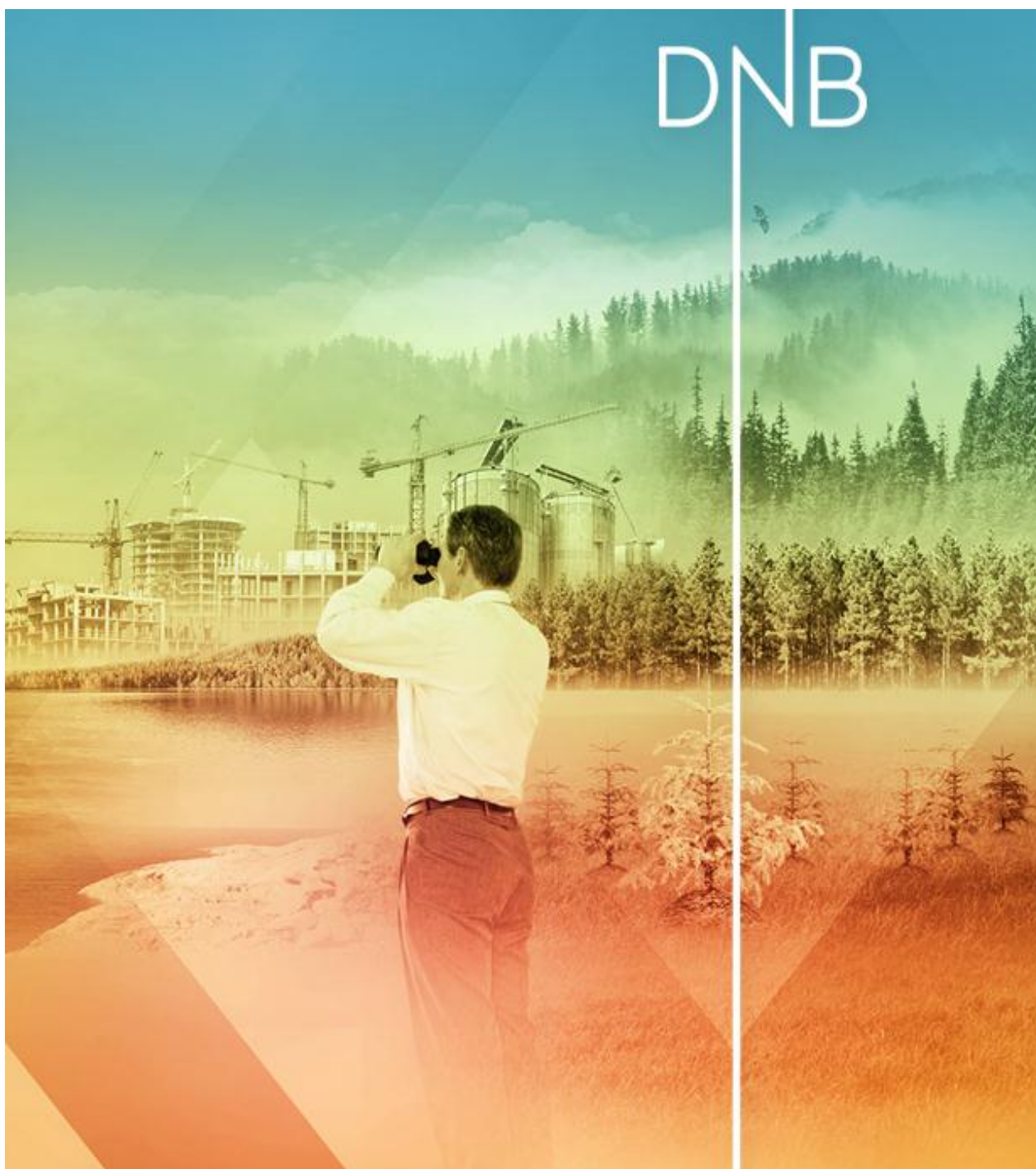


Short Term Oil Market Outlook

- The Ukrainian crisis is unlikely to be enough to maintain the current oil price unless oil is in fact used as a weapon in sanctions from either side. Fundamental factors are not strong enough to alone keep oil prices from sliding lower.



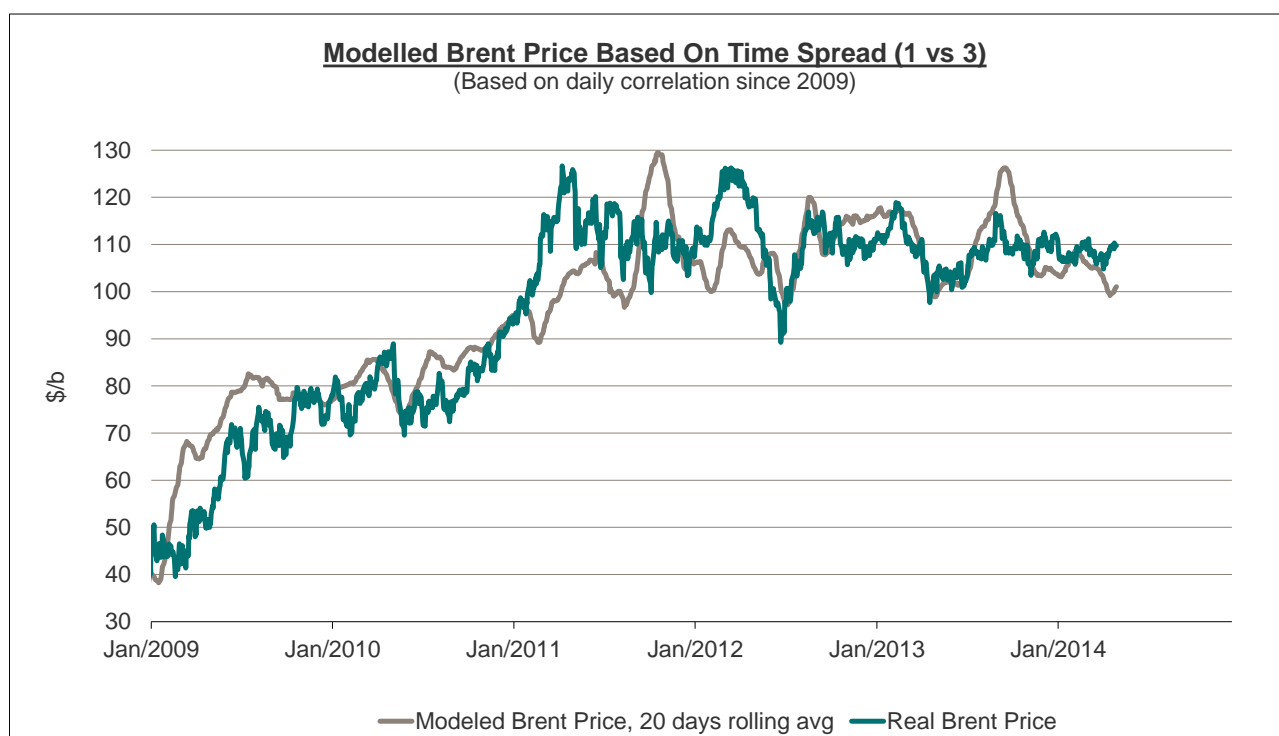
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1 Overall outlook

