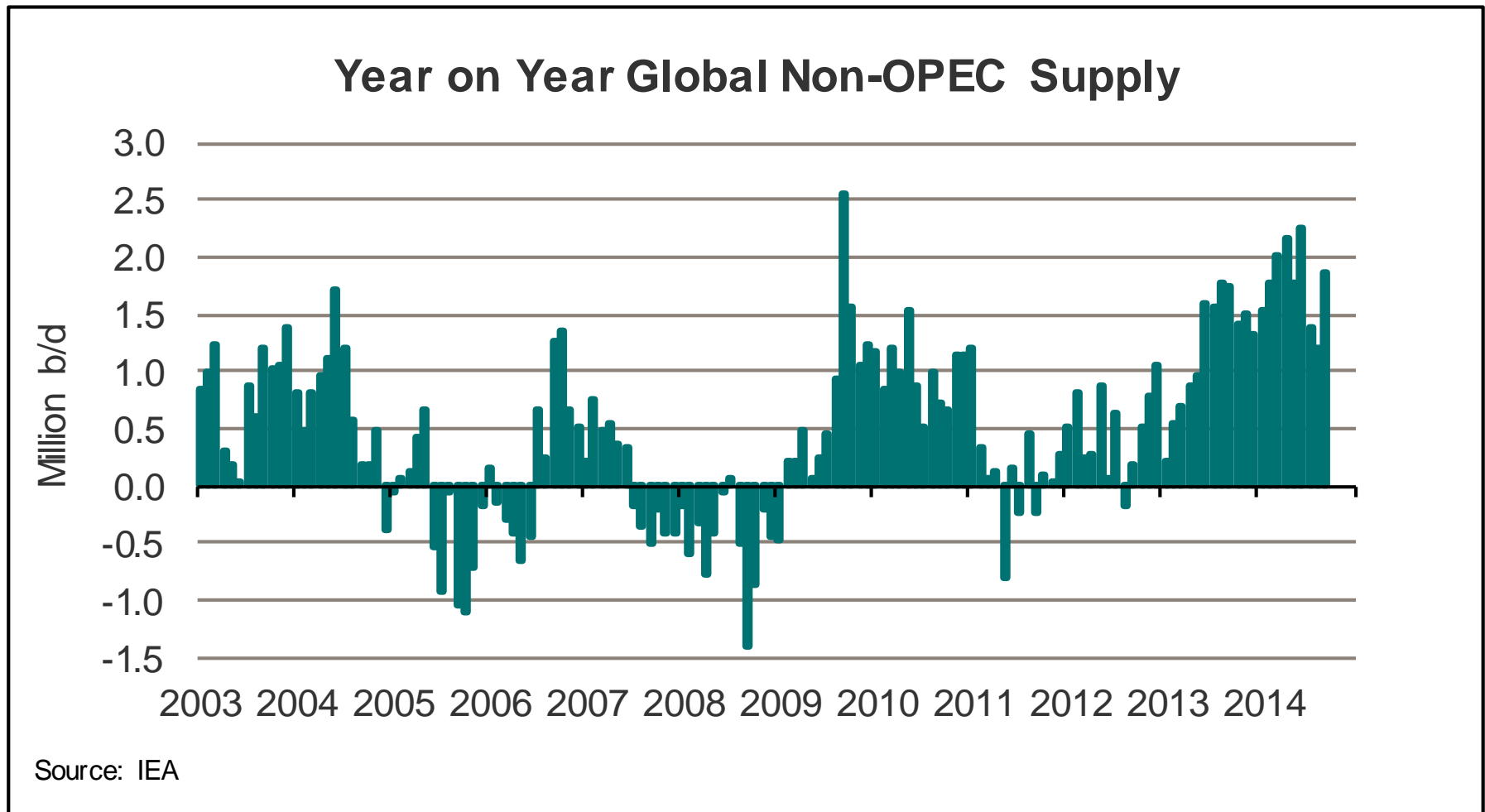
# IEA's Forecasts For US Production Growth Far Too Low

- IEA's first take on 2012 US production growth was at 45 kbd - now 2012 growth is estimated to have been 1.04 million b/d
- For 2013 the forecasted growth was 479 kbd, now the number is revised up to 1.14 million b/d
- For 2014 the initial estimate was 690 kbd, now the estimate is revised up to 1.43million b/d



# Very Strong Growth In Supply Outside Of OPEC

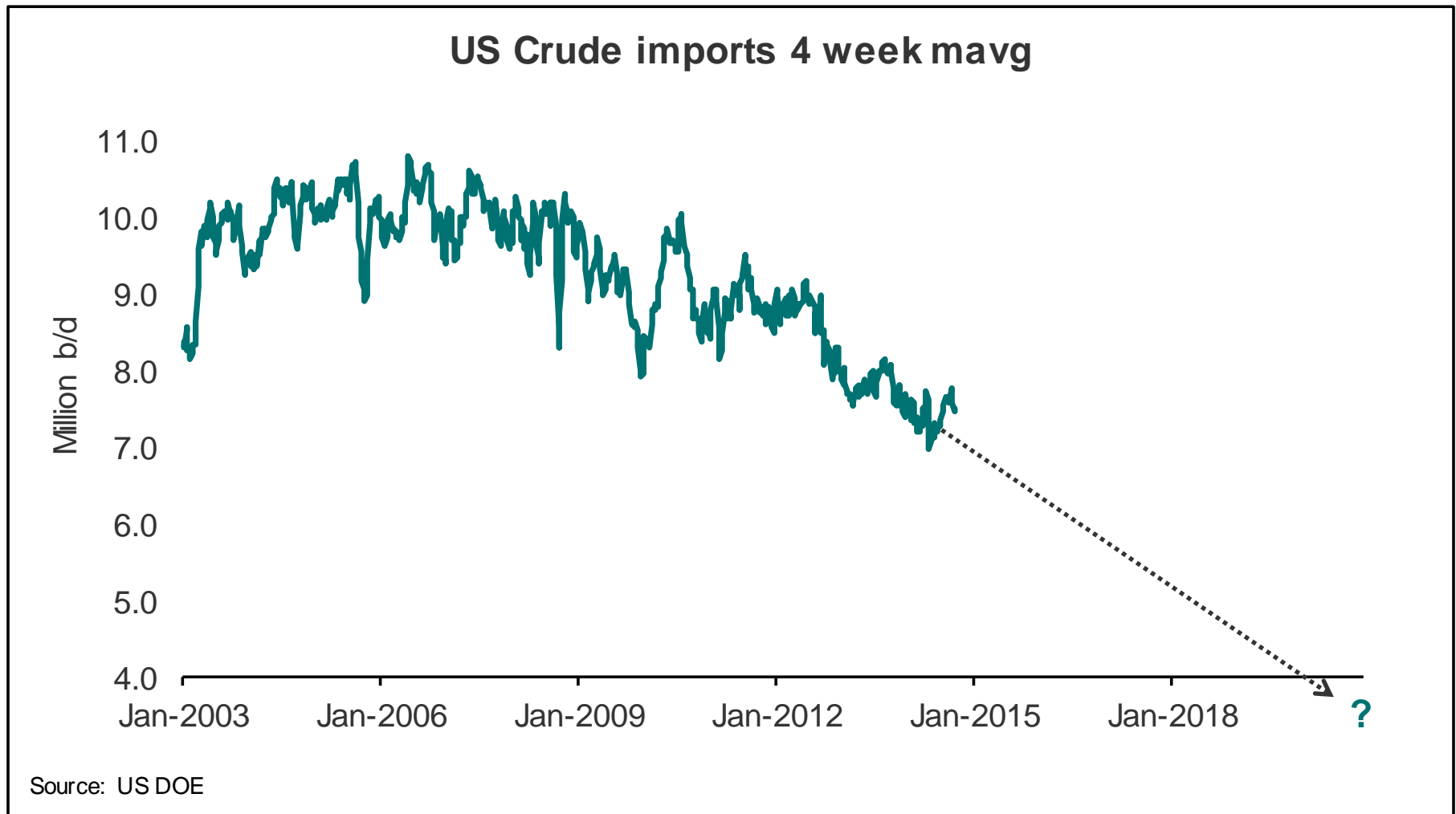
- Growth now solidly above 1.5 million b/d and OPEC NGLs and Biofuels are not included





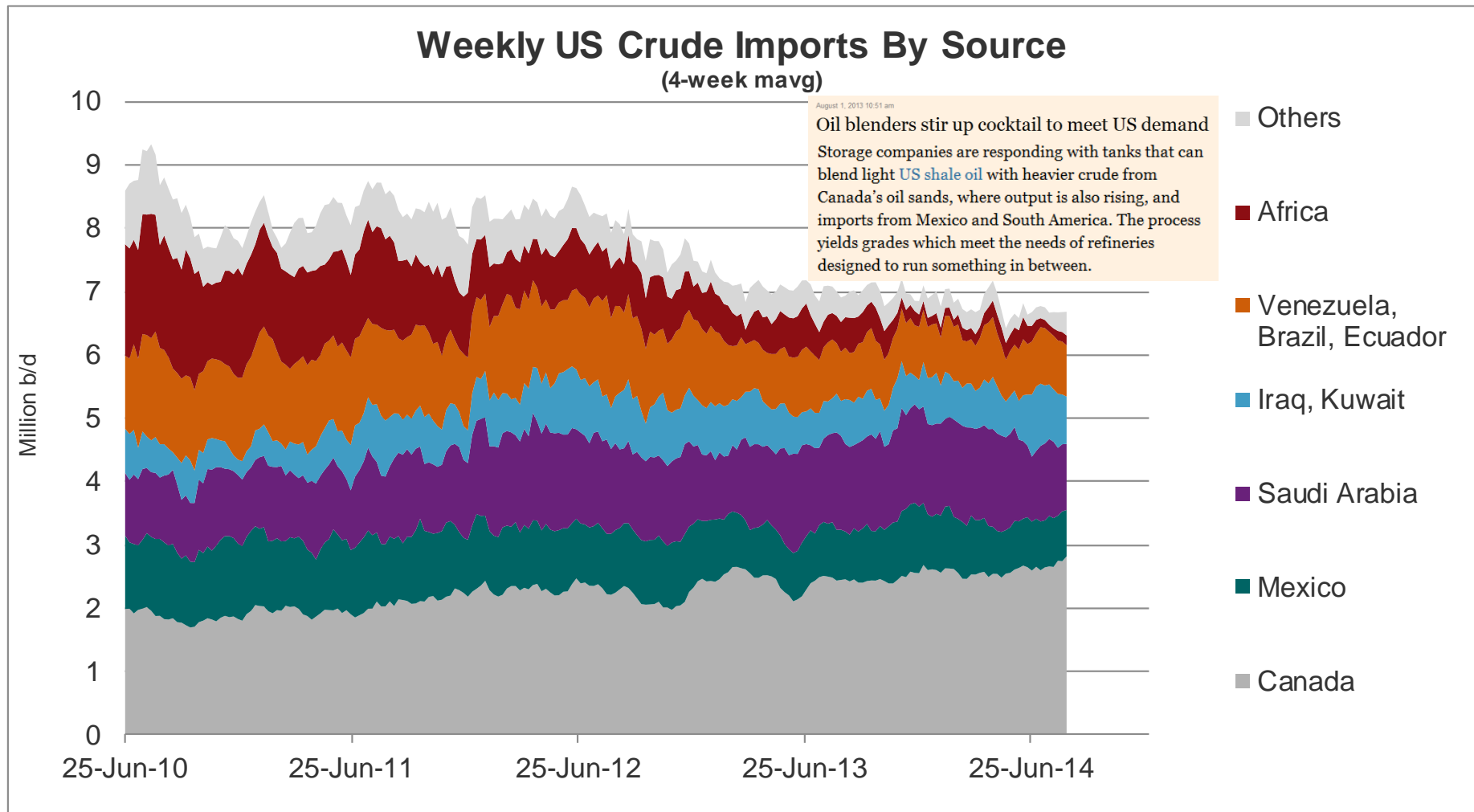
# US Crude Imports Down 2-3 Million b/d So Far

