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Market Watch

For 10th Oil Forum



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JBC Energy

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Agenda



- Geopolitical Considerations
- Stocks and Prices
- Long-Term Considerations

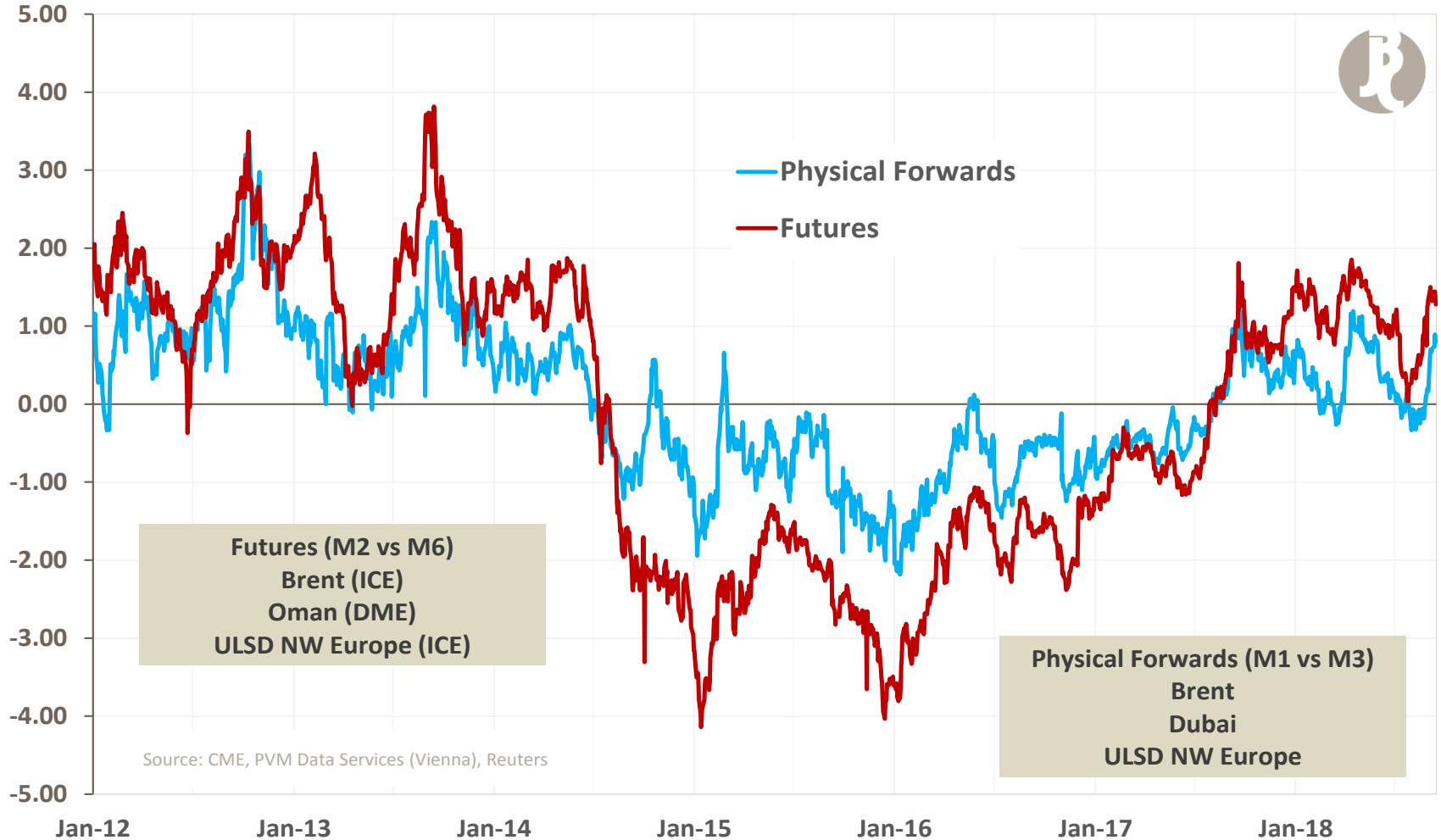


Geopolitical Considerations



Geopolitical Considerations

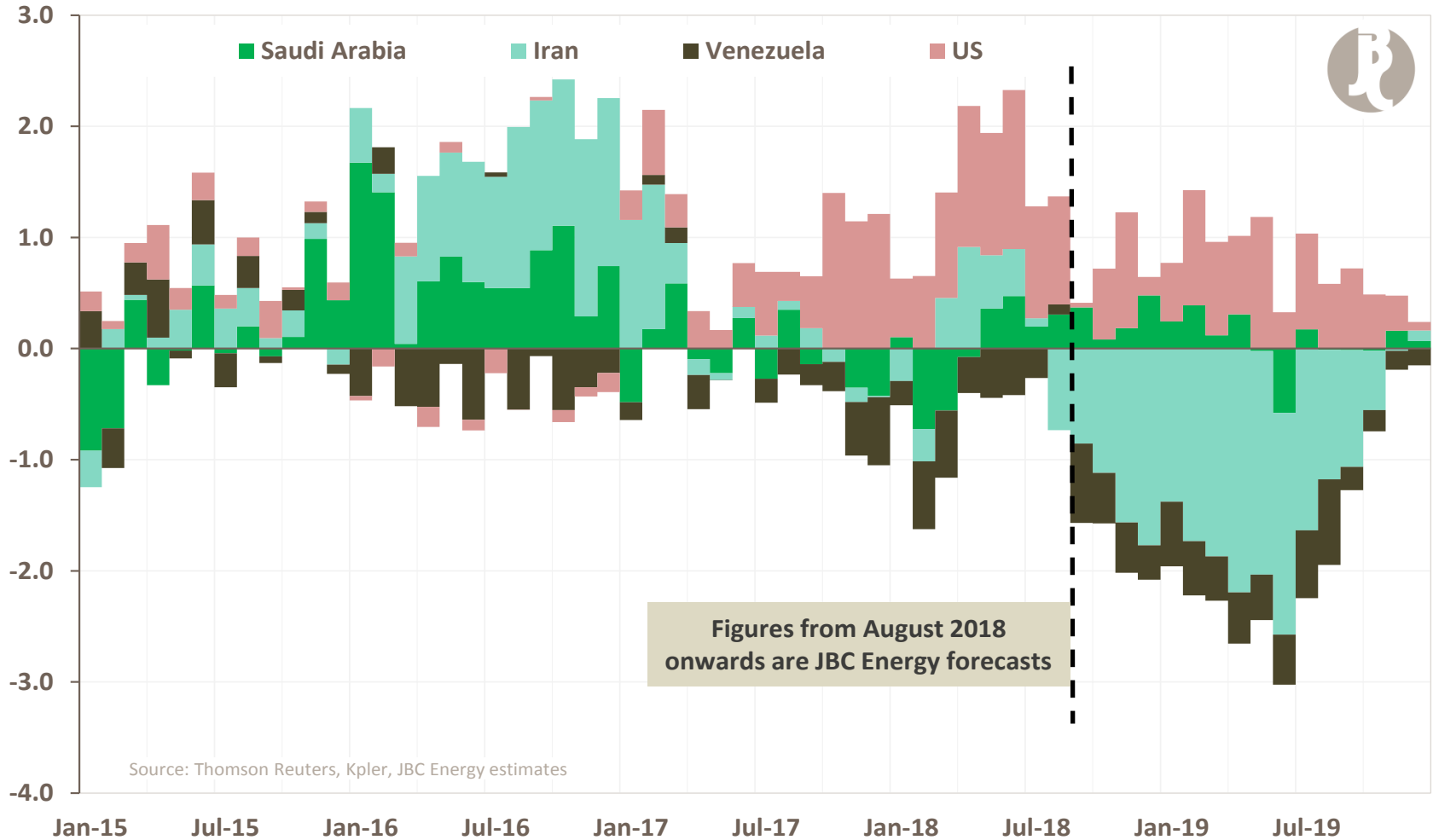
Market Structure: Forwards (Physical) & Futures [\$/bbl]



Only recently leading oil market indicators are recovering from a summer slump. Are we in for a bull run?

Geopolitical Considerations

Y-o-Y Changes in Seaborne Crude Exports from Key Countries [million b/d]