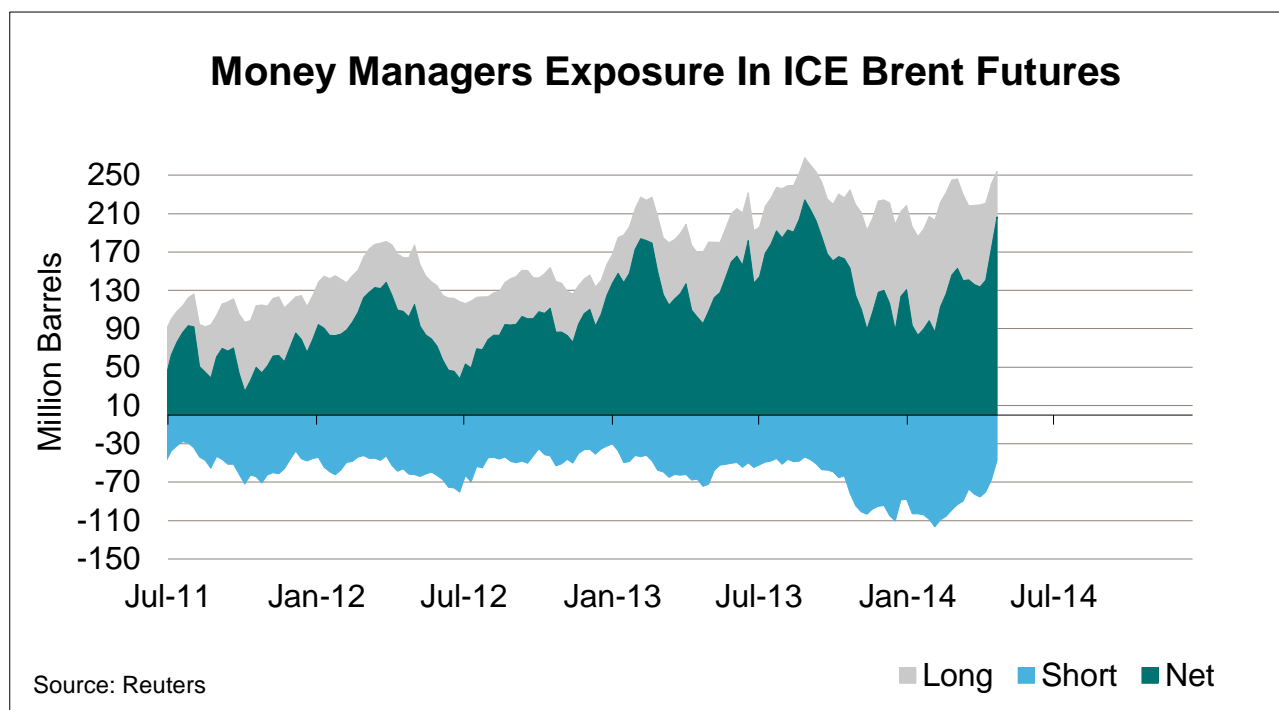
Last month we wrote that we expected a lower oil price in Q2 but that geopolitical factors could potentially undermine the forecast. The Brent price in April has so far been slightly higher than at the release of the last short term oil market update (108.06 \$/b vs 107.92 \$/b). We would argue that it is geopolitical risk that has undermined our Q2 forecast so far. Our modelled oil price based on the backwardation structure in the Brent-curve suggest that the Brent price should have touched down on 100 \$/b instead of trading around 110 \$/b, had physical supply-demand factors been the only forces at work (see the graph below).

The geopolitical price premium started to blow out as the market started fearing shut out oil from Russia related to the Ukraine crisis. What if Russian troops really enter the eastern parts of Ukraine and the western powers are forced to impose much stricter sanctions towards Russia. Will oil be part of any sanctions from the western powers? Will Russia be able/willing to use oil as a weapon to retaliate stricter western sanctions?