- US crude imports has started to drop but this is just the beginning



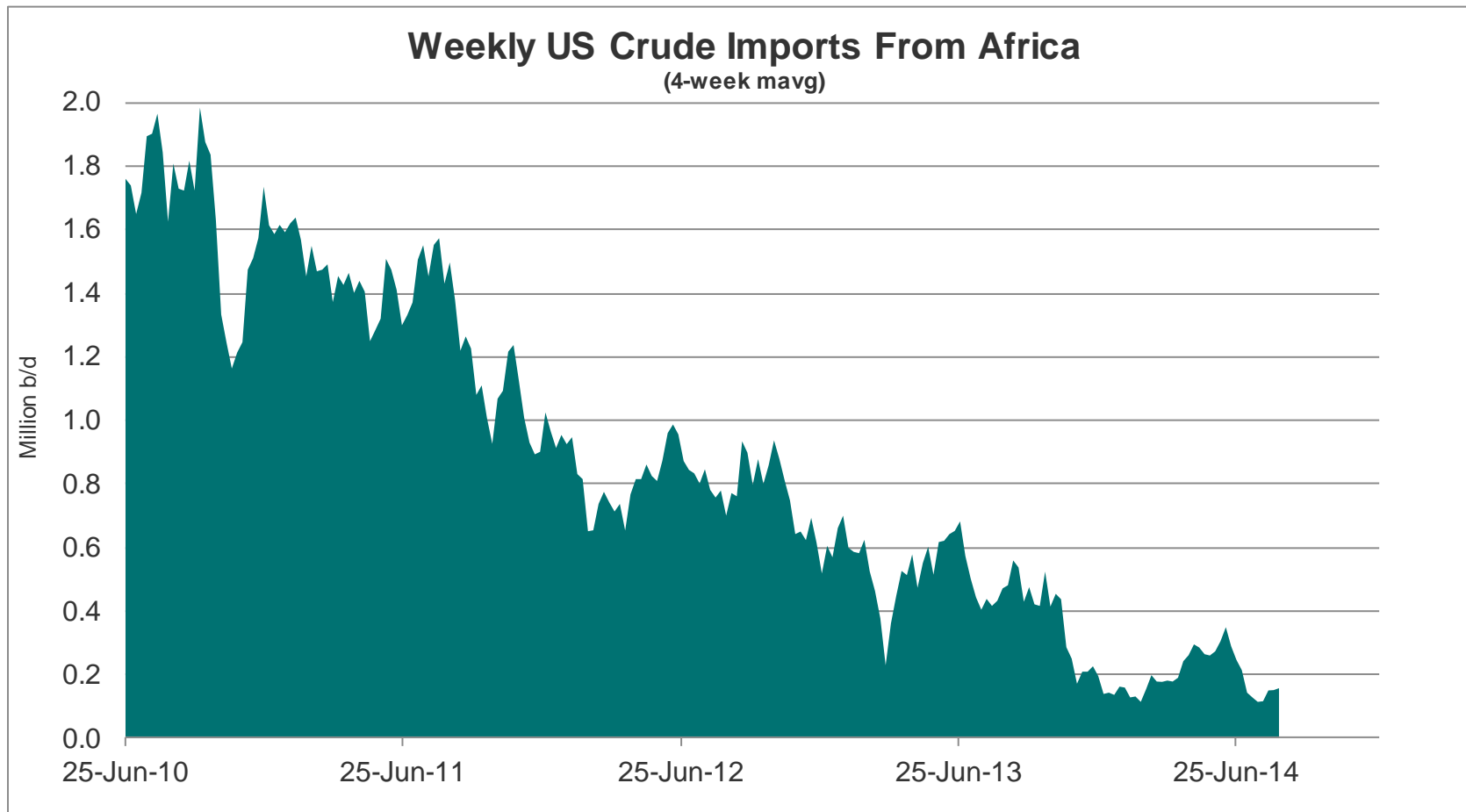
# US Will Continue To Push Away Imports – Who Is next?

- The top half of the sources below will disappear first from US crude imports. Canada set to continue to grow, others to drop.



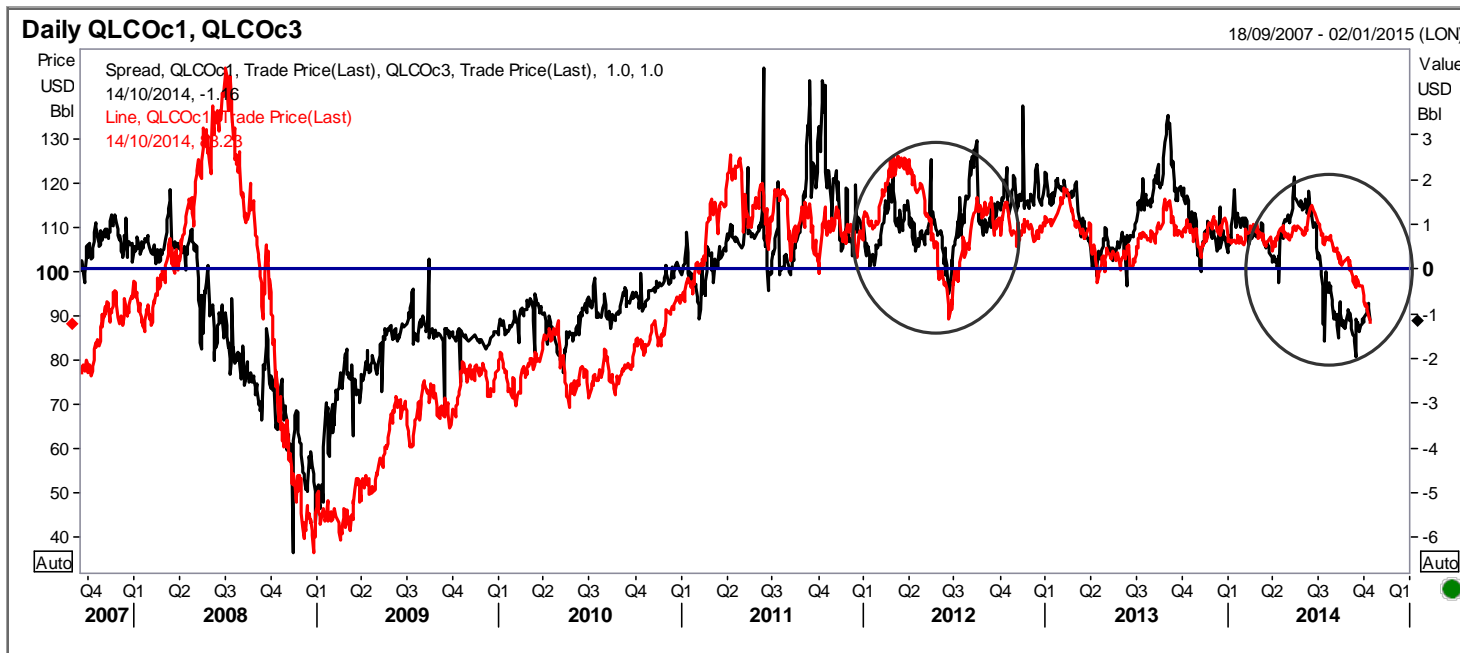
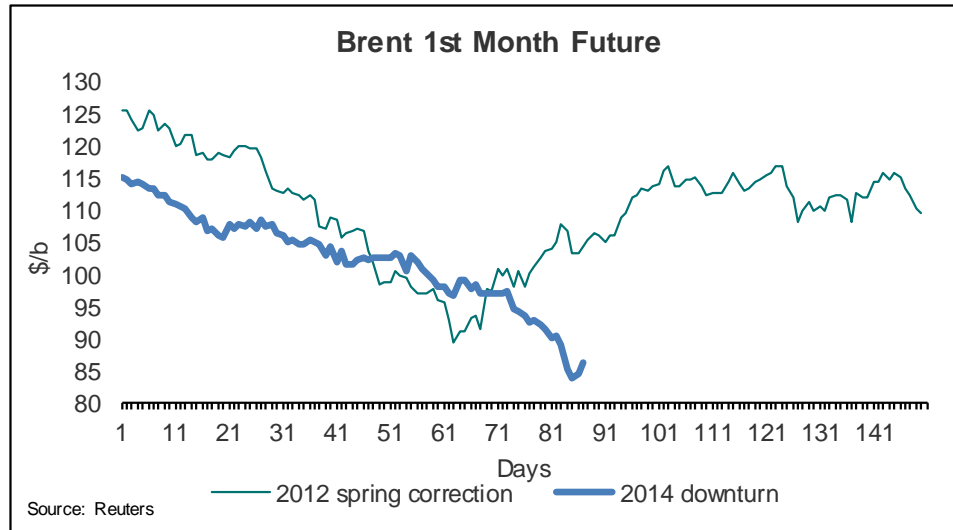
# African Crude Barrels Almost Gone From The US