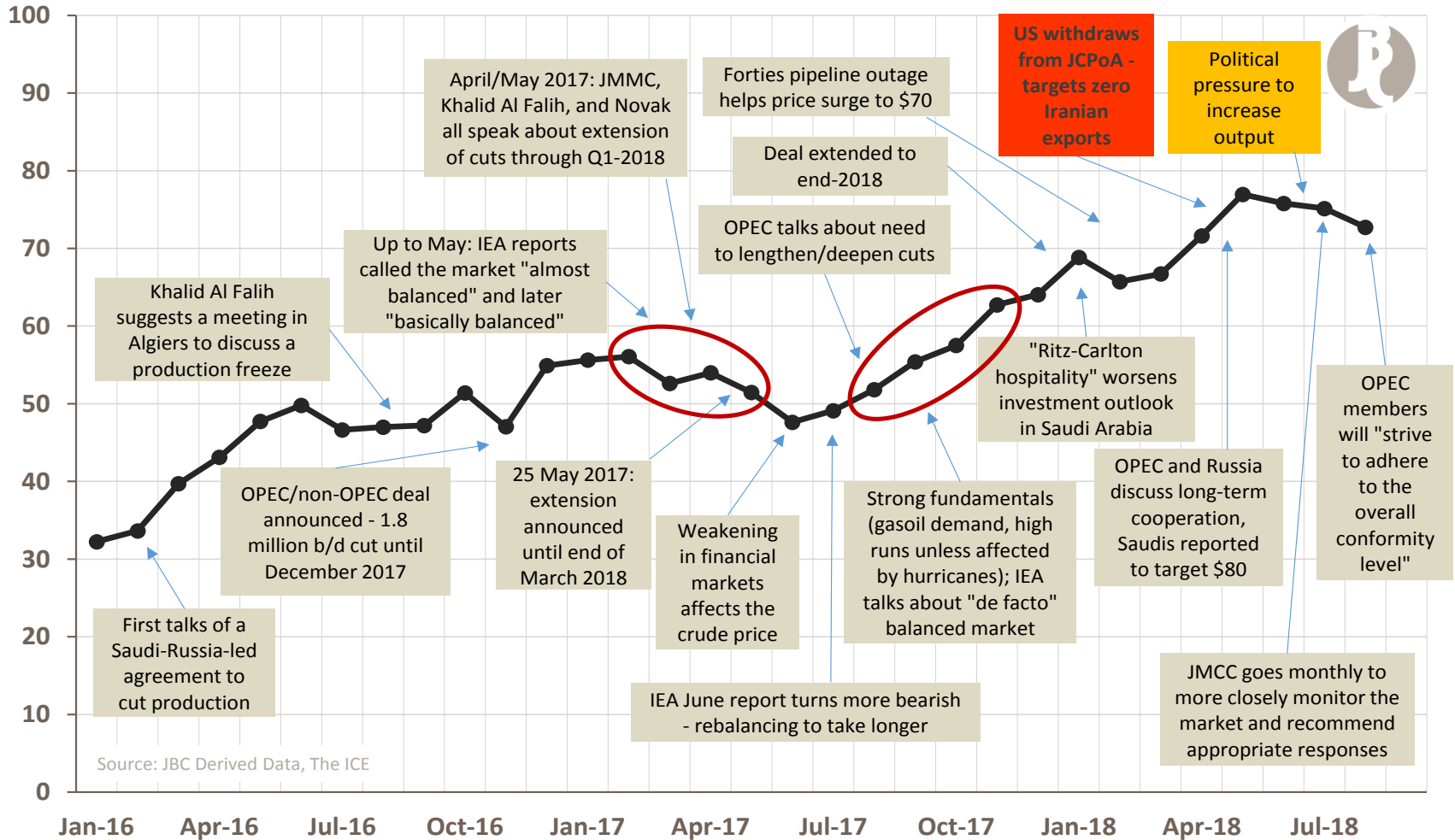
Source: Thomson Reuters, Kpler, JBC Energy estimates

Figures from August 2018 onwards are JBC Energy forecasts

The already starting decline in Iranian exports – while US exports have also come down – would certainly suggest so.

Geopolitical Considerations

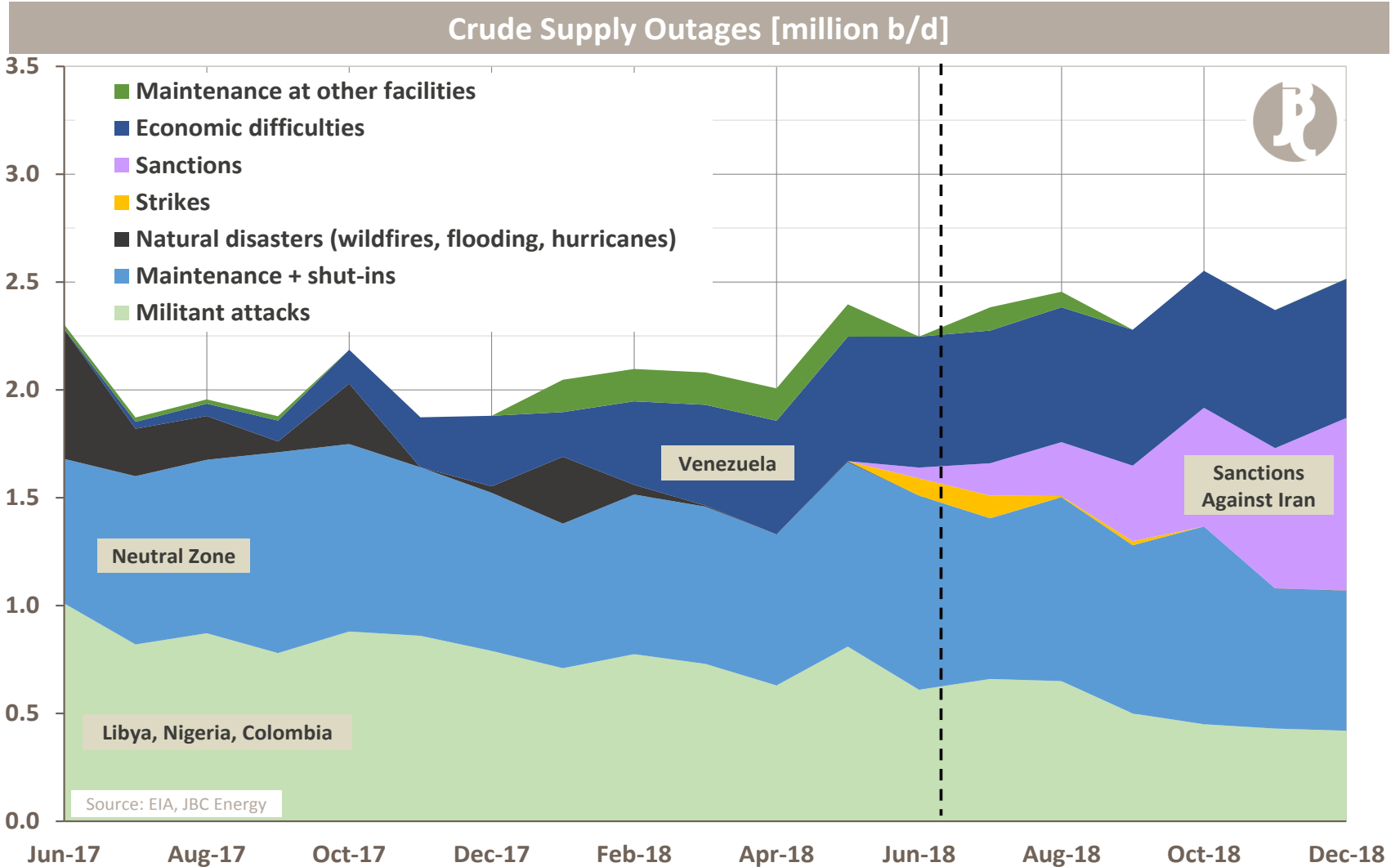
ICE Brent Price Reactions to Selected Market News [\$/bbl]



Source: JBC Derived Data, The ICE

After pretty bullish signals from OPEC members in late 2017 and early 2018, this has changed over spring based on political pressure and economic concerns.

Geopolitical Considerations



One balancing factor for the Iranian outages is likely to be the Neutral Zone, where 200-400,000 b/d may start to come onstream towards the end of the year.

Geopolitical Considerations

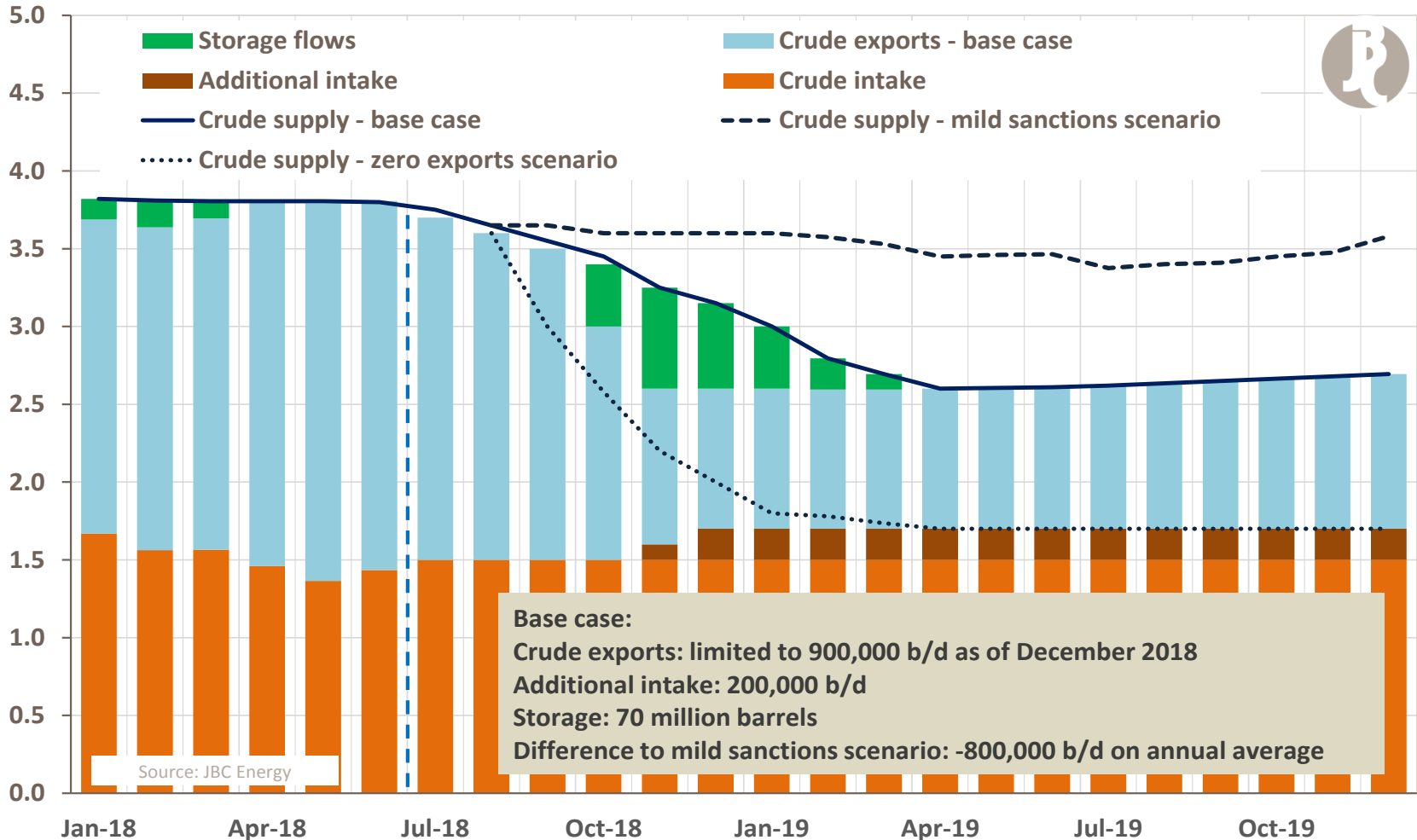


- We have grouped different Iran scenarios in terms of their impact on the oil market:



Geopolitical Considerations

Iran: Crude Supply Outlook & Scenario [million b/d]



Although there is still a lot of uncertainty surrounding the issue of sanctions against Iran, we believe that the US administration will force the issue and that Iran's crude oil production will be limited by a lack of available storage.