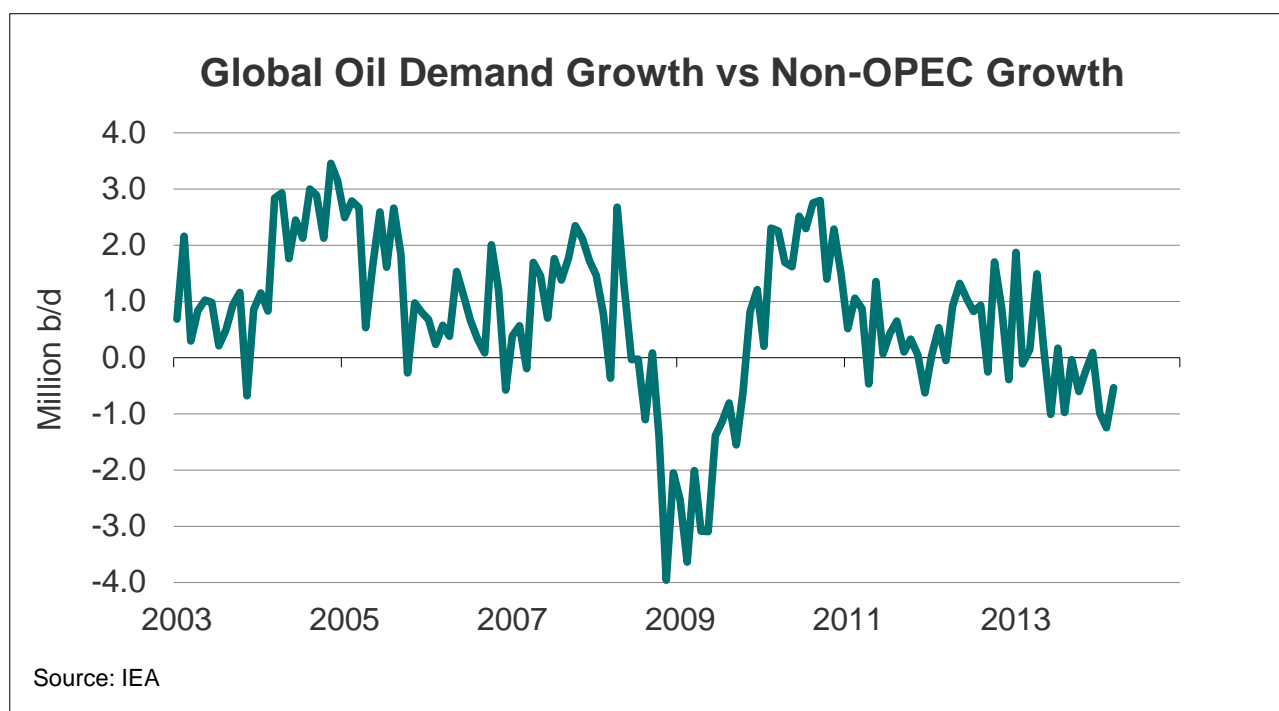


These mentioned worries have led to financial players adding to their net long oil holdings in the Brent market since the start of April. The buying pressure has come both from adding new long positions but also from squaring short positions as can be seen in the graph below. Money Managers have rarely held fewer short positions in Brent futures and also rarely held more long positions. This close to record net length in Brent futures held by financial players always represent a downside risk for oil prices in the short term. During the last 15 months we have had two major sell-offs of net long positions by these kinds of players. We had one last year from mid-February that lasted into April which chopped 18 \$/b off the Brent price and we had one in September-November last year that shaved 10 \$/b off the Brent price. As we are again close to record net length held by these players this is a large bearish mark in our score card for the short term

(reverse indicator). The longer the net length held by Money Managers the larger the short term downside risk.



When we at the same time continue to see non-OPEC production performing better than global oil demand (see the graph below) we think it is wise to maintain our bearish view on Q2 oil prices. Fundamental factors are just not strong enough to justify rising oil prices in the coming months in our view.



2 Global oil supply-demand balance

Based on the latest reported oil data by the IEA, the US Department of Energy and Government reported data from China, the global supply-demand balance for oil is not strong. Global oil demand grew by 0.9% in Q1 vs Q1 last year. This is weaker than the growth we saw in 2012 and 2013. We think global oil demand will grow 1.2% in total for 2014. This is the same as 1.1 million b/d. In 2012 and 2013 global oil demand increased by 1.1- and 1.3 million b/d respectively. If global oil demand grows 1.2% in 2014 it implies an oil intensity of 0.3 vs the IMF forecast of global GDP-growth of 3.6% for 2014. IMF expects the global economy to grow by 3.6% in 2014, up from 3% in 2013. Still we see no signs of any stronger oil demand growth in 2014 vs 2013 in the reported oil data so far.