- This has meant and means much more availability for Asia



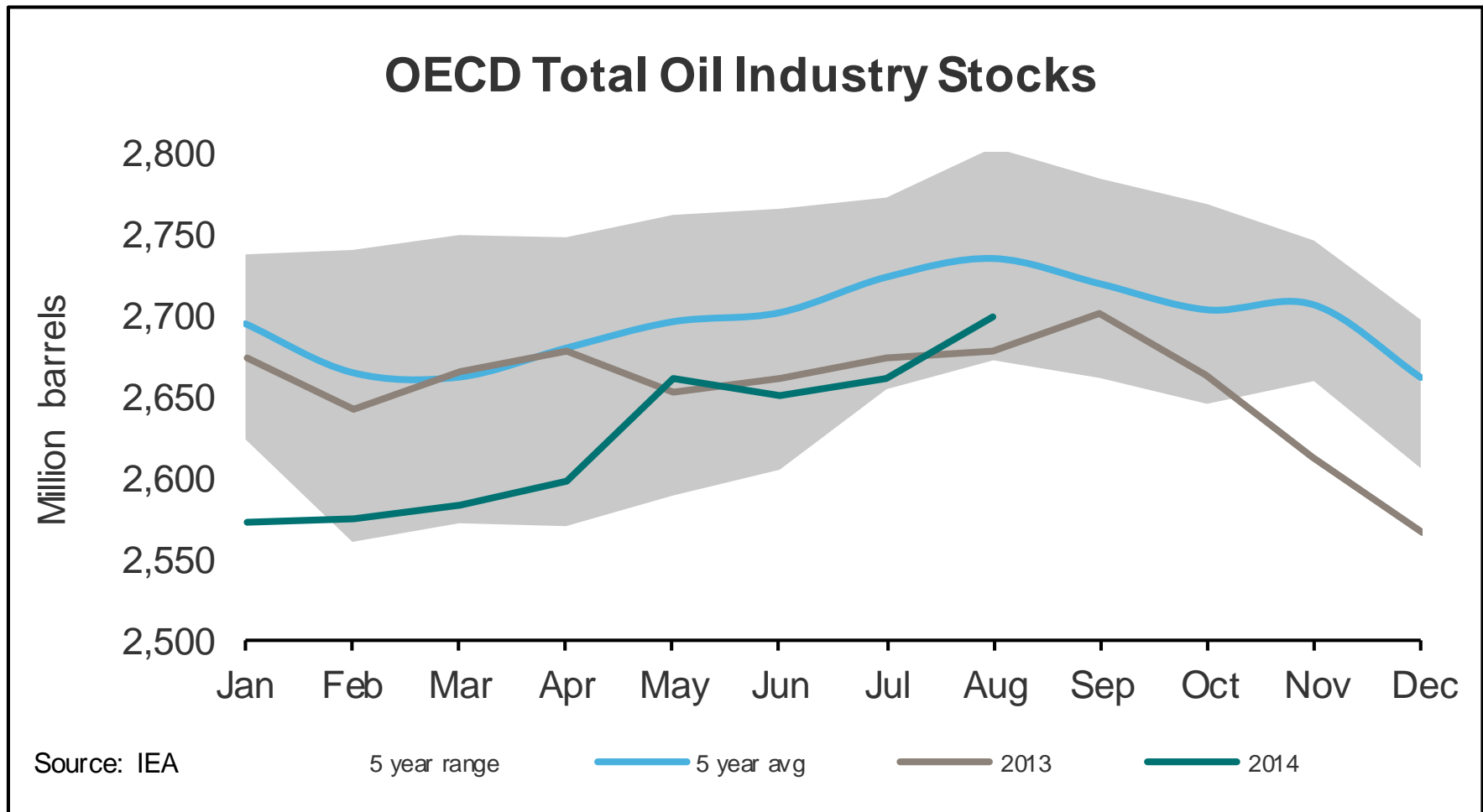
# What Is Different From The 2012-Correction

- Deeper and longer drop now and the key difference is the contango which suggest a much weaker physical market than in 2012



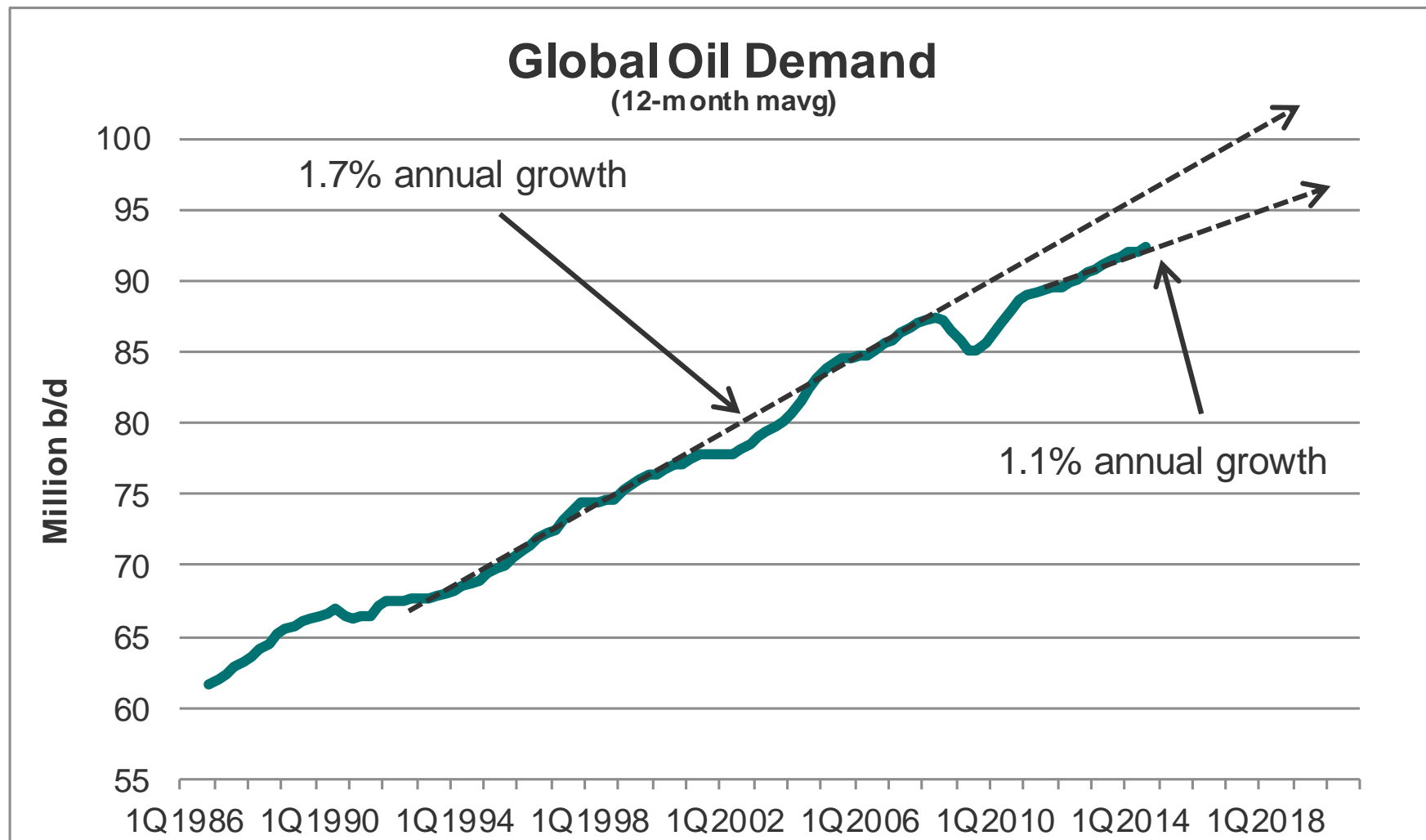
# Oil Stocks Have Been Building So Far In 2014