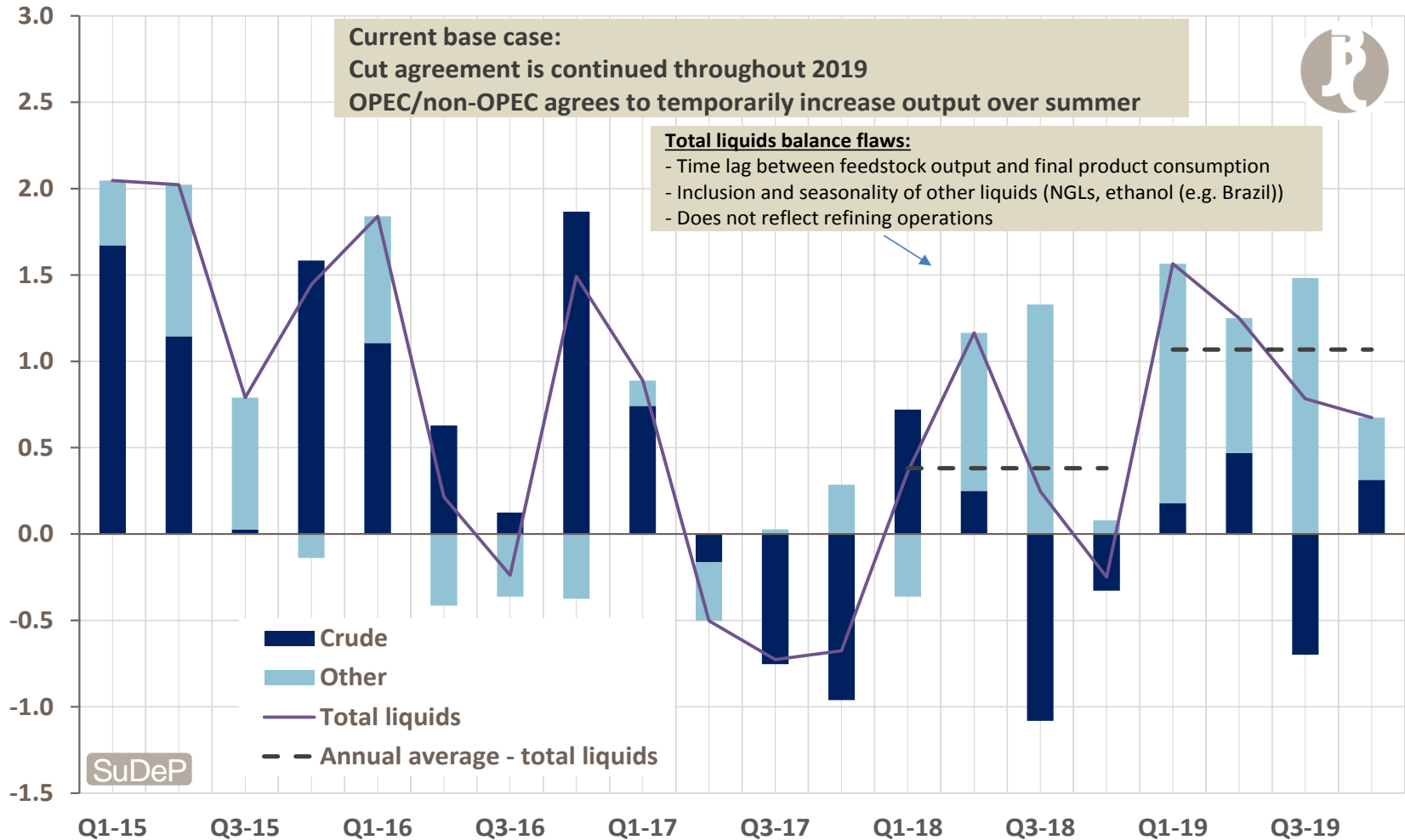


Stocks



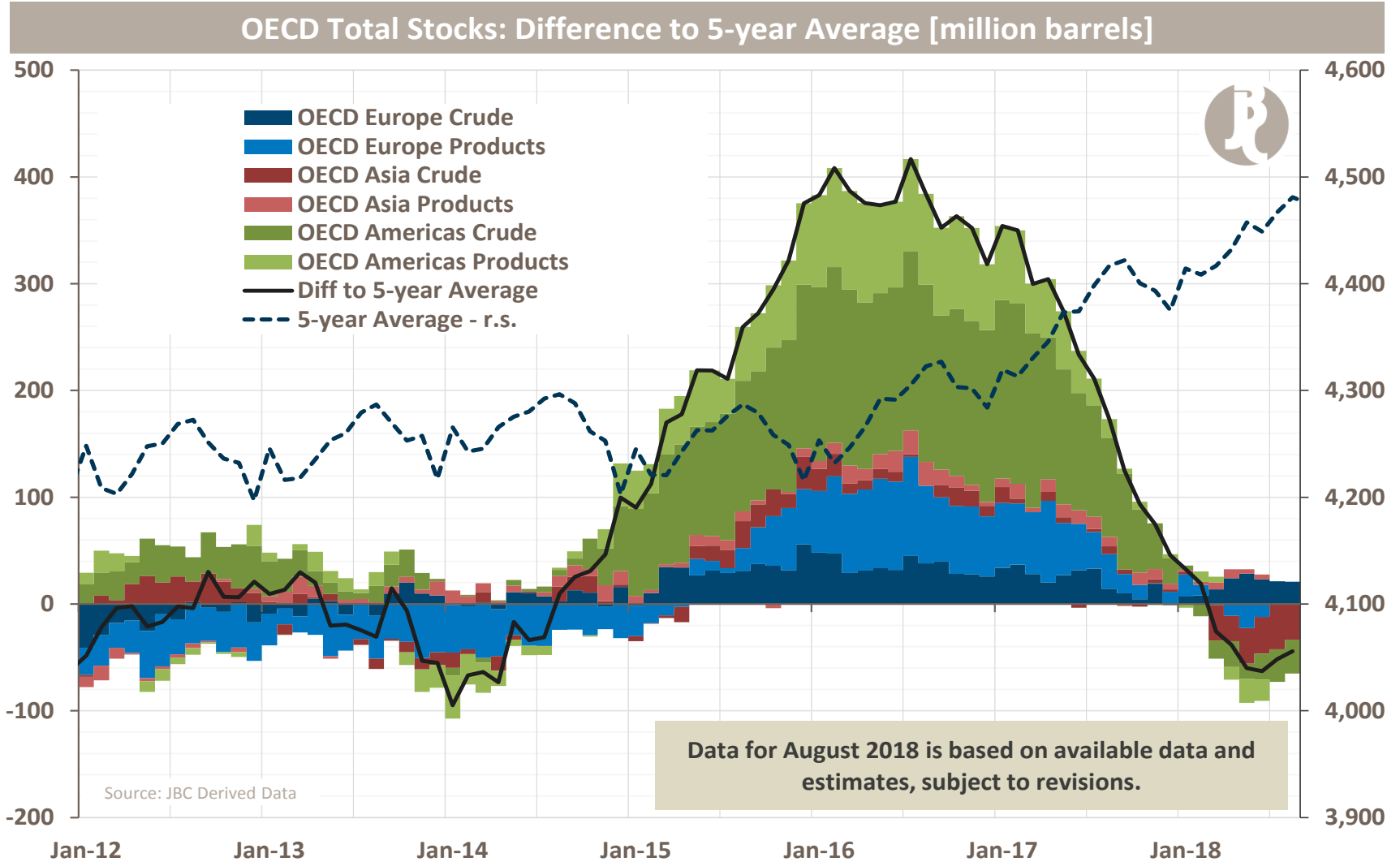
Stocks and Prices

Total Liquids Implied Stockchange [million b/d]



While our crude balance outlook is actually pretty supportive to stable, the total liquids balance is much longer on NGLs and ethanol contributions (while refining operations incl. line fill are not considered).