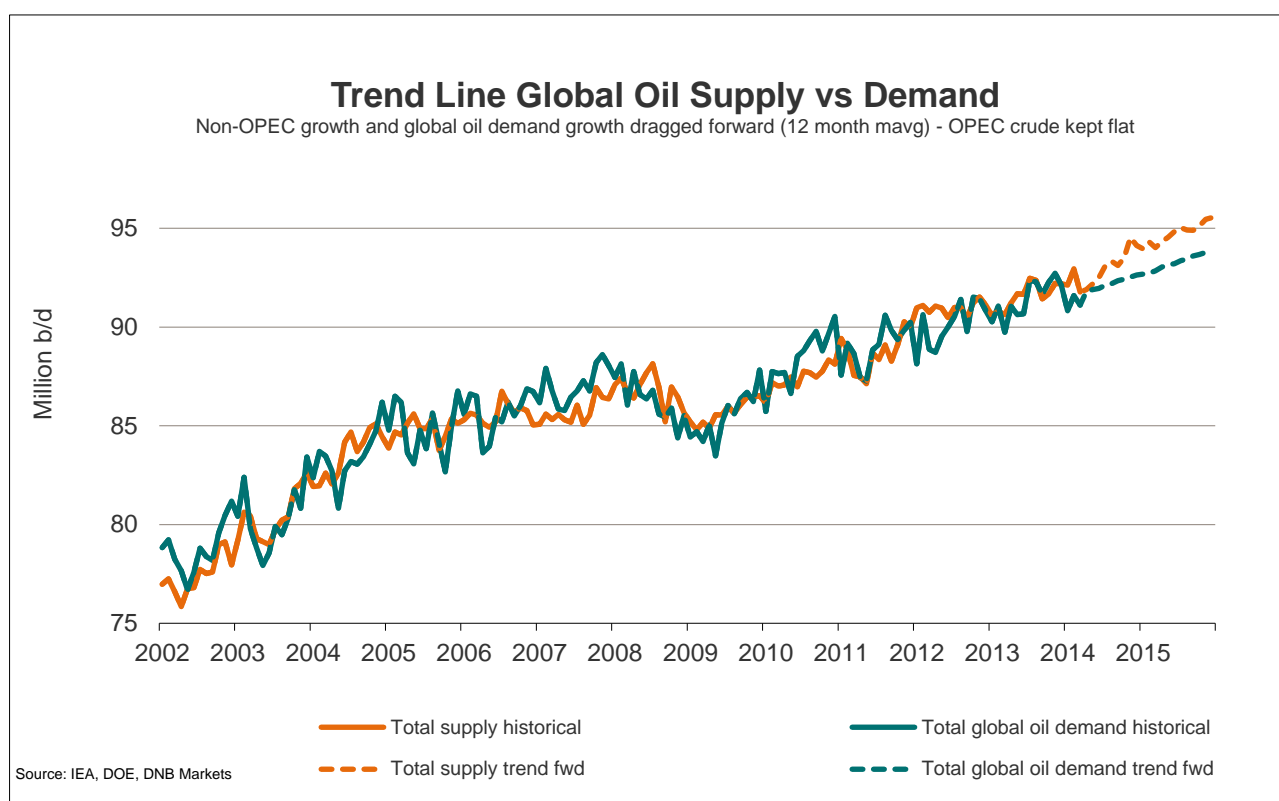
Last year the global oil intensity came in at a factor of 0.5 but we expect it to drop to 0.3 this year as the weight of the global economic output moves towards the OECD which is less energy intensive than the non-OECD. IMF expect growth in the advanced economies of 2.2% this year which is significantly up from the 1.3% posted last year, but for global oil demand growth it is probably more important that Chinese economic growth keeps on decreasing and is expected at 7.5% by the IMF this year. One should also pay notice to the fact that the very strong growth rates in US oil demand posted through the autumn last year has now faded away and US oil demand growth is now negative in the weekly data (more on this subject later).

Demand change in %	Change 2010	Change 2011	Change 2012	Change 2013	YoY Last 3 mts	2014 YTD Chg:	Forecast 2014
North America (Canada, Mexico)	2.7 %	0.8 %	1.0 %	-0.4 %	-2.4 %	-2.4 %	0.1 %
US	2.2 %	-1.5 %	-2.1 %	2.2 %	0.6 %	0.6 %	0.7 %
OECD Europe	0.0 %	-2.7 %	-3.3 %	-1.0 %	-1.2 %	-1.2 %	-0.3 %
Australia, New Zealand, Japan, Korea, Chile	1.5 %	0.7 %	4.2 %	-1.6 %	-1.3 %	-1.3 %	-0.3 %
Europe/Africa Med & FSU	1.2 %	2.3 %	3.4 %	3.1 %	2.1 %	2.1 %	2.0 %
Middle East AG excl. Iran and Saudi	6.0 %	2.4 %	4.5 %	3.7 %	3.4 %	3.4 %	3.1 %
Iran	-9.1 %	-1.9 %	0.0 %	0.3 %	4.6 %	4.6 %	3.8 %
Saudi Arabia	9.2 %	4.0 %	4.6 %	2.4 %	2.4 %	2.4 %	2.5 %
Asia Pacific/East Africa excl. China and India	7.2 %	2.9 %	2.3 %	3.7 %	2.7 %	2.7 %	2.9 %
China	12.9 %	4.5 %	5.4 %	2.8 %	1.8 %	1.8 %	1.9 %
India	2.3 %	2.5 %	5.0 %	0.5 %	1.5 %	1.5 %	1.5 %
West Africa	8.0 %	3.9 %	4.7 %	-0.1 %	0.7 %	0.7 %	0.9 %
Latin America (excl. Mexico)	6.2 %	1.5 %	3.5 %	3.3 %	3.8 %	3.8 %	2.8 %
Total World	3.4 %	0.6 %	1.3 %	1.4 %	0.9 %	0.9 %	1.2 %

Demand change in Million b/d	Change 2010	Change 2011	Change 2012	Change 2013	YoY Last 3 mts	2014 YTD Chg:	Forecast 2014
North America (Canada, Mexico)	112	34	41	-22	-108	-108	-1
US	407	-297	-392	395	106	106	139
Europe	-11	-414	-476	-153	-157	-157	-71
Australia, New Zealand, Japan, Korea	121	58	341	-141	-120	-120	-33
Total OECD	630	-618	-486	80	-278	-278	34
Europe/Africa Med & FSU	79	164	245	232	156	156	137
Middle East AG excl. Iran and Saudi	128	57	104	91	83	83	78
Iran	-184	-35	-1	6	83	83	70
Saudi Arabia	218	104	132	65	66	66	64
Asia Pacific/East Africa excl. China and India	541	238	194	316	241	241	266
China	1,003	394	508	272	181	181	195
India	70	77	159	18	52	52	52
West Africa	89	48	61	-1	9	9	13
Latin America (excl. Mexico)	357	92	215	208	240	240	175
Total Non-OECD	2,300	1,138	1,617	1,207	1,111	1,111	1,050
North America	519	-263	-351	373	-1	-1	138
Europe/Africa Med & FSU	68	-250	-231	80	-1	-1	66
Middle East AG/Asia Pacific/East Africa	1,897	892	1,437	627	586	586	692
Middle East AG	162	125	236	162	232	232	211
Asia Pacific/East Africa	1,735	767	1,201	465	354	354	481
West Africa	89	48	61	-1	9	9	13
Latin America (excl. Mexico)	357	92	215	208	240	240	175
Total World	2,929	520	1,130	1,286	833	833	1,084

At the same time as global oil demand struggles to keep up with the growth in the global economy, the supply growth outside of OPEC is not struggling at all. Total non-OPEC oil supply grew 1.8 million b/d in both February and March and it is interesting that conventional crude oil is behind 1.5 million b/d (83%) of this growth as we have heard arguments that most of the liquids supply growth globally is NGLs and not crude oil. No matter how we twist the situation it is pretty clear that the world will not need an additional 1.5 million b/d of crude oil in 2014. In 2013 the global demand for crude oil (refinery throughput) did not increase by more than 460 kbd according to FGE data.