- And will continue to build unless supply is removed from the market



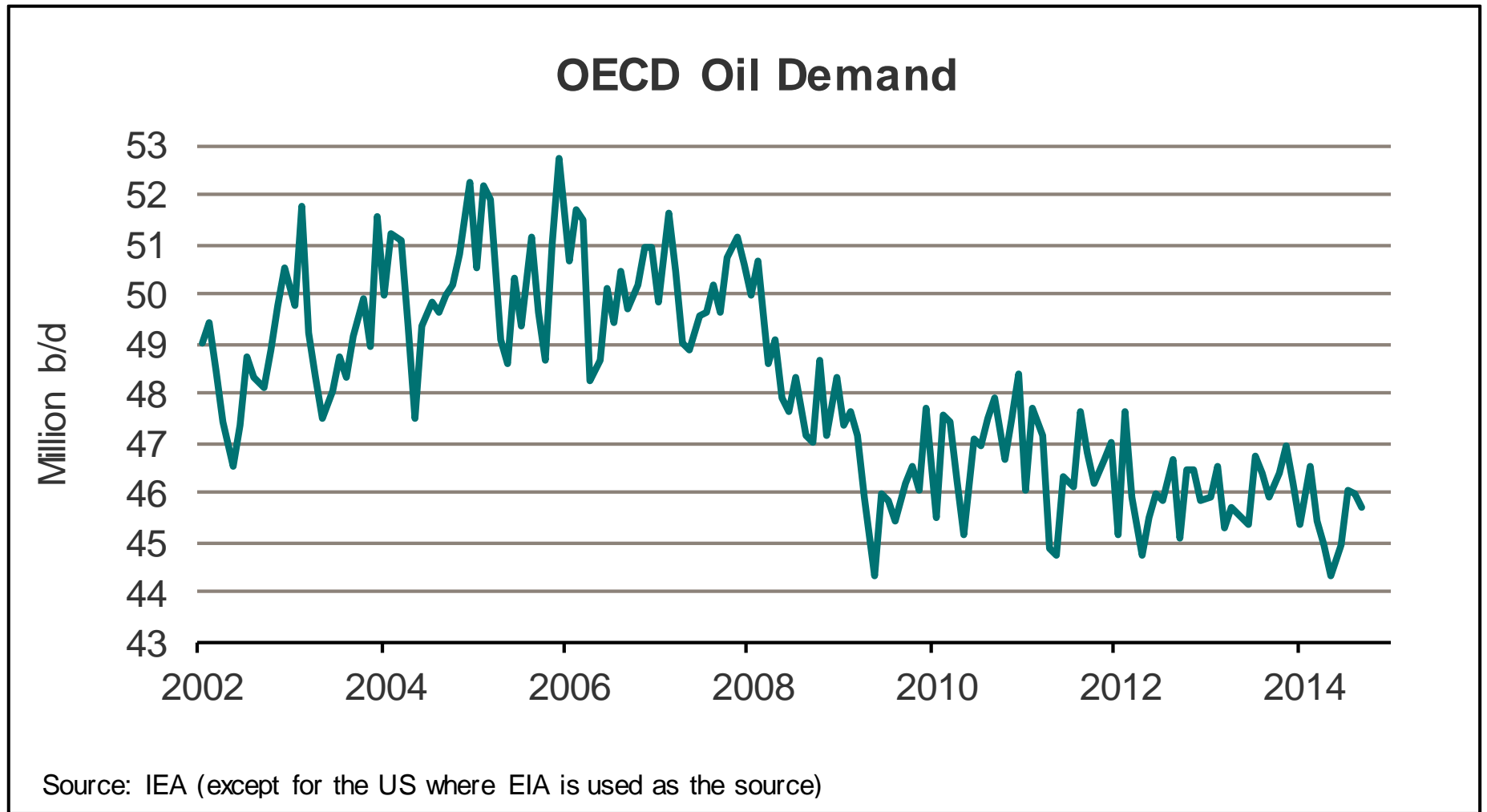
# We Are Not Set To Return To The Trend Line

- All the changes to oil demand in recent years are not all cyclical, there are also structural elements to them like efficiency improvements and substitution



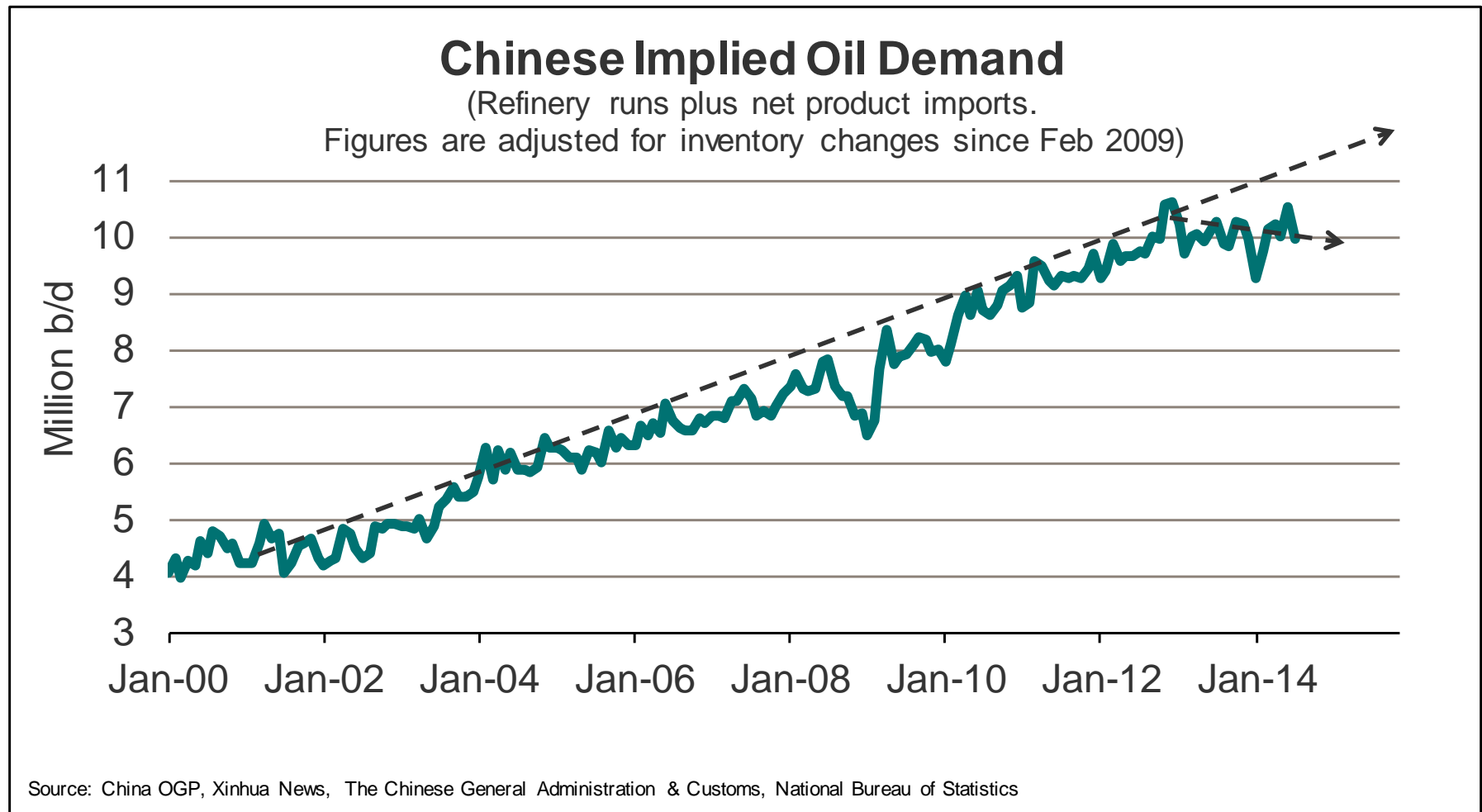
# Peak Oil Has Already Happened

- At least when talking about demand in the developed world – and a large chunk of this looks structural and not cyclical



# Chinese Growth In Oil Demand Stalling??

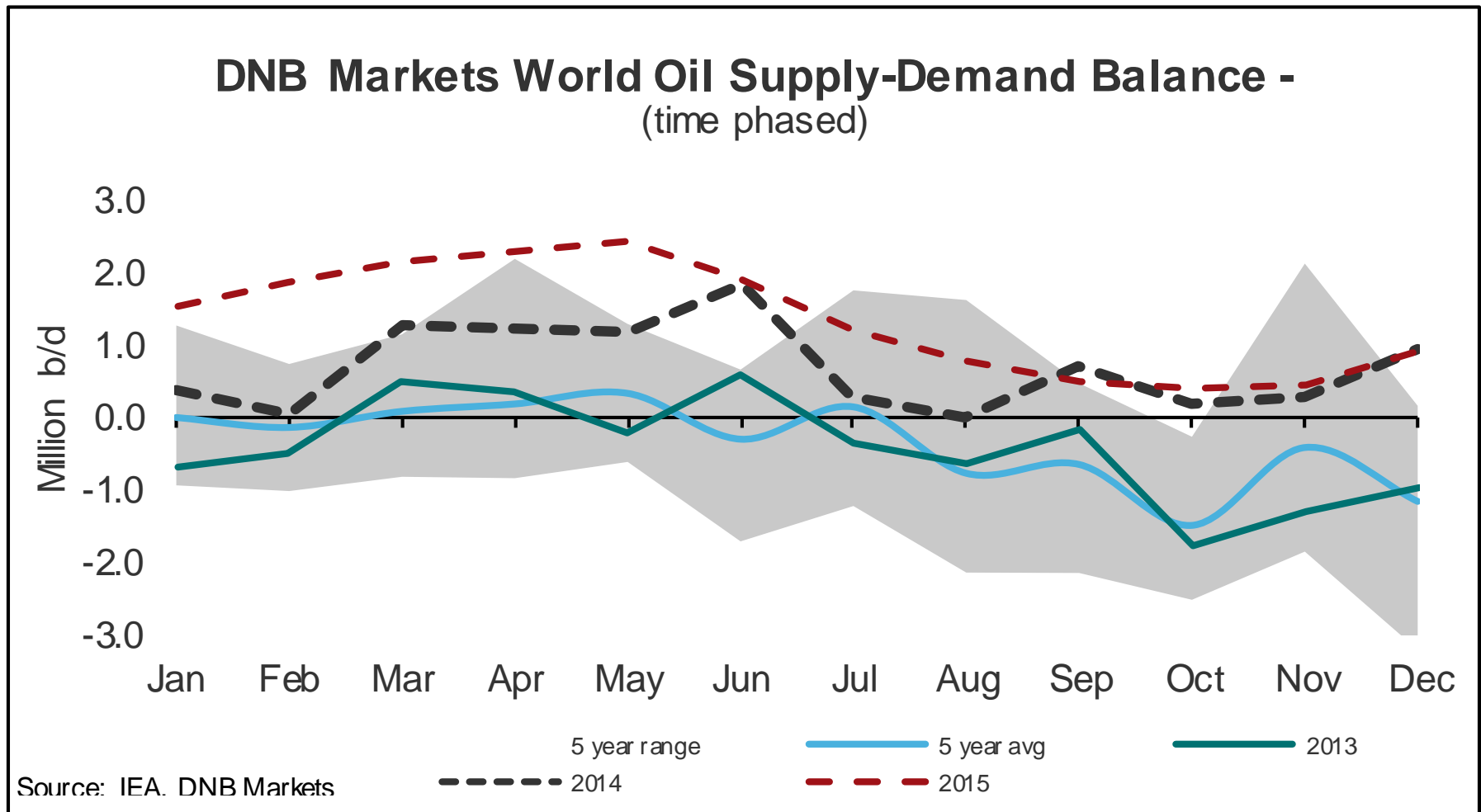
- Where is the accelerating growth in Chinese oil demand??





# More Than 1 Million b/d Needs To be Removed In 2015

- Will Saudi remove these barrels?