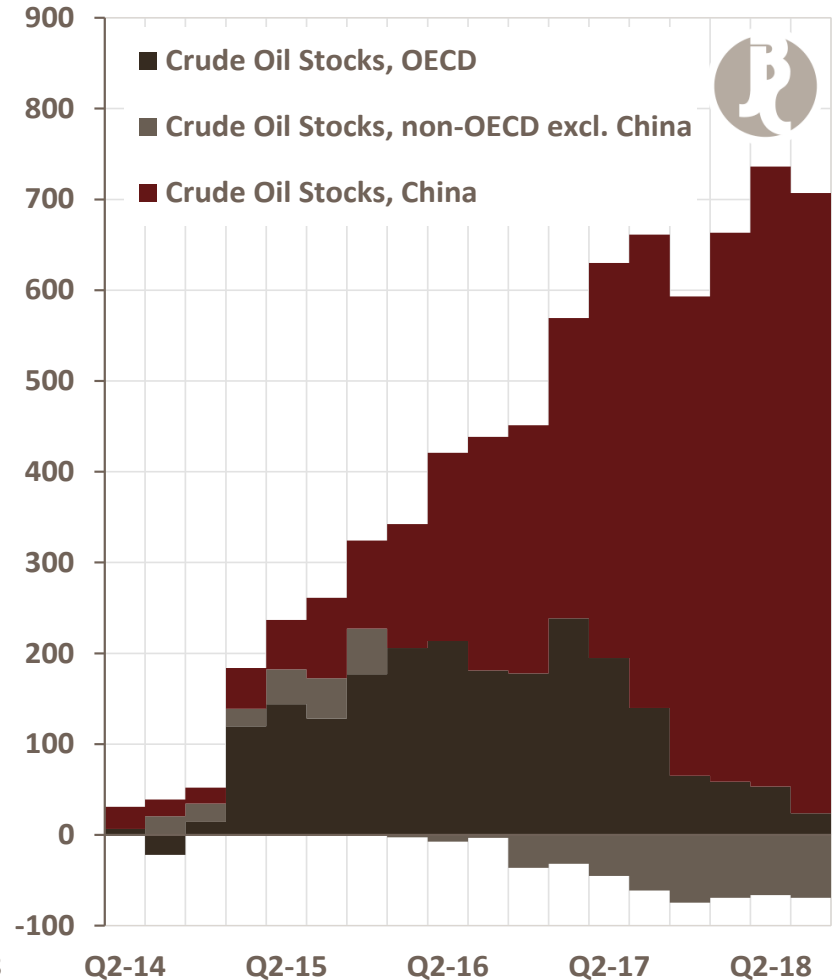
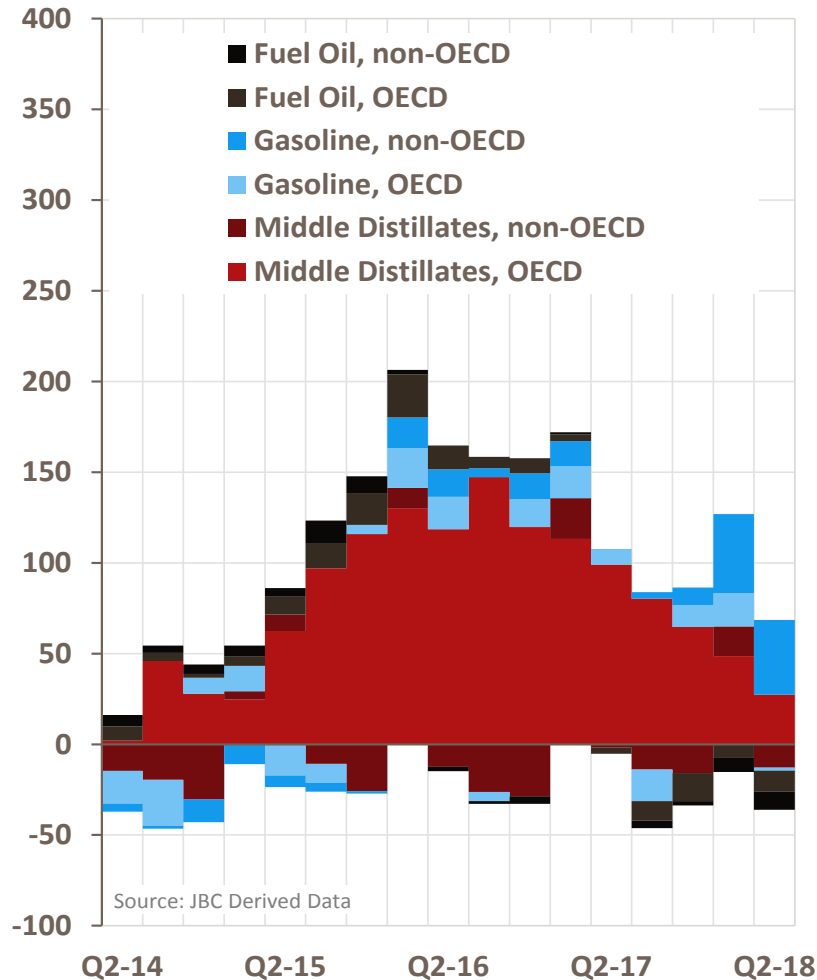
Stocks and Prices



Total stocks in the OECD have drawn significantly over the past several quarters, dropping below the 5-year average.

Stocks and Prices

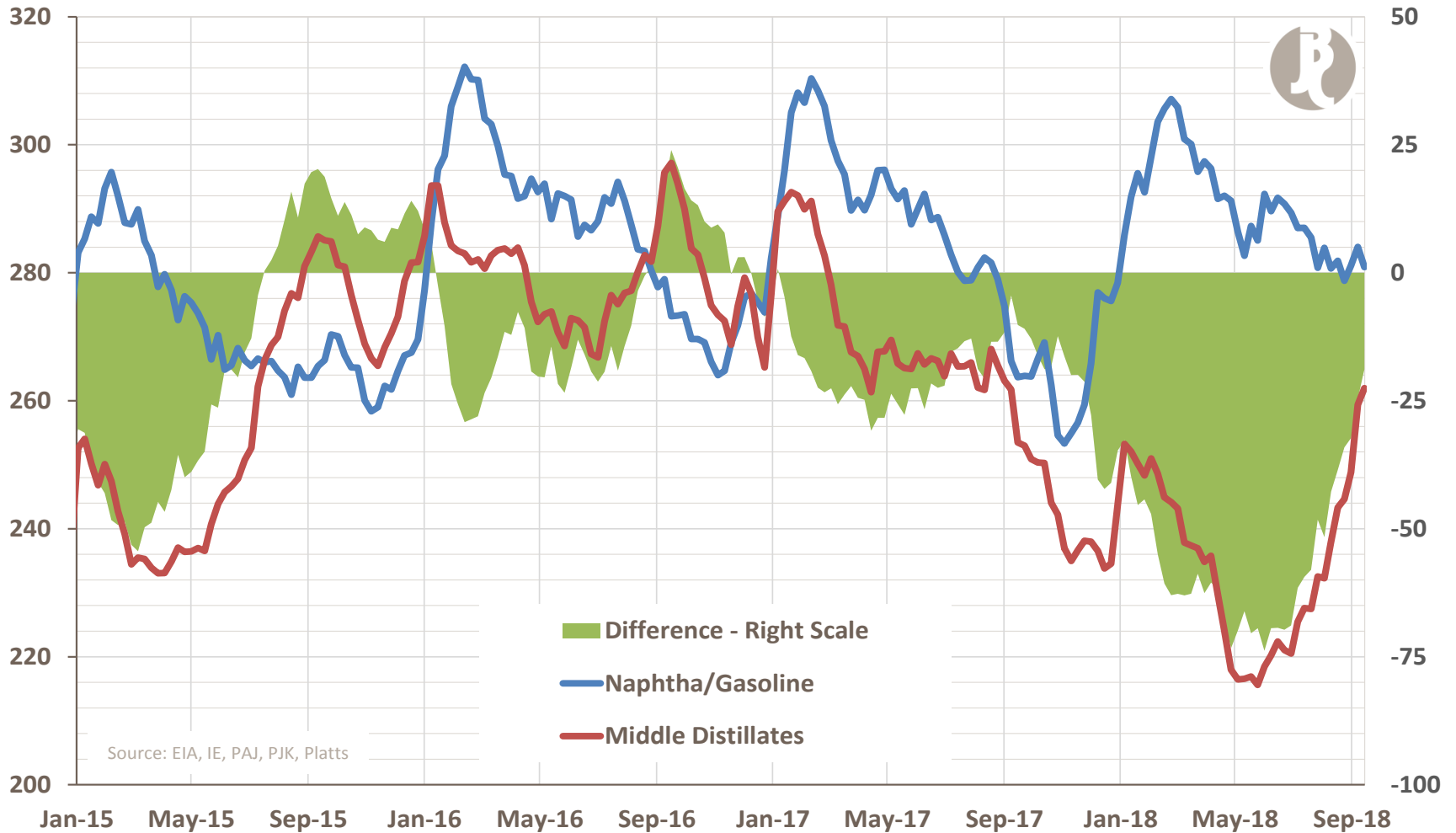
Global Stocks Surplus to Q1-2014, Main Products and Crude [million barrels]



Excluding developments in China related to the building of strategic crude reserves, global crude and product stocks have drawn down to their pre-surplus levels of Q1-2014.