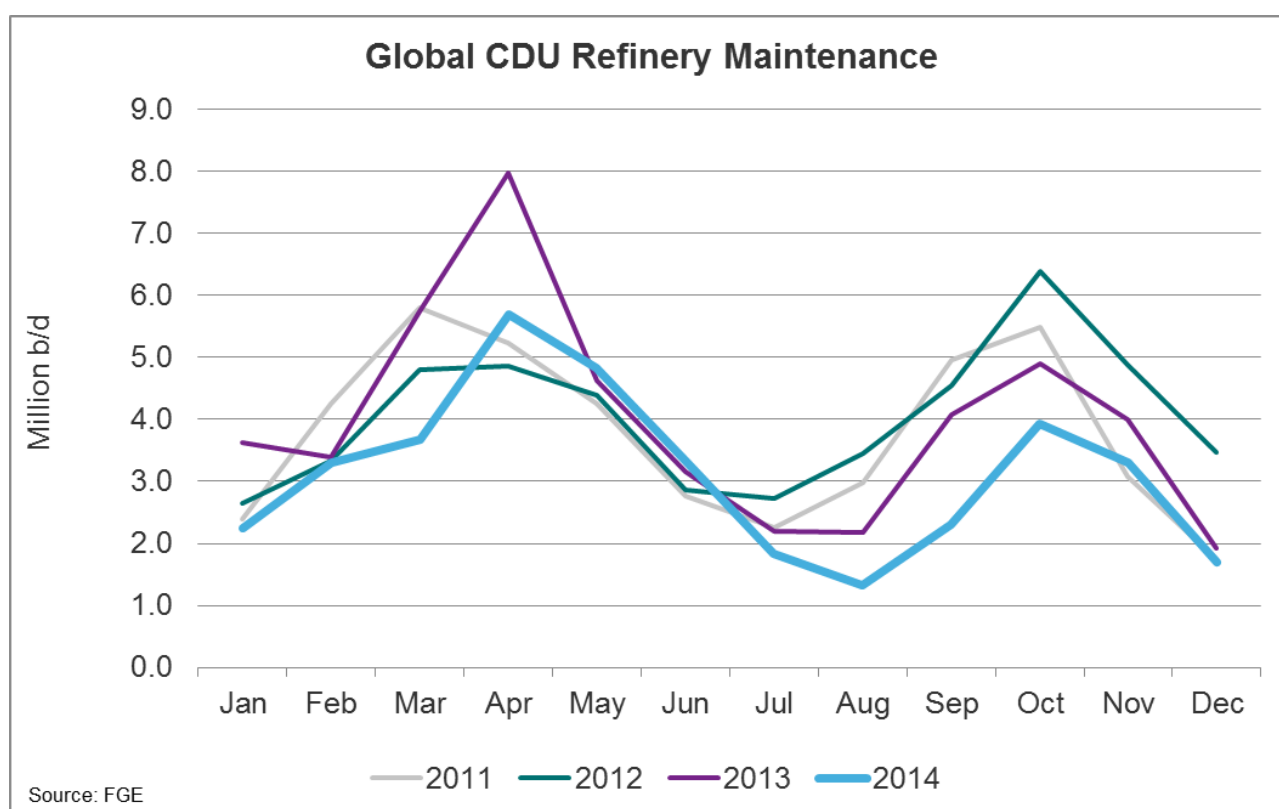
If we keep OPEC production flat at the last known level (29.6 million b/d) and assume that non-OPEC production keeps on growing according to the last 12 months and compare this with the growth in oil demand the last 12 months it is not a bullish picture that emerges. If this market should balance in the next 12 months, we need to see stronger global oil demand growth or we need to see weaker growth in supply from non-OPEC. A weaker oil price will help to achieve both...