# Do We Risk A Repetition Of 1986-1991 From Saudi?

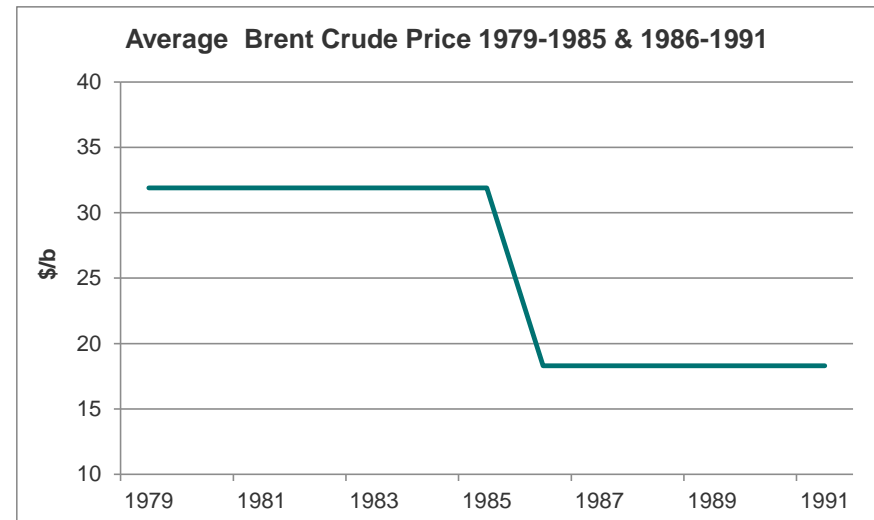
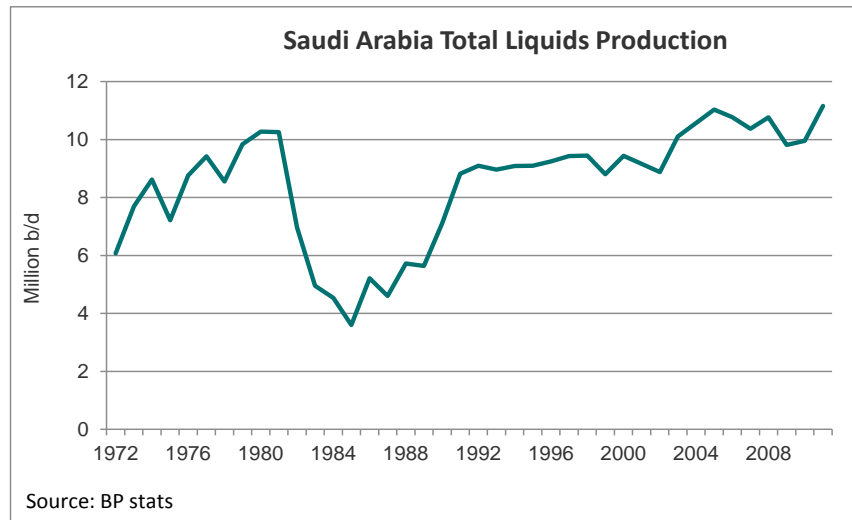
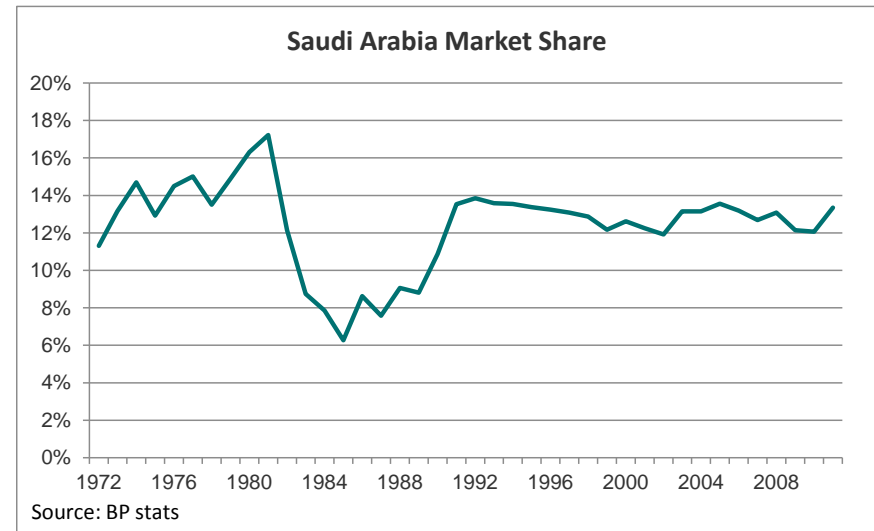
- Or is it better for Saudi to just keep market share and let prices slide a bit??

## Volume cut:

2013-15	Million b/d	\$/b price	Revenue mill \$/d
Saudi crude production:	9.7	100	970
<b>Saudi production cut:</b>	<b>1.2</b>		
Saudi production after cut:	8.5	<b>100</b>	<b>850</b>

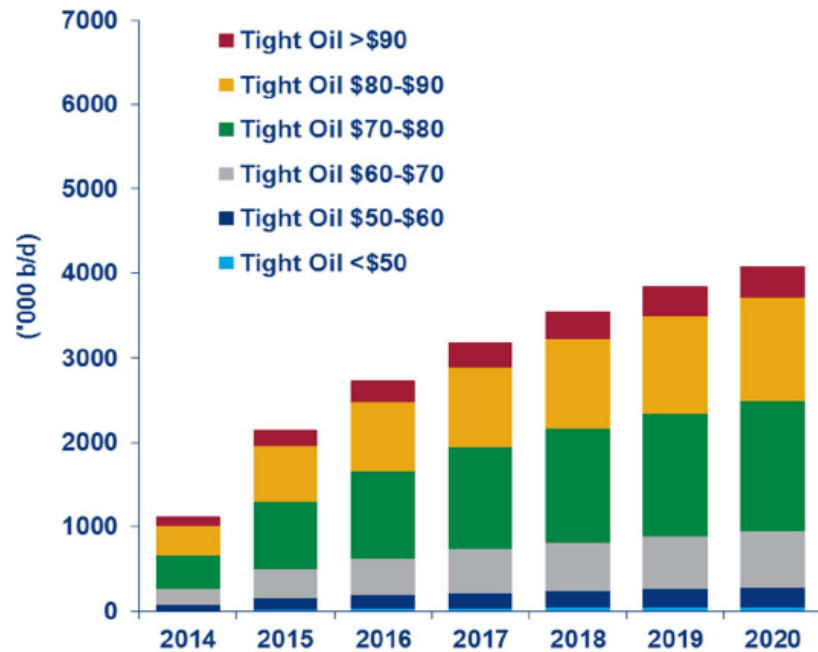
## No volume cut:

2013-15	Million b/d	\$/b price	Revenue mill \$/d
Saudi crude production:	9.7	100	970
<b>Saudi production cut:</b>	<b>0.0</b>		
Saudi production after cut:	9.7	<b>88</b>	<b>850</b>



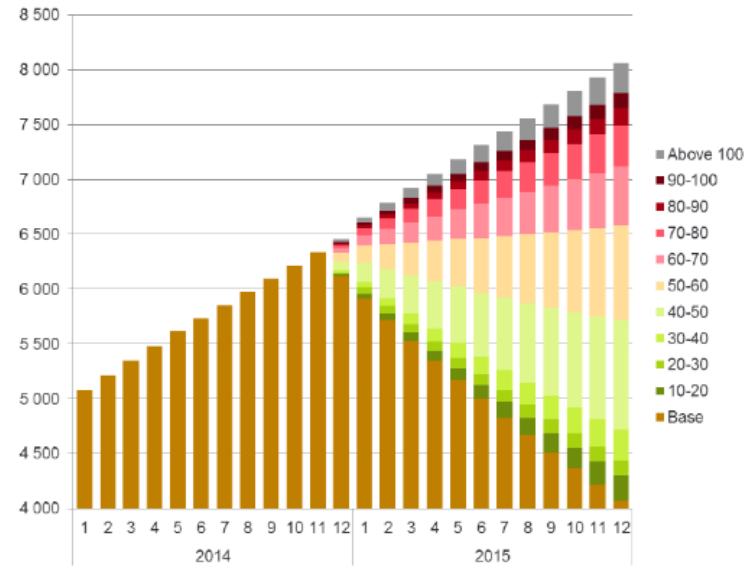
# 70-90 \$/b Brent Required For Further Growth

- Looks like we need to see Brent between 70-80 \$/b to reduce the growth rate from 1 million plus to below 500 kbd



Source: Wood Mackenzie

Exhibit 1: North American shale production split by Brent equivalent break-even oil prices through 2015 (thousand barrels per day, including NGLs)