Stocks and Prices

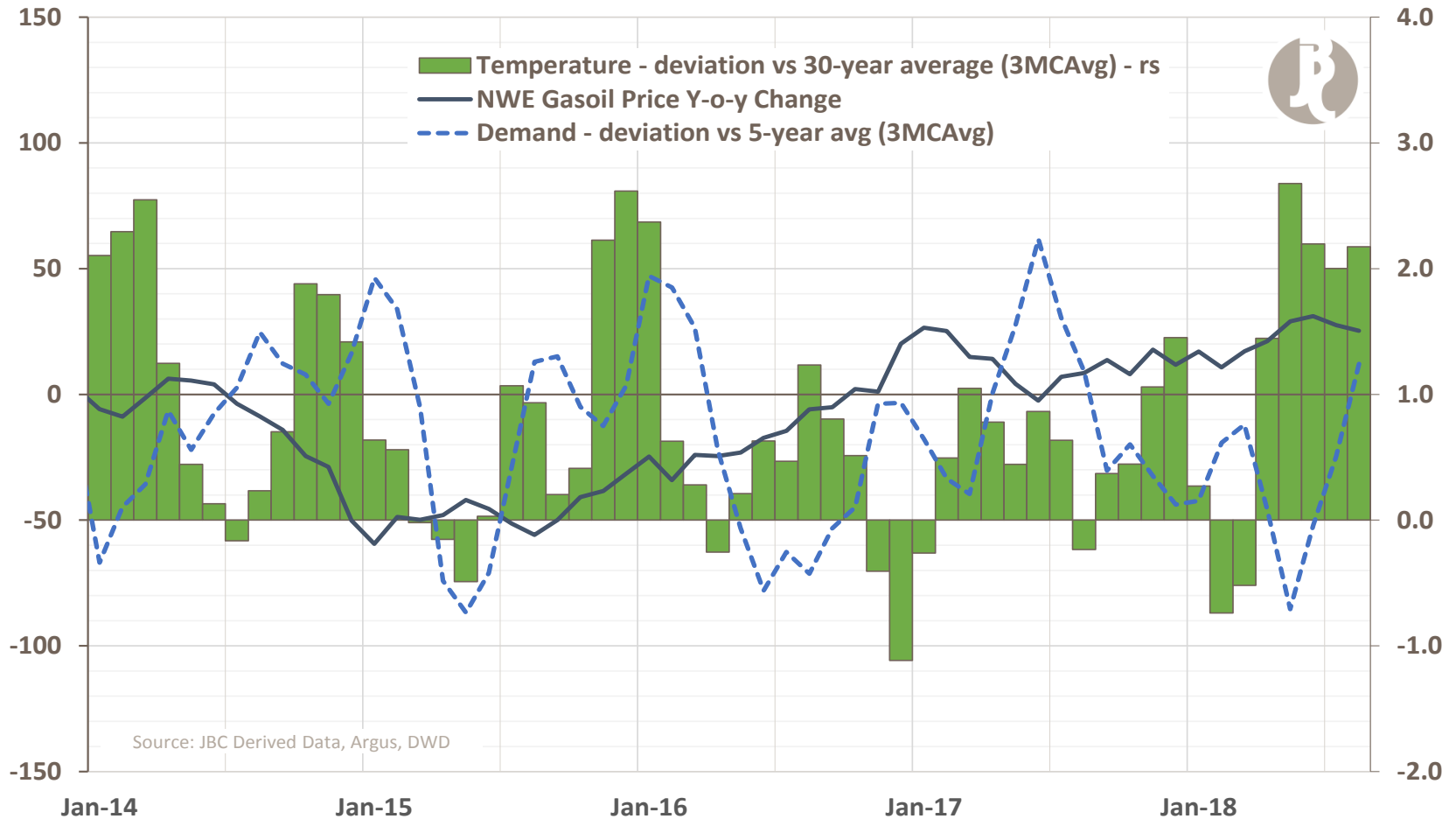
Weekly Global Product Stocks Indicator [million bbls]



More recently, weekly indicators show distillates stocks rising strongly, while light end stocks drew seasonally over recent months.

Stocks and Prices

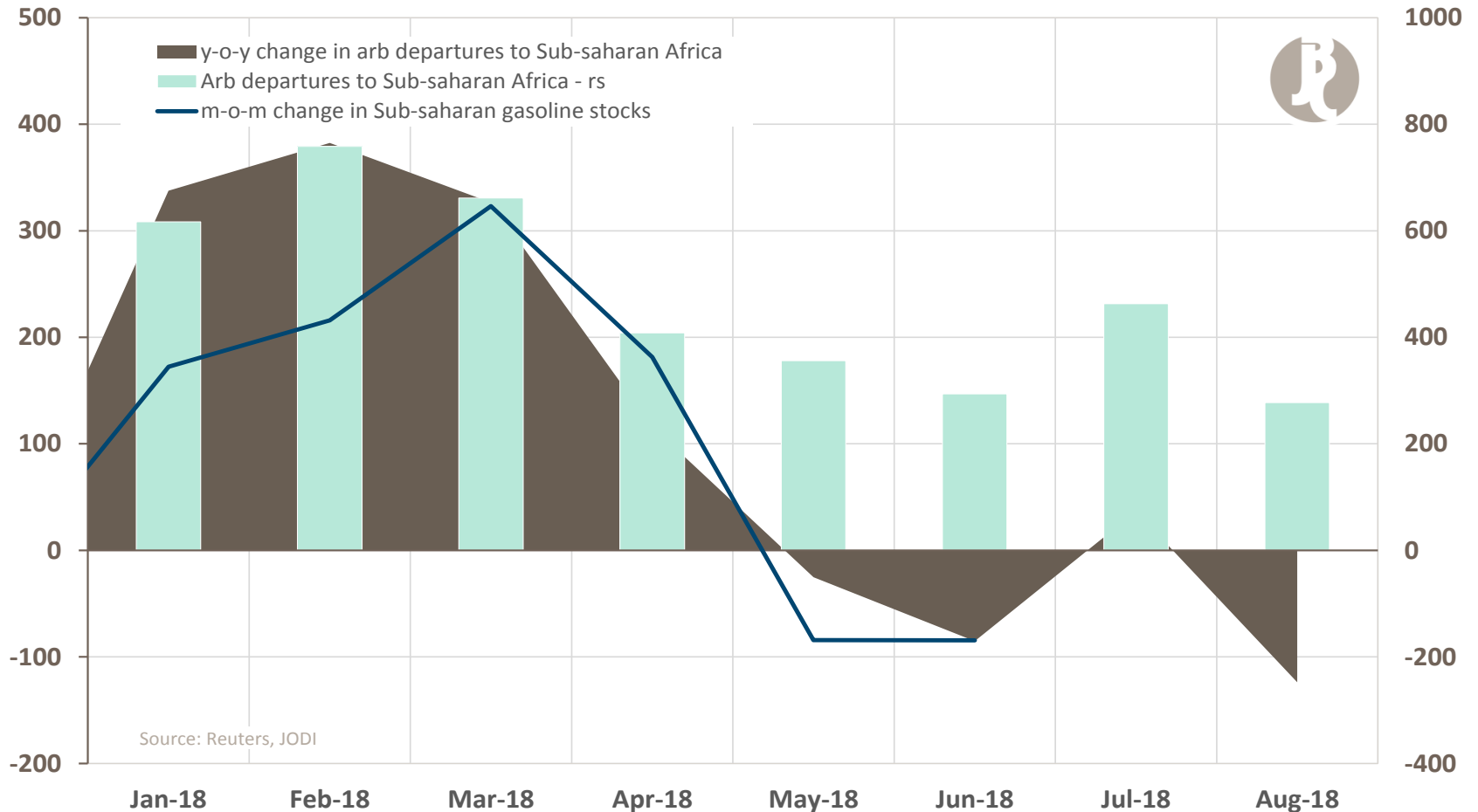
Germany: Heating Oil Demand Factors ['000 b/d; \$/bbl; °C]



Rising prices have weighed on German heating oil replenishment after a long and relatively cold winter. Delayed restocking could, however, lead to additional upside to demand later this year, and would exacerbate buying should the winter turn out colder than expected.

Stocks and Prices

Sub-Saharan Africa: Gasoline inflows and stocks ['000 b/d]

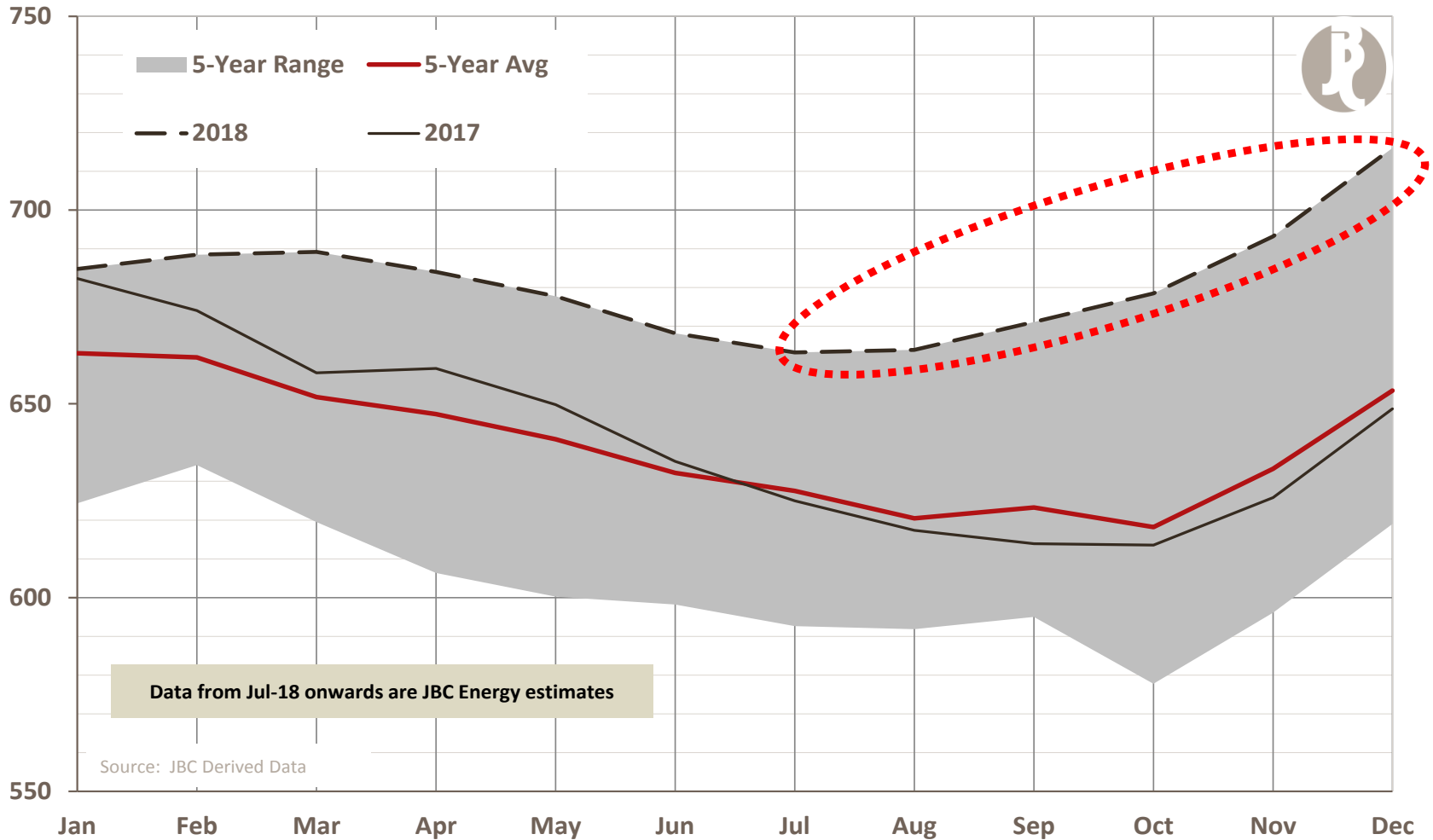


Source: Reuters, JODI

While earlier this year a Sub-Saharan buying spree has strongly supported the gasoline market, current activity is lacklustre.