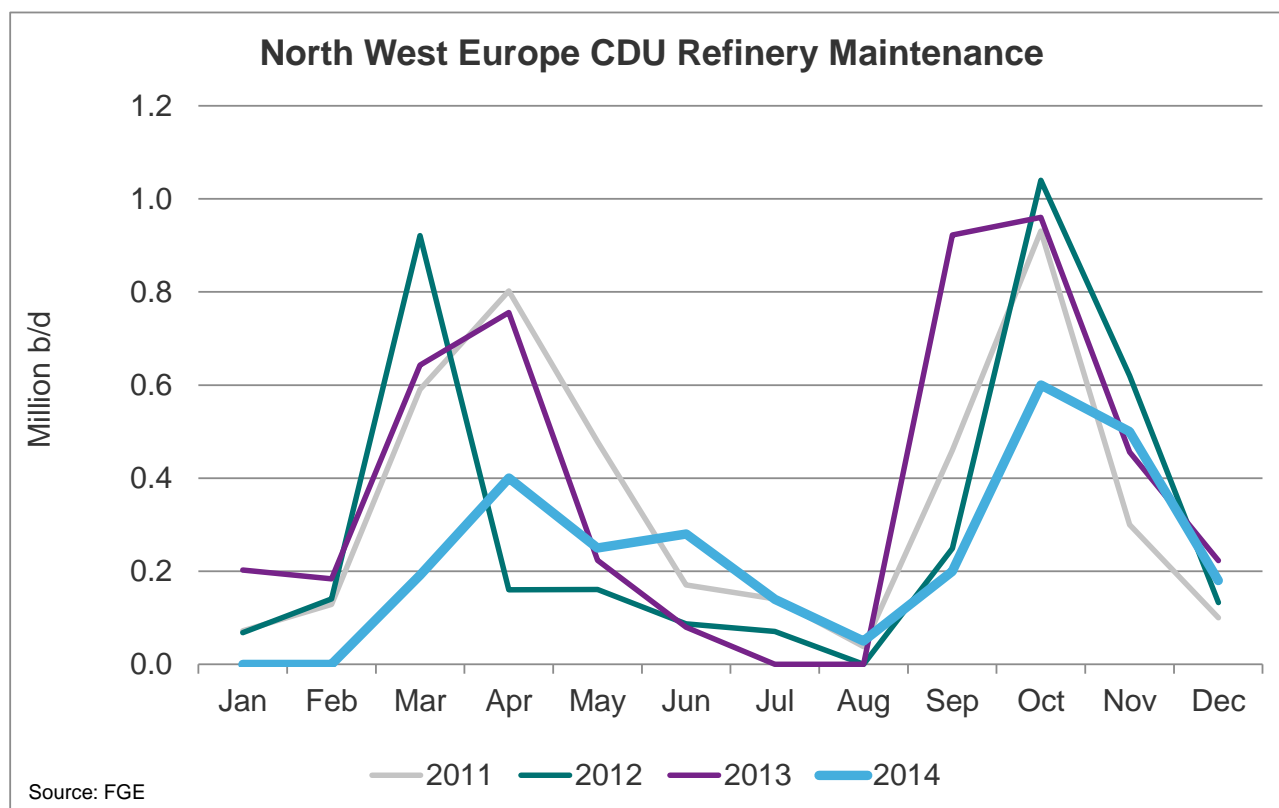
3 Refinery activity

Based on data from the FGE the peak of global refinery maintenance should be now in April. This suggests that crude stocks may start to draw as refineries are ramping up but that product stocks may start to build. In the OECD it is the product stocks that are very low while crude stocks looks quite adequate, particularly in Europe where refinery runs are significantly down vs last year.

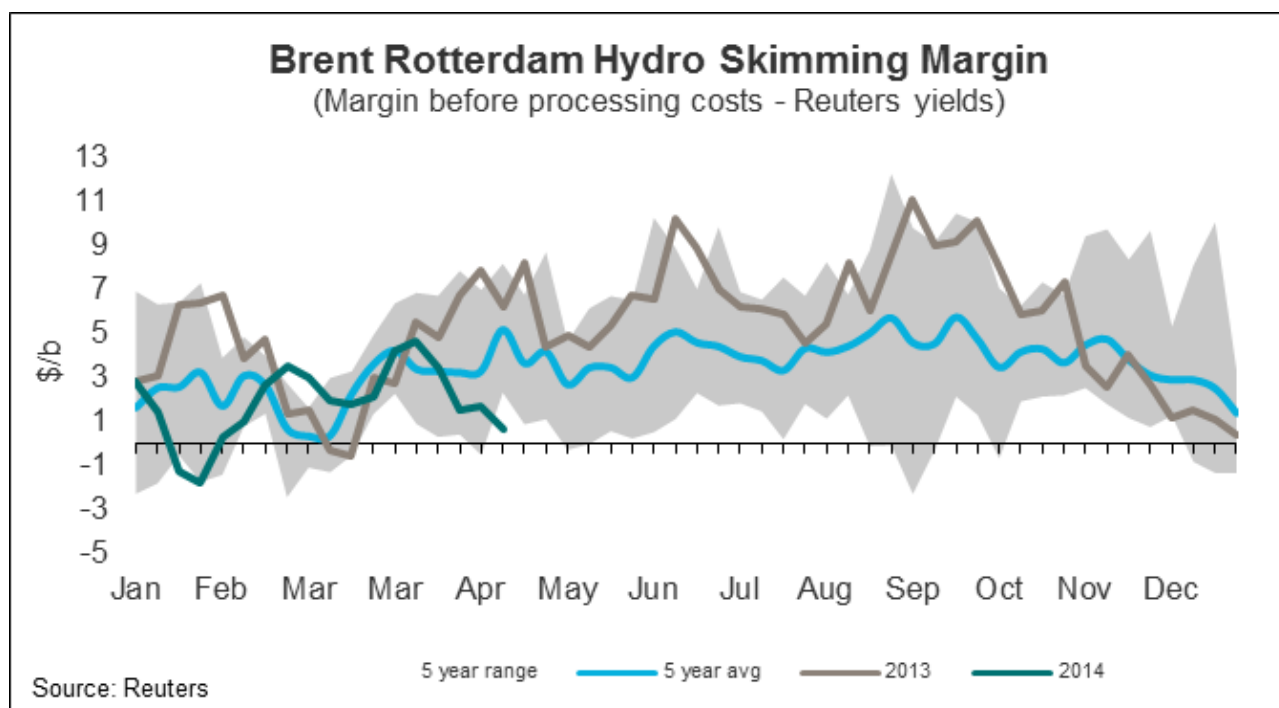
Global refinery throughput should be able to increase significantly until August based on scheduled maintenance plans. Still there is no statistically significant seasonality in the performance of crude oil prices even if this maintenance plays out very similarly every year. At the end of the day it will be end user product demand that will decide how much refineries can run. The acid test for how much we can expect global refinery throughput to increase in coming months will be how simple refinery margins are performing throughout the world as refineries are coming out of maintenance.