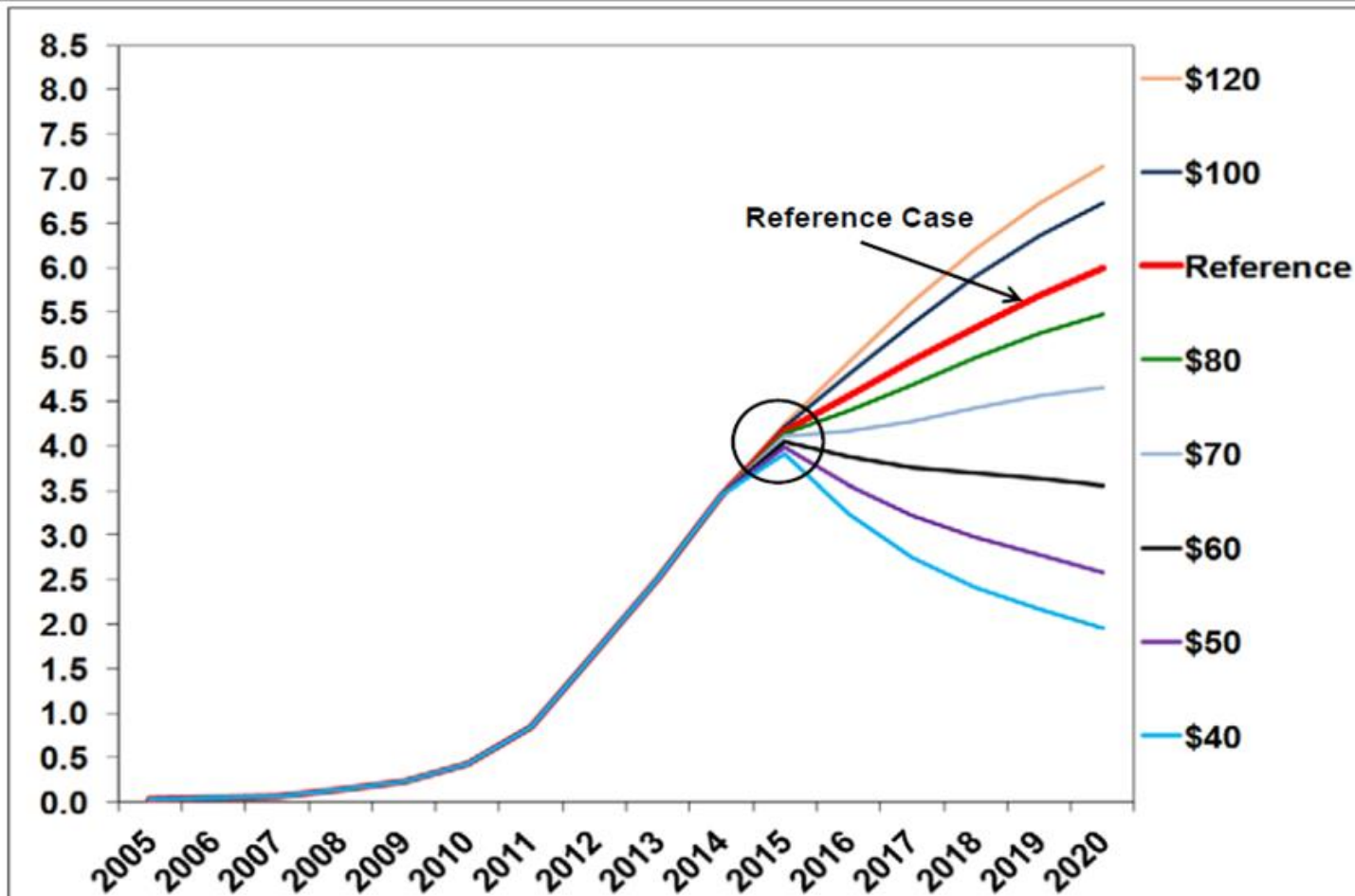


Source: Rystad Energy

# May Need Brent Prices In the 70's To Get Weak Enough Growth

- US shale oil growth needs to be cut in half or less if OPEC not willing to cut more than 1 million b/d for 2015

U.S. Shale Crude and Condensate Production (MMB/D)

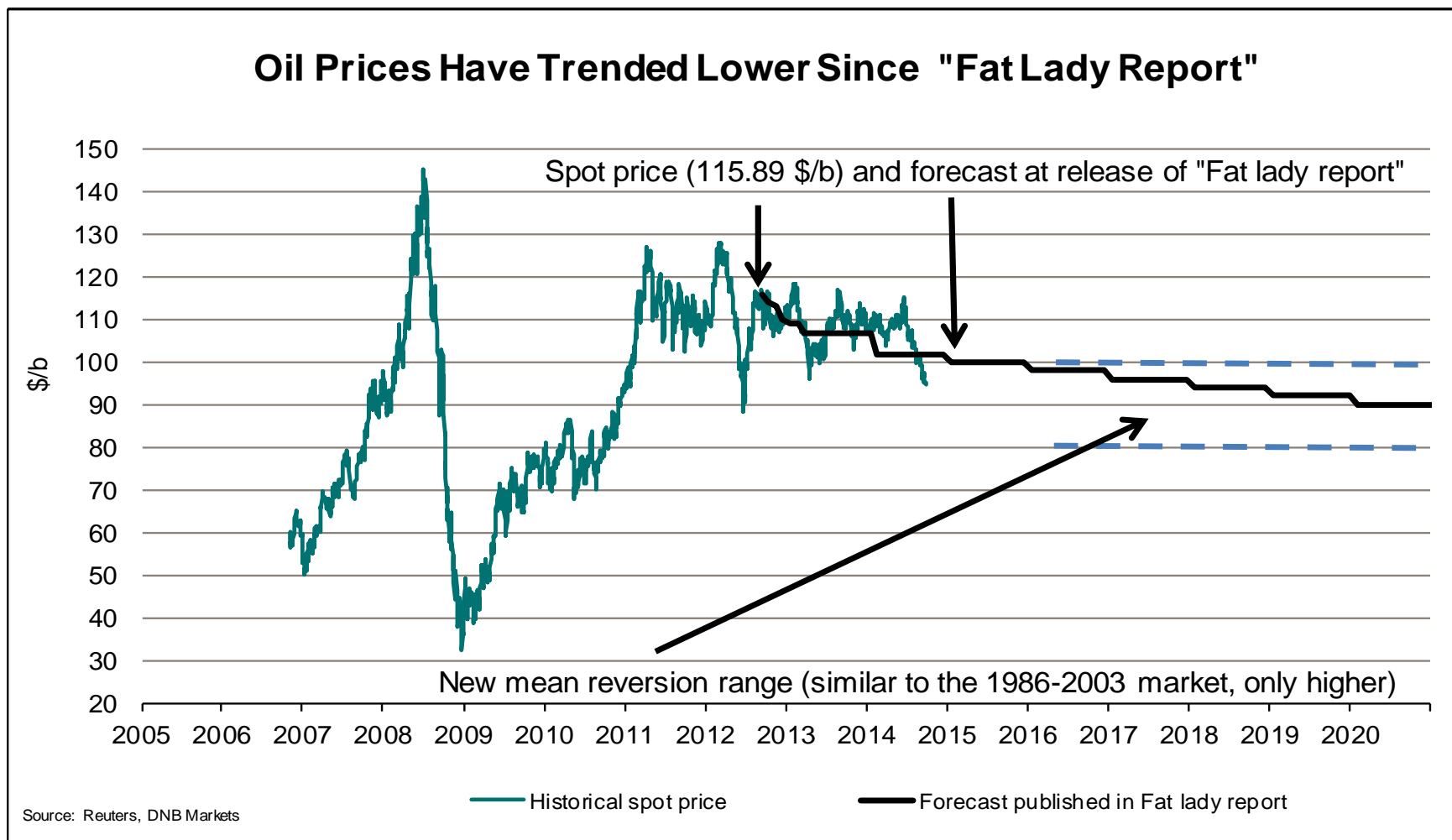


Source: PIRA Energy

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# What Has Happened To Oil Prices Since "The Fat Lady Report"

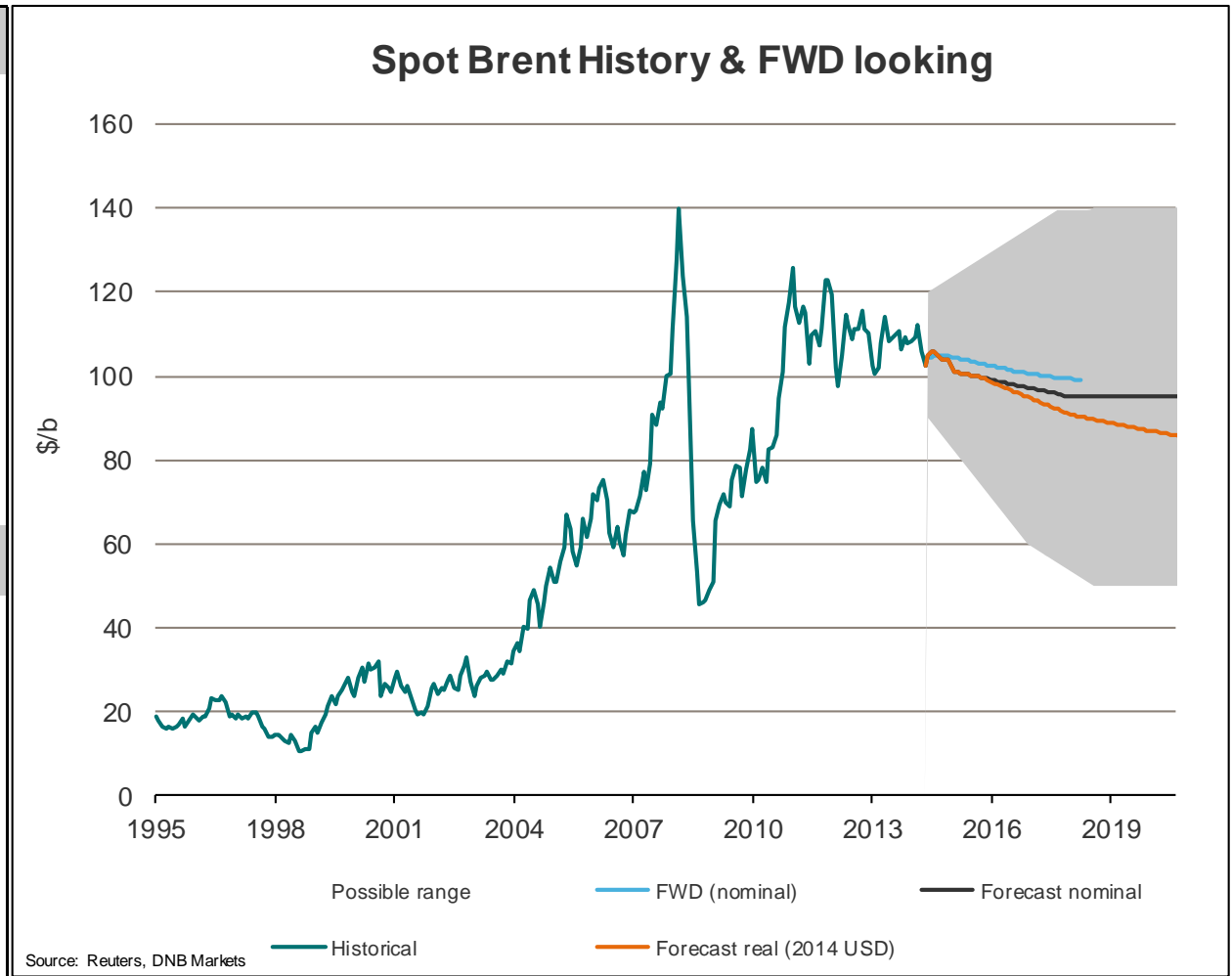
- The market has continued to overshoot and undershoot, but has trended lower