Stocks and Prices

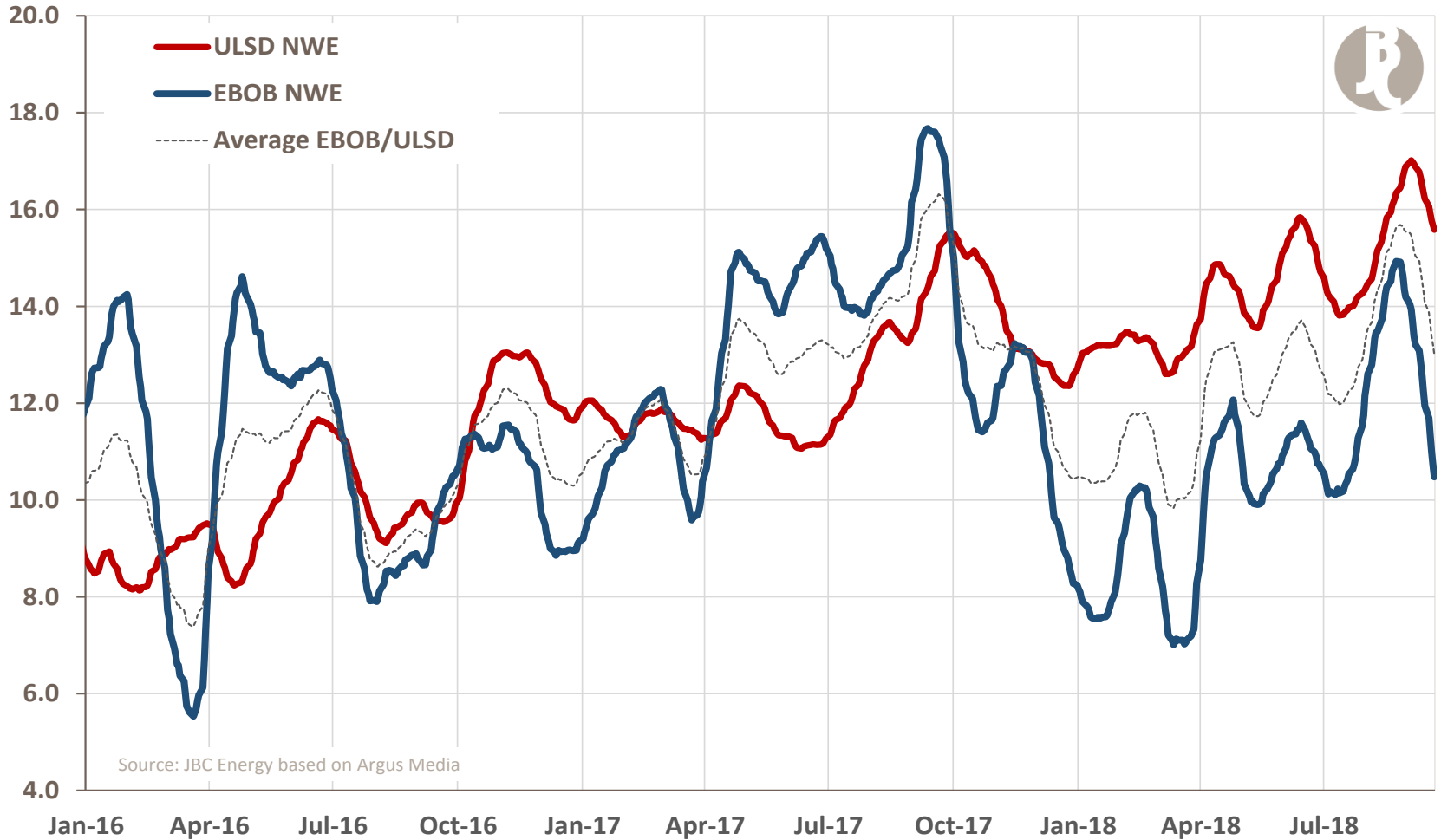
World - Gasoline Stocks [million bbls]



Finally, there is a lot of pressure on light ends, especially gasoline, which is likely to be reflected in inventory figures.

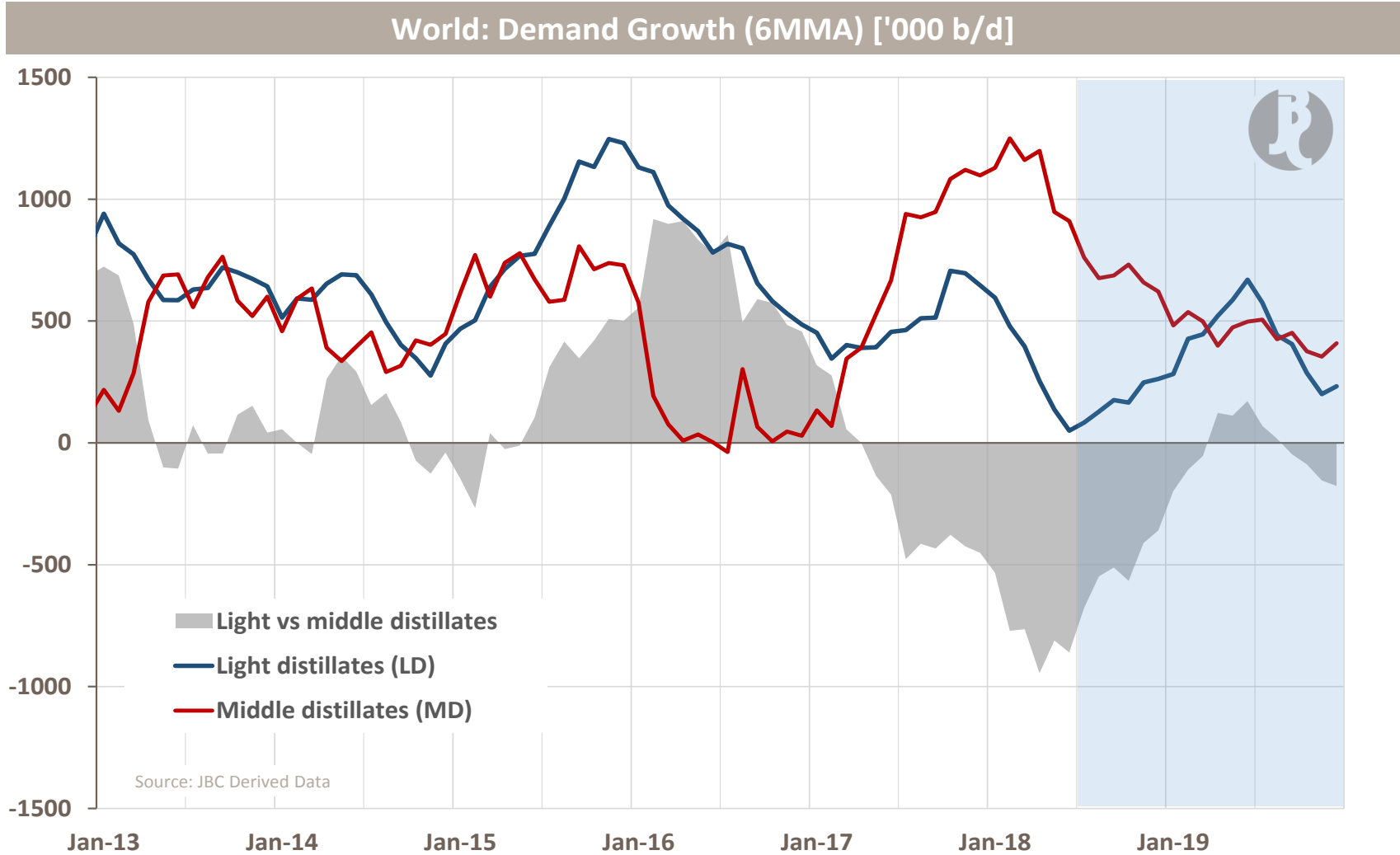
Stocks and Prices

Product Cracks NWE [\$/bbl]



We have seen a complete shift in relative pricing between gasoline and diesel, with the latter becoming the leading product on a barrel basis.

