Oil Price Dynamics; trends, forecasts and what you can do about them

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SUBSEA EXPO 2017

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Portland Oil Price Protection – part of the Portland Group
Introduction

- James Spencer; ex-BP (planning, supply-chain, trading)
- Set up Portland 2009 – protection against oil price volatility
- Oil prices have always been key to subsea activity and investment and yet...
  - often seen as a “removed” and esoteric subject
- Commentary on oil prices typically comes from academics or financial investors who have never actually traded the stuff
  - Oil prices are really not that complicated
Brent Crude Price in US $ per Barrel

Some context - oil prices since 2012
Major Price Events from 2000

- Global Credit Crunch
- Fear over US Economic Slowdown
- China Slowdown, or Not?
- Lehman Collapse
- "Arab Spring"
- QE Tapering
- Russia annexes Crimea
- Unrest in Egypt, Syria, Iraq, Iran, Libya…
- QE-III & Operation Twist Announced
- US Rig Count drops by ~80%
- OPEC will not cut production
- US Oil Production Falls 15%
- OPEC announce production cut of over 1.8M barrels per day, ~2% of Global Production

Oil Price in US $ per Barrel


Some more context…

GLOBAL REBALANCING
Exploration and production spending slashed by ~$1Trn for 2015 - 2020 projects
What makes oil prices go up? It’s simple...

• Demand increases and supply remains static
• Demand increases rapidly whilst supply increases slowly
• Demand remains steady but supply is squeezed
• Demand drops but supply drops even faster
• Or any variation where the gap between demand and supply gets bigger
What makes oil prices go down? Once again, it’s simple...

• Demand drops whilst supply continues to increase
• Demand drops but supply remains steady
• Demand remains steady but supply accelerates
• Demand increases but supply increases at a greater rate
• Or any variation where the gap between demand and supply gets smaller or disappears
What makes oil prices go up or down? The complication?

• Increased demand or reduced supply in isolation are not enough to push prices up

• Reduced demand or increased supply in isolation are not enough to push prices down

• It’s all about the balance between supply and demand
  ▪ whenever that balance is removed, prices will move

• The problem for the industry is that supply and demand never move at the same pace
What are today’s up factors?

• Rampant demand increases don’t help...

• Apparently Chinese GDP growth is slowing to 5% per annum
  • Which means an economy the size of Scotland will be created in the next 12 months...

• And China is not the only demand monster...
## Oil Consumption Figures:
### Tonnes Oil Equivalent (TOE) - Billions

<table>
<thead>
<tr>
<th>Country</th>
<th>1999</th>
<th>2015</th>
<th>(13/Head)</th>
<th>2029?</th>
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<tr>
<td>USA</td>
<td>2.24</td>
<td>2.27</td>
<td>7.09</td>
<td>1.85</td>
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<tr>
<td>China</td>
<td>0.95</td>
<td>2.85</td>
<td>1.78</td>
<td>9.23</td>
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<td>0.29</td>
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<td>0.33</td>
<td>0.33</td>
<td>4.40</td>
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<tr>
<td>Britain</td>
<td>0.29</td>
<td>0.30</td>
<td>4.62</td>
<td>0.37</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.18</td>
<td>0.28</td>
<td>1.39</td>
<td>1.16</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5.68</strong></td>
<td><strong>8.12</strong></td>
<td><strong>5.77*OECD</strong></td>
<td><strong>21.71</strong></td>
</tr>
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</table>
Any other up factors?

• OPEC of course...

• 2 soundtracks utterly divided OPEC in 2015 and 2016
  ▪ “Keep Pumping” by Abdullah & The Sheiks
  ▪ “Cut Back” by Kid Africa & The Venezuelan Sound Machine

• But “Cut Back” eventually got the No 1 spot (Nov 16)
  ▪ Price required for balancing OPEC national budgets ~ $100 / bbl
  ▪ Even Saudi began to worry
    − Economic stagnation and shocking youth unemployment (>40%)
    − $750bn oil reserve; $250bn ($350?) used up
    − Gone to Bond Market for the first time in history

• 5% drop in OPEC production easily enough to push prices up

• But beware...OPEC quotas are a historical charade
What about down factors?

• Shale Oil – damn those yanks!

• Bakken Field, North Dakota, USA
  ▪ 2009 Oil Production = 0 bpd
  ▪ 2015 Oil Production = 2m bpd
    – About the same as Shell’s entire worldwide production portfolio...

• Resilience of shale oil has confounded all the experts

• They now have a new best friend in the “Pussy Grabber”

• Capital Investment in shale expected to increase by 30% in 2017

• They will be back...
Beware the rig count...

US Rig Count vs. Brent Crude $/BBL 2013 - 2016

- - - - US Rig Count (LHS Axis)  
Brent Crude $/BBL (RHS Axis)
Other down factors – one more present from the USA

• As if a massive decrease in crude imports wasn’t enough
  ▪ Imported volumes from South America, West Africa and Middle East down by circa 3m bpd
  ▪ All now looking for new markets and having to discount

• It then got worse in 2016
  ▪ Obama repeals the Crude Oil Export Banning Act
  ▪ 40 years of US Energy Policy undone in one stroke
  ▪ US Crudes now trading on the open market
  ▪ They’re coming to get you...

• And BTW, expect WTI to replace Brent as the Global Oil Benchmark by 2020? 2025?
WTI now challenging Brent...
So where do we go from here...2017 - 2018 prognosis

• Prices strengthen throughout the year as OPEC cuts begin to bite
• All the while, the “Shalers” are re-drilling and upping production
• By the end of the year, we will be heading for a glut
• So in 2018 we will likely see another price crash
• For the moment, it’s all about supply
  ▪ If in doubt, go for the 20 - 40 – 60 rule
    – $20 / bbl = production falls = prices recover
    – $40 / bbl = production flattens = prices stabilise
    – $60 / bbl = production increases = prices fall
But what can you do about this volatility?

• Oil Producers protect against drops in the oil price
• But the subsea and other offshore support sectors don’t
• Why?!
  ▪ when so much of their income is dependent on high oil prices
  ▪ You don’t have to be pumping oil to suffer when oil prices drop
• Financial Protection mechanisms are simple and cheap
  ▪ The impact of volatility is reduced
  ▪ You take control of your business
  ▪ Your cash-flow, staff and profitability are all protected
  ▪ Business as usual is maintained
You don’t have to pump oil to be burned by a downturn in the market. Portland will make up for lost revenue.

What will you do if the oil price drops again? Speak to Portland is the correct answer.

Praying for an upturn in the oil market won’t bring your sales back. Portland will stop it mattering.

Visit www.portland-opp.com
Thank you – any questions?

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