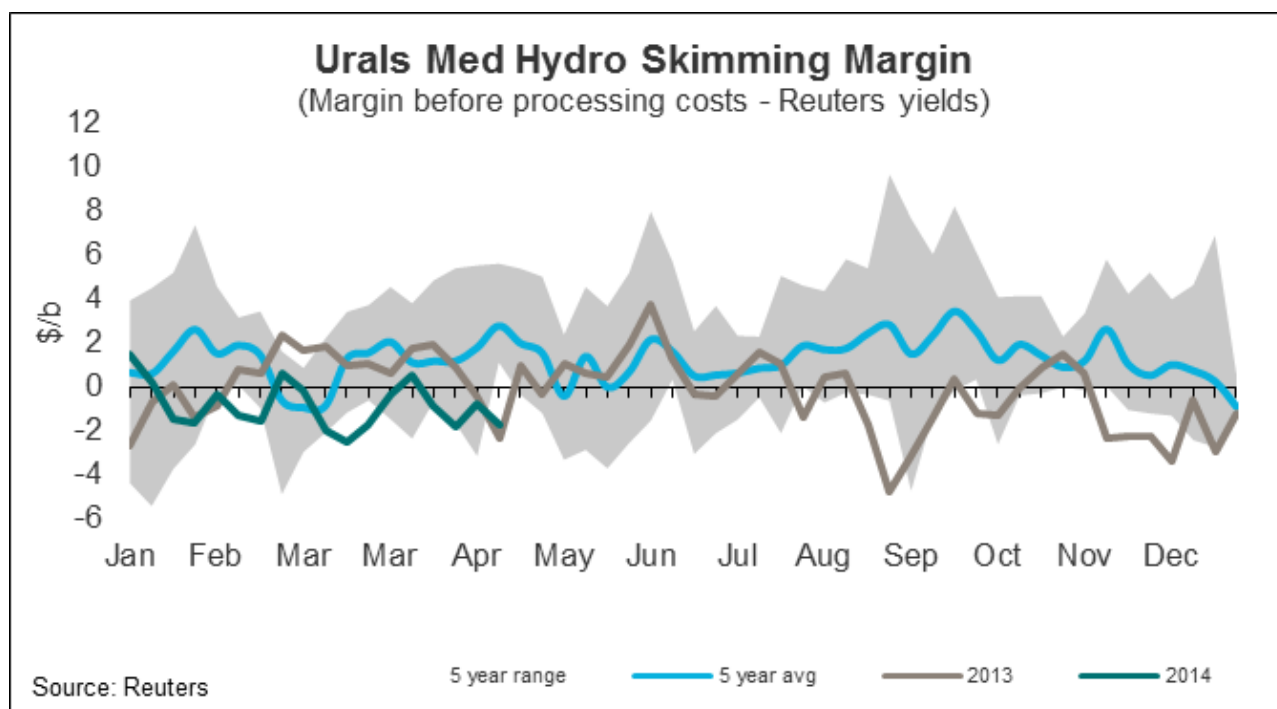


In North West Europe we see the same kind of development in refinery maintenance as in the global scene, but peak maintenance looks lower this year than in any of the prior three years.

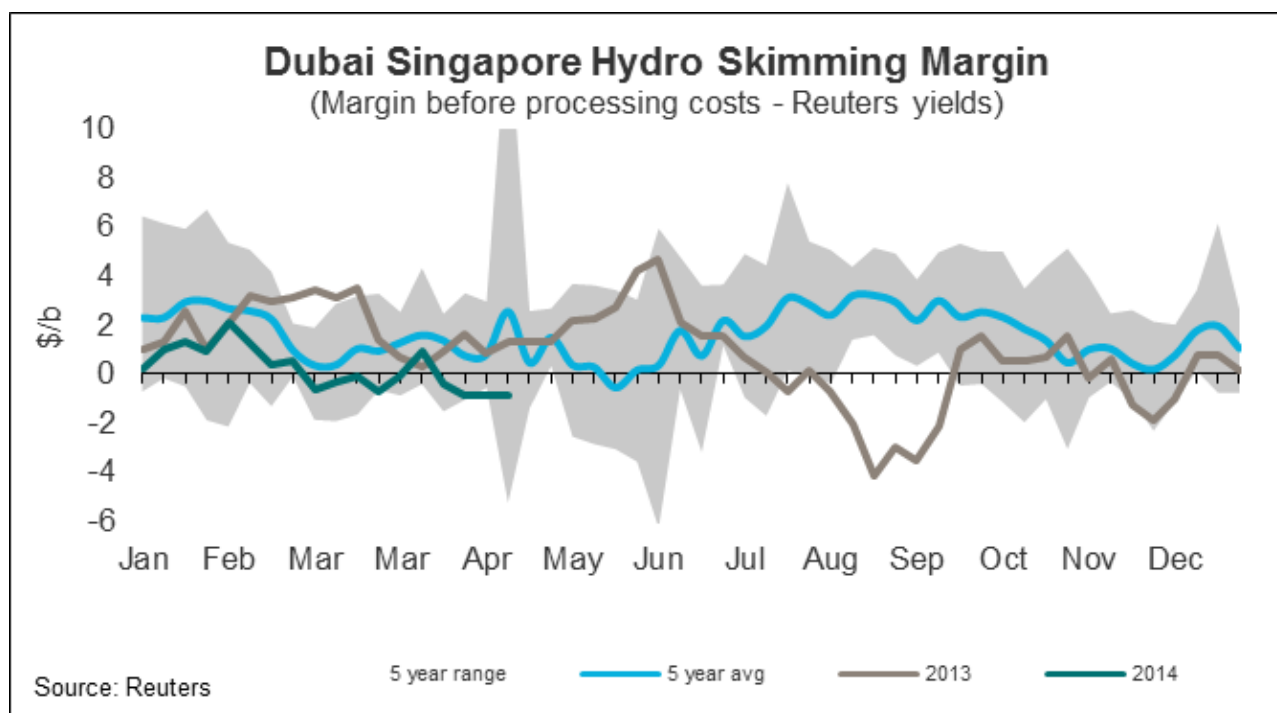


The ramp up of the refinery maintenance season seems to have provided some support to the European product market through February and March, but the support is now fading away it seems. Will the European product market (refinery margins) be able to take higher runs?