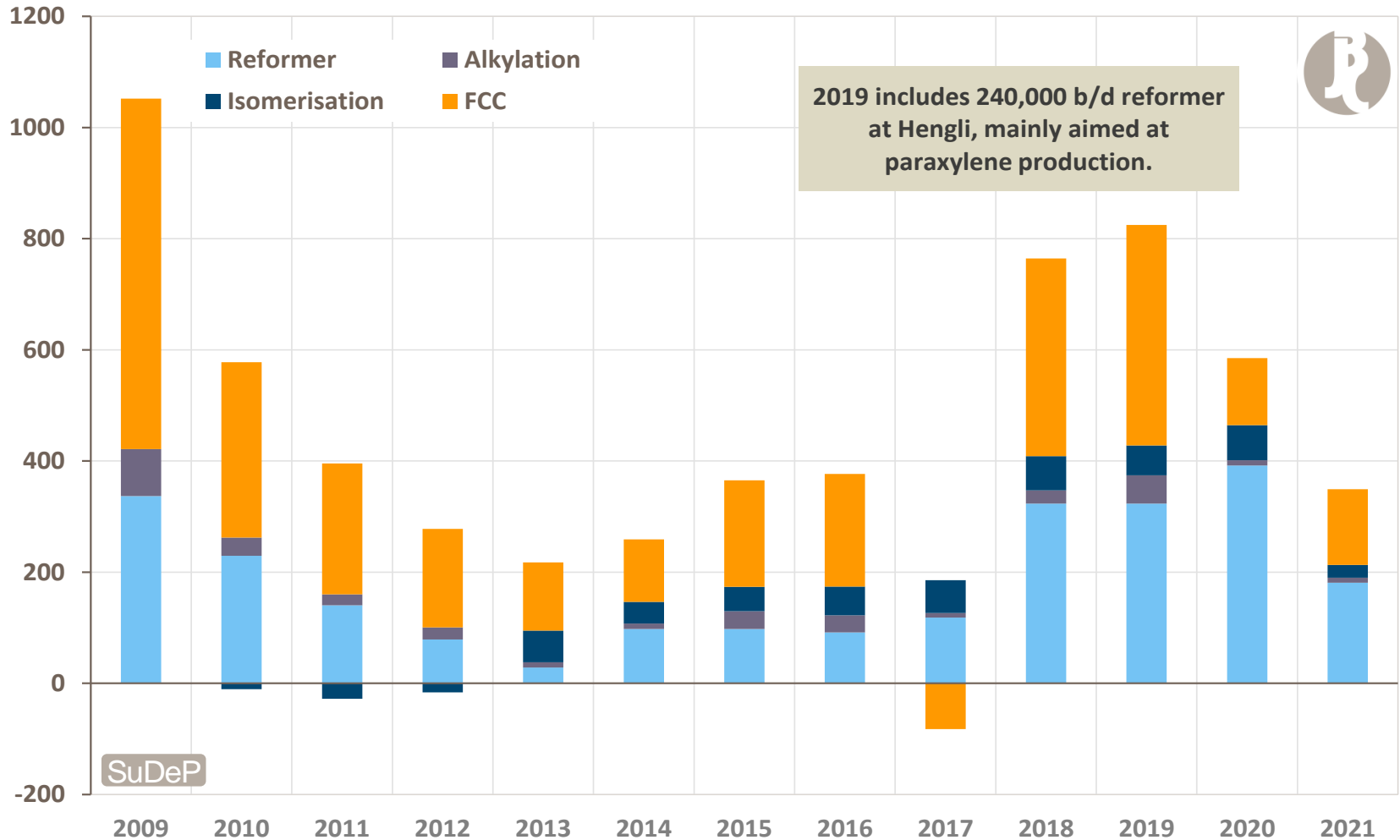
Stocks and Prices



Pricing has coincided with a reversal in relative demand growth – going forward this disparity may even out.

Stocks and Prices

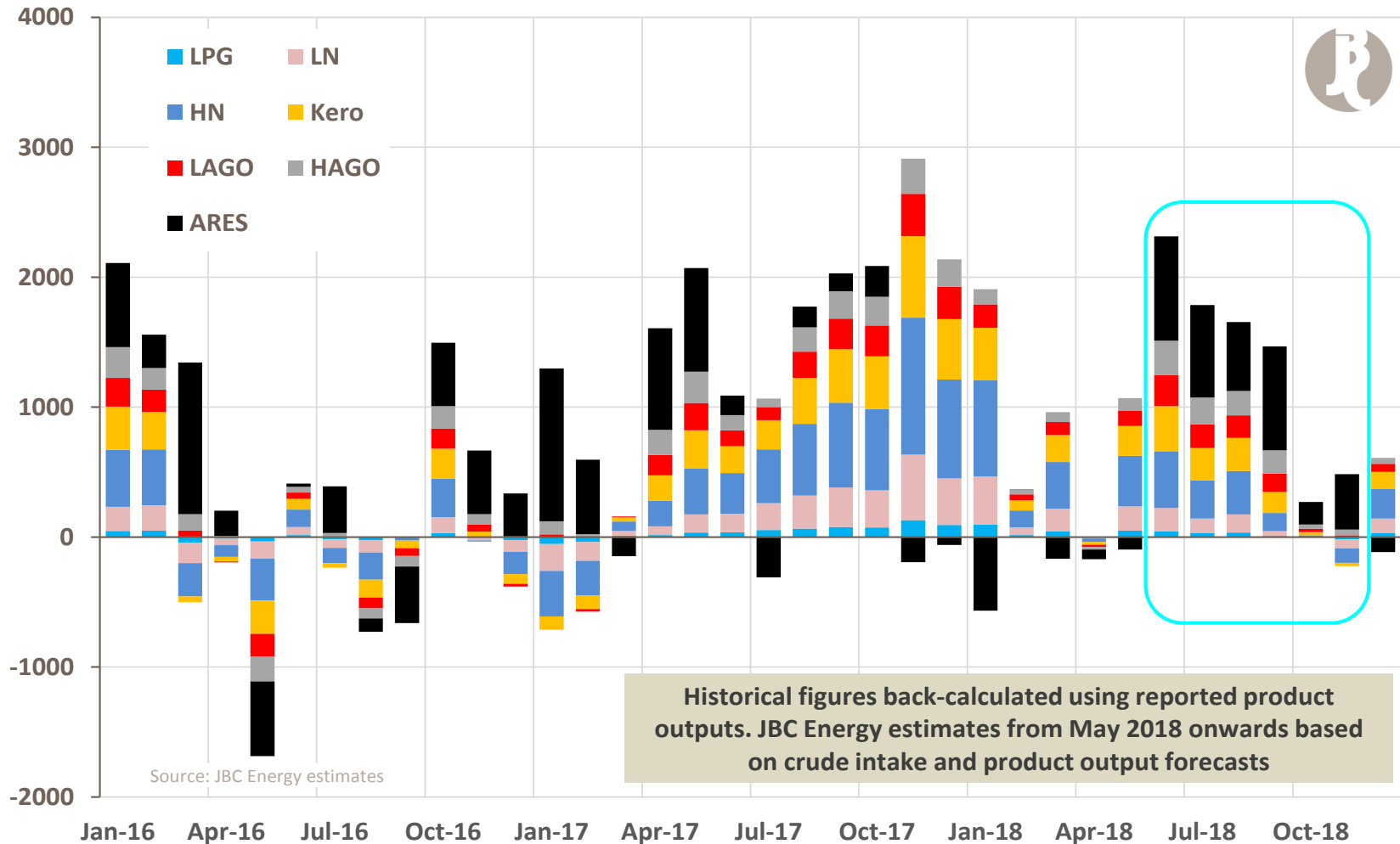
World: Gasoline-Focused Production Capacity Y-o-y Change ['000 b/d]



A pickup in investments into gasoline and aromatics-focused production capacity is currently coming to fruition, keeping supply-side pressure high.

Stocks and Prices

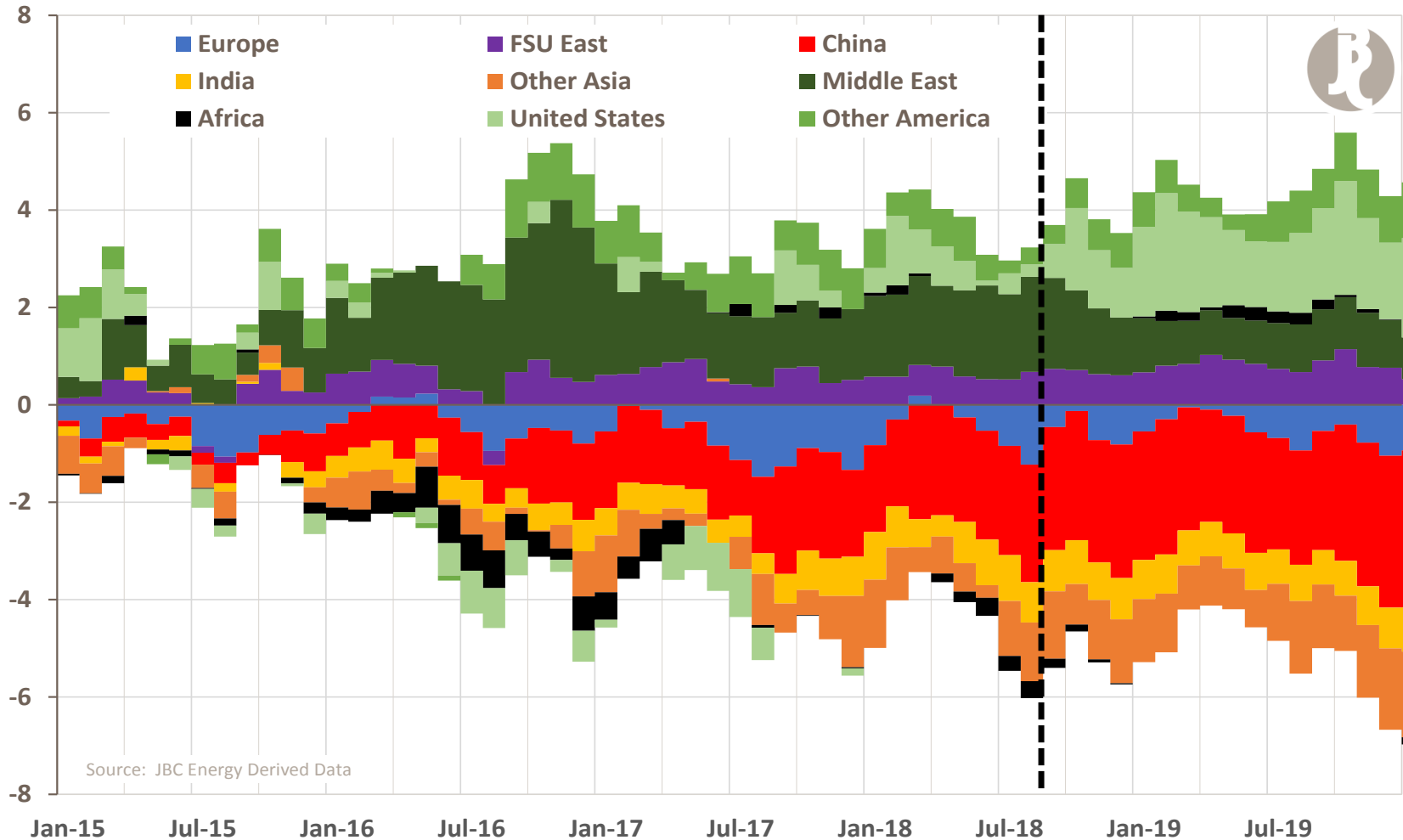
Estimated Global Output of CDU Cuts (y-o-y) ['000 b/d]



The lightening of the crude slate is one factor, as lighter barrels leave conversion units unused at the margin, reducing yield flexibility.