# Long Term Oil Price Forecast

(The forecast is for the average of the rolling 1<sup>st</sup> month ICE Brent future contract)

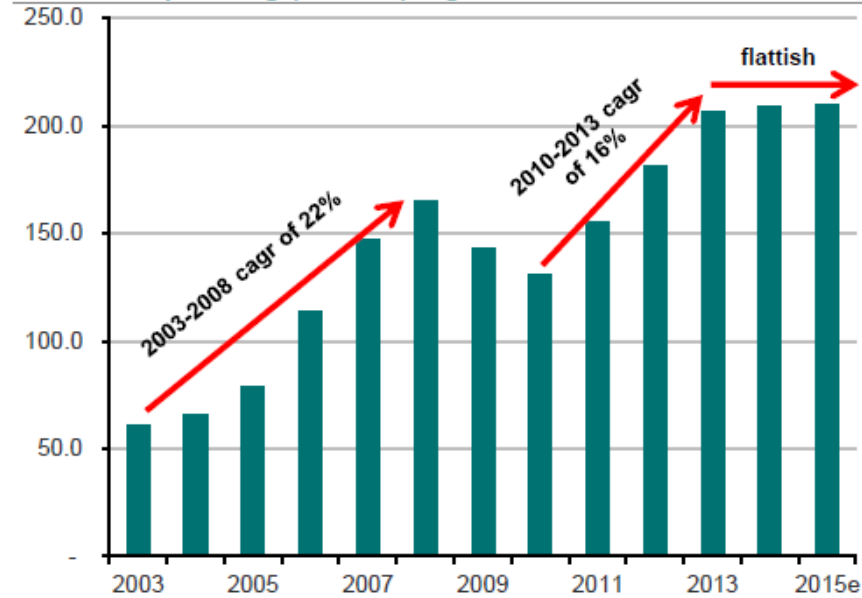
	Historical Nominal \$/b	Historical Real (2013) \$/b
2001	24.4	32.2
2002	25.0	32.4
2003	28.8	36.5
2004	38.3	47.2
2005	54.5	65.0
2006	65.1	75.3
2007	72.4	81.3
2008	97.3	105.2
2009	61.7	67.0
2010	79.5	84.9
2011	111.3	115.2
2012	111.7	113.3
2013	108.7	108.7
	Forecast Nominal \$/b	Forecast Real (2014) \$/b
Q1-14	108	108
Q2-14	110	110
Q3-14	107	107
Q4-14	105	105
2014	107	107
2015	100	100
2016	98	97
2017	96	93
2018	95	90
2019	95	88
2020	95	86



# Offshore Spending Not Growing Anymore

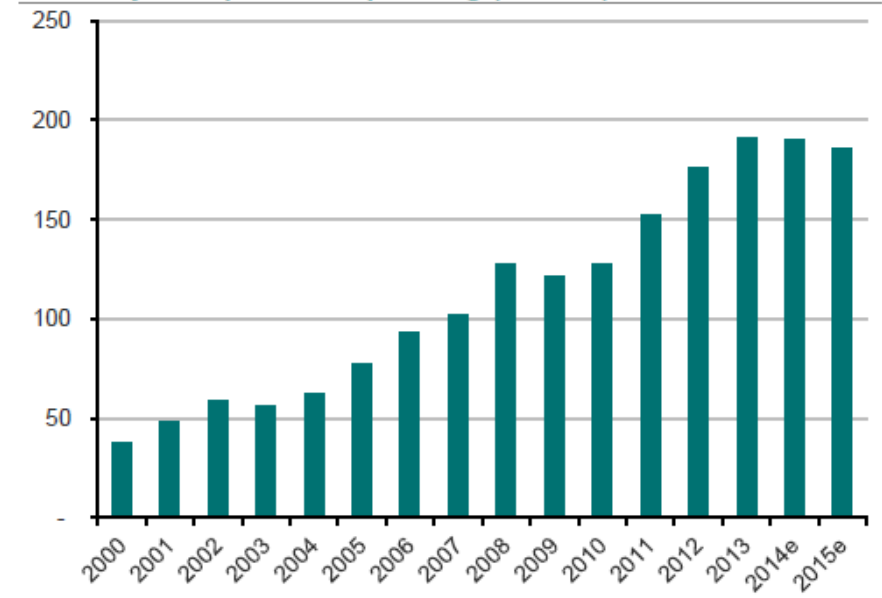
- Oil majors are now focusing on value management rather than production growth

### Offshore spending (USDbn) – global



Source: Rystad, DNB Markets, Companies

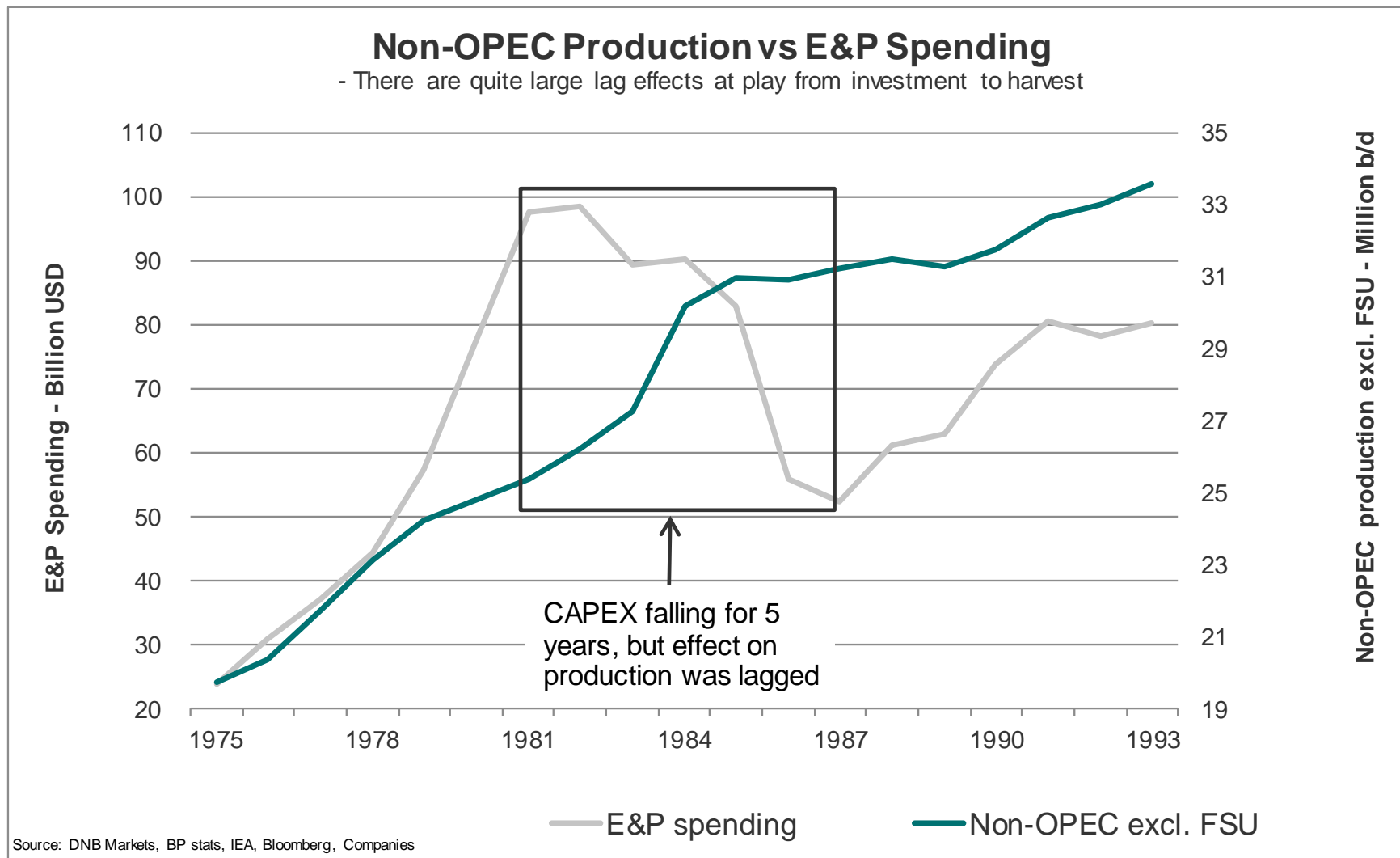
### E&P majors' upstream spending (USDbn)