Stocks and Prices

Crude Balance by Region - Cumulative Change vs 2014 Average [million b/d]



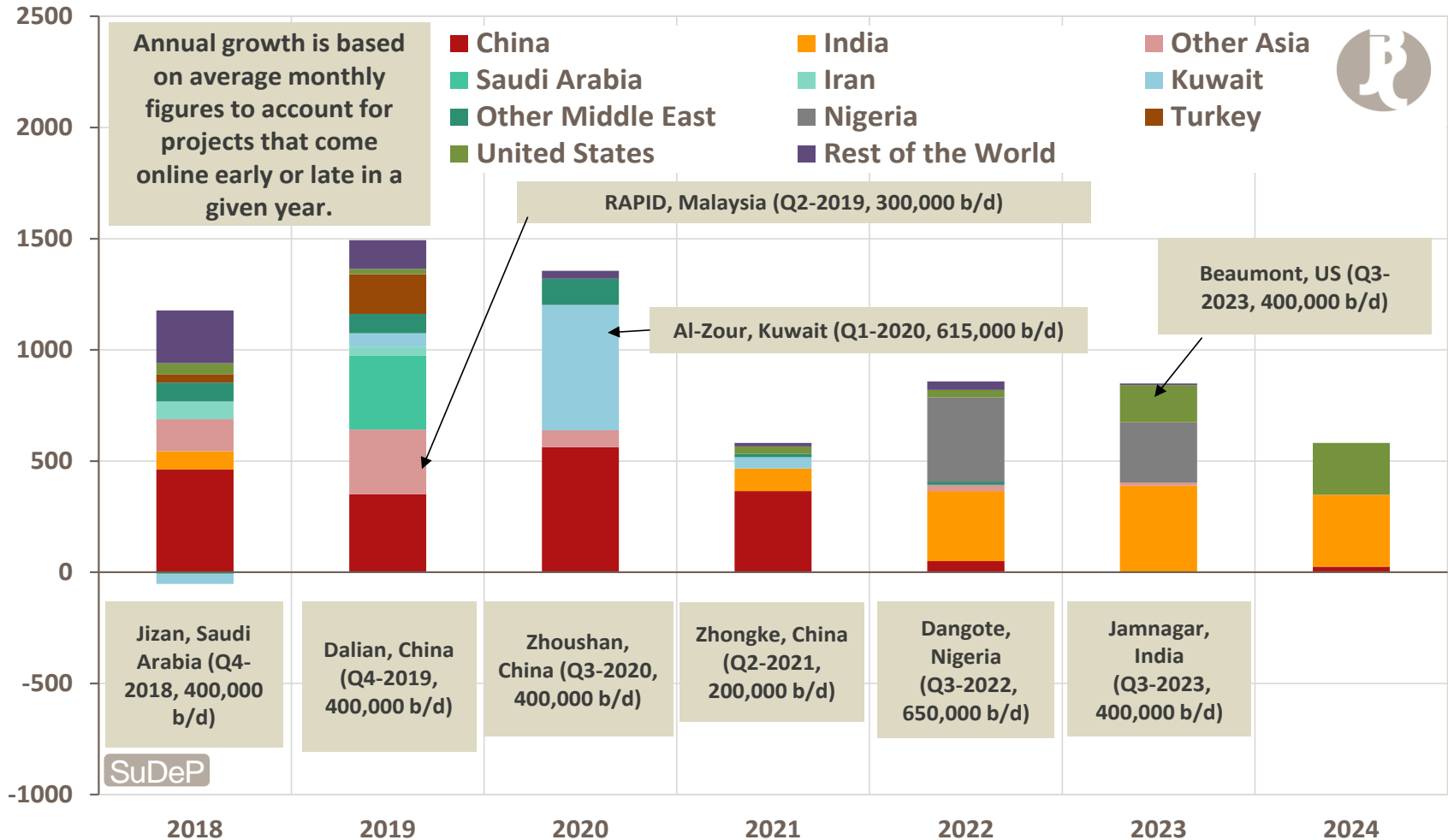
Going forward the marginal US sweet crude barrel needs to meet the marginal demand in Asia – either moving there directly or by reshuffling European crude supplies. The biggest quality shift may yet be ahead of us. If China were to shun US crude the Iranian sanctions impact would be multiplied.

Long Term Considerations



Long Term Considerations

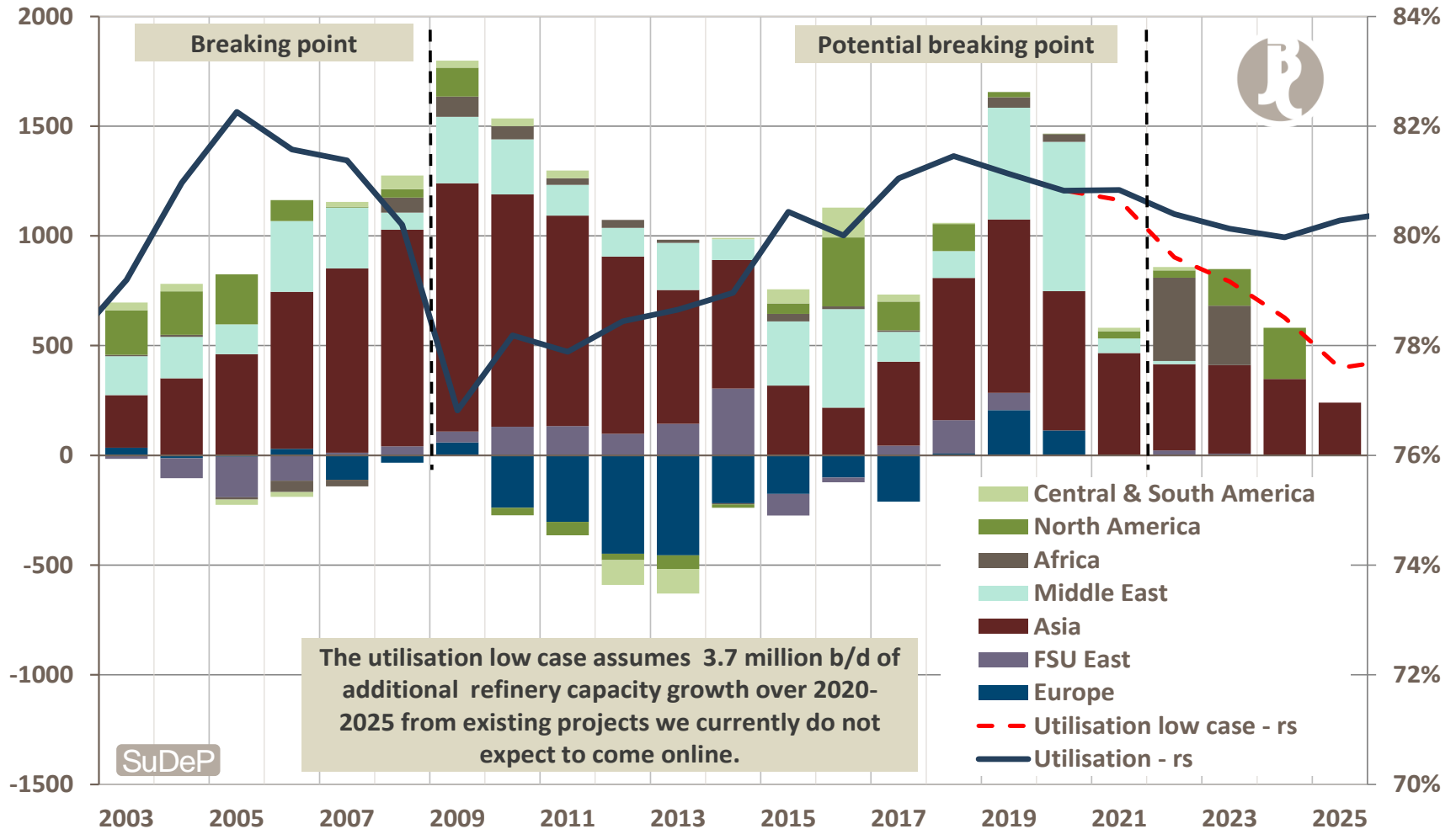
World: Primary Refining Capacity Additions and Main Projects ['000 b/d]



CDU capacity additions are heavily concentrated in the East of Suez, and are coming from large-scale greenfield projects. The actual timing of these projects will be essential, with delays already being rumoured.

Long Term Considerations

World: Primary Refining Capacity Additions By Region ['000 b/d]



While our outlook is still supportive for the next couple of years and reasonably good up to 2025, significant overcapacity risks are looming early next decade on some combination of disappointing demand and too much capacity additions.

Key Takeaways



- Geopolitical factors, US sanctions on Iran in particular, are a big source of uncertainty in the market.
- Our crude balance is supportive to stable, while the total liquids balance is much longer.
- Although light distillate stocks have drawn seasonally, we continue to see pressure for cracks that will be reflected in high stocks.
- Middle distillate stocks have been building strongly recently, but we see this as mainly the result of temporary factors.
- In the long term, we see a risk of overinvestment in refining capacity.



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