Source: DNB Markets, Companies

# Flattish E&P CAPEX Does Not Equal No Production Growth

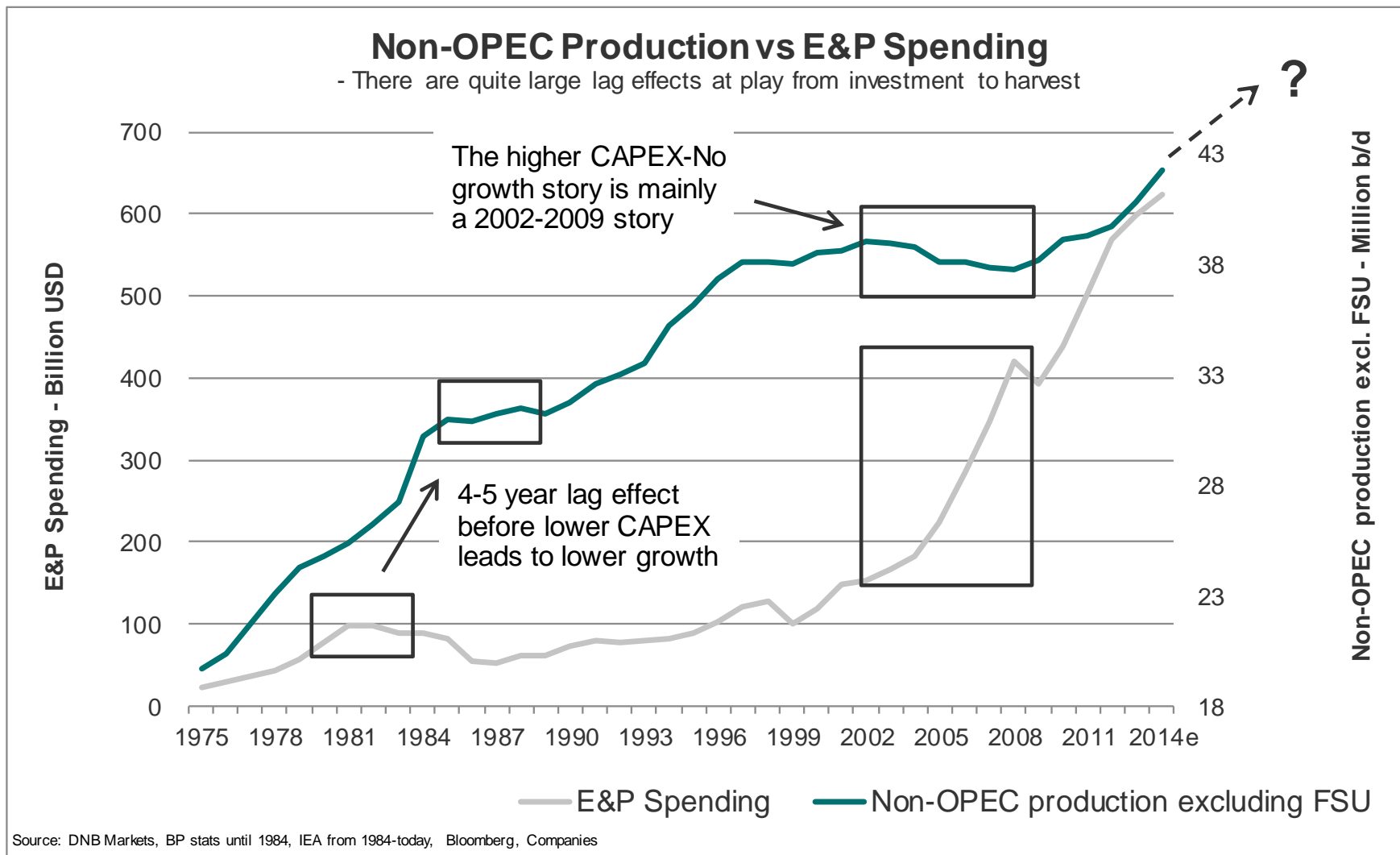
- CAPEX down 50% from 1982 to 1987 but non-OPEC growth not negatively affected until from 1986 to 1989





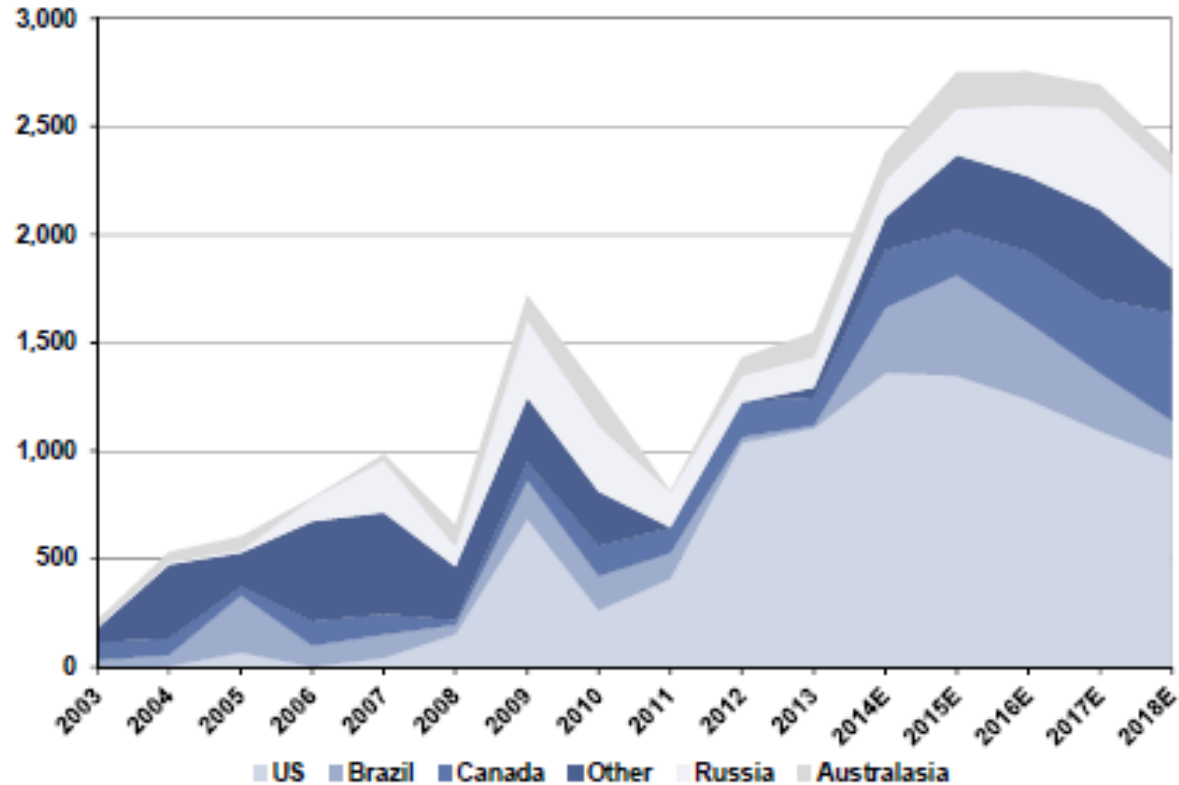
# Flattish E&P CAPEX Does Not Equal No Production Growth

- The lag effects are quite large – Falling CAPEX in the early 1980's led to flattening growth 4-5 years later



# New Field Start-Ups Are Picking Up Pace

- Non-OPEC new field start ups from Goldman Sachs 400 projects to change the world



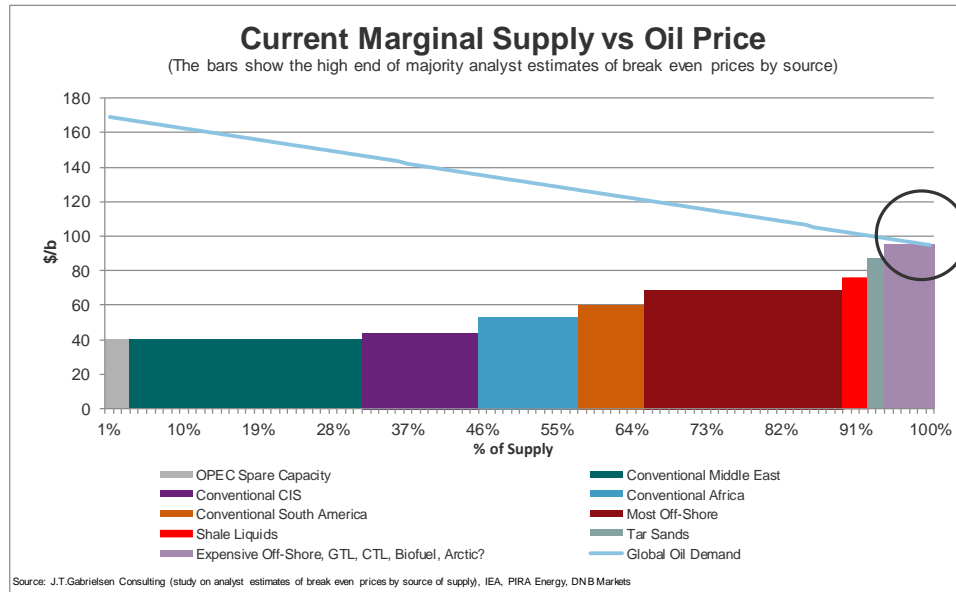
Source: Goldman Sachs Global Investment Research.

Source: Goldman Sachs - 400 projects to change the world – released May 16, 2014

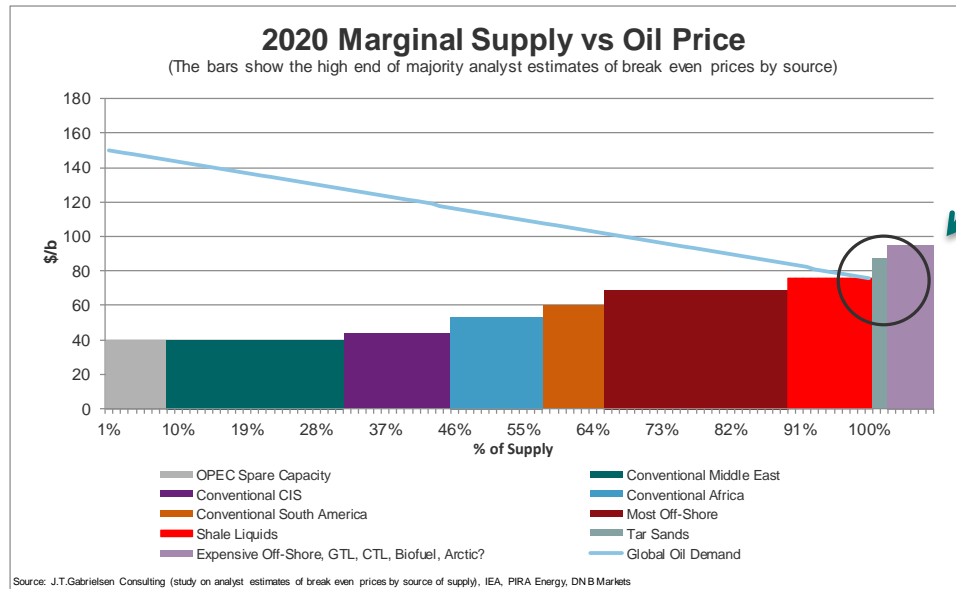
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# The Most Expensive Barrels Risk Being Pushed Out

- Which projects are most at risk? Oil Sands, Ultra Deepwater, Biofuel, Arctic, Barents Sea??



The most expensive barrels risk being pushed out of the market as OPEC spare capacity increase, mainly as an effect of growing shale production.



The best example of this in real life is Shtokman in the Barents sea.

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