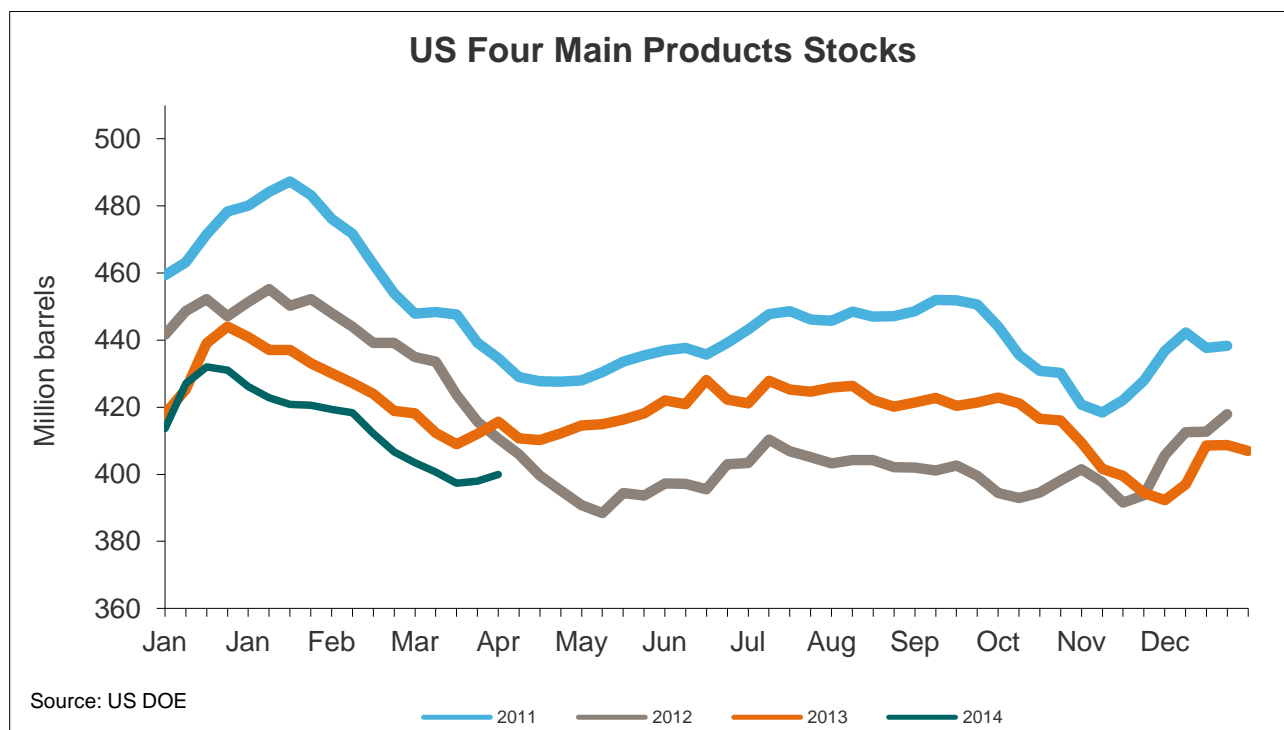
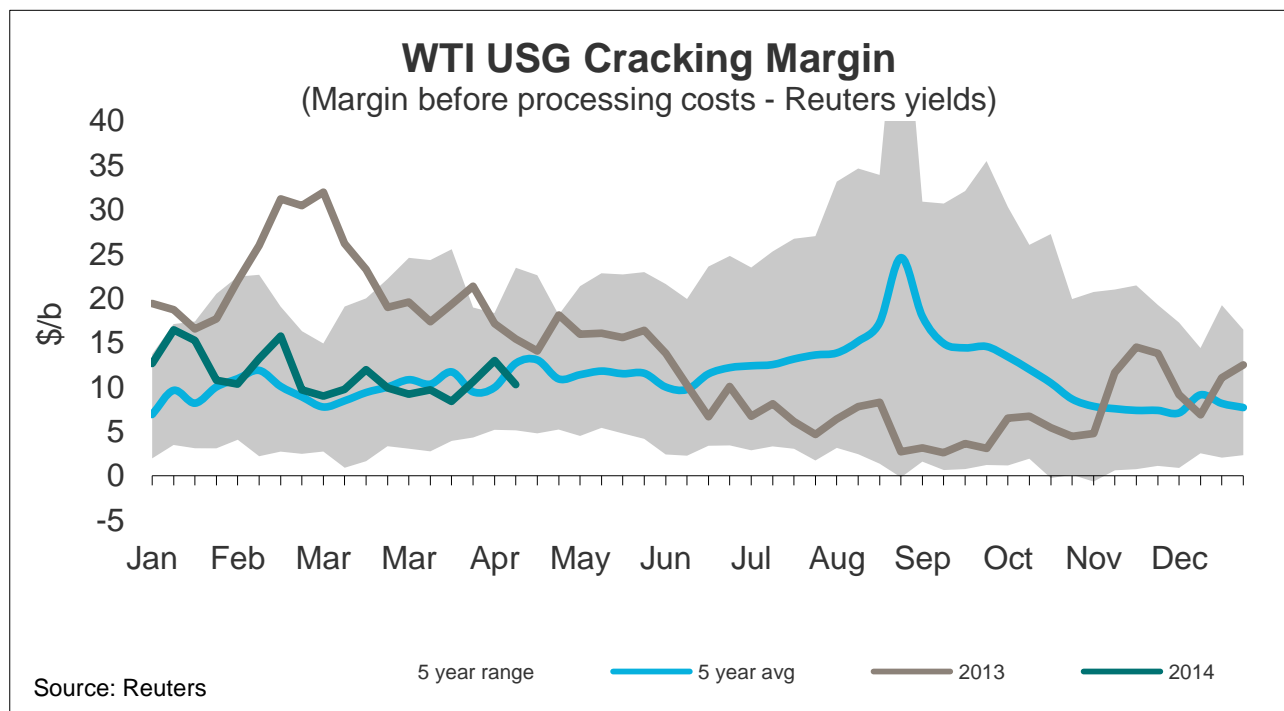




The picture is not looking much better in Asia where simple margins have been in negative territory since March despite a ramp up of refinery maintenance in the same period. Maintenance in Asia is however scheduled to peak in May so one could still hope for some support in the coming month for the Asian product market. We suspect that margins in Asia are negatively impacted by the fact that China is turning into a net oil product exporter and it remains to be seen if maintenance will be enough to provide adequate margins for these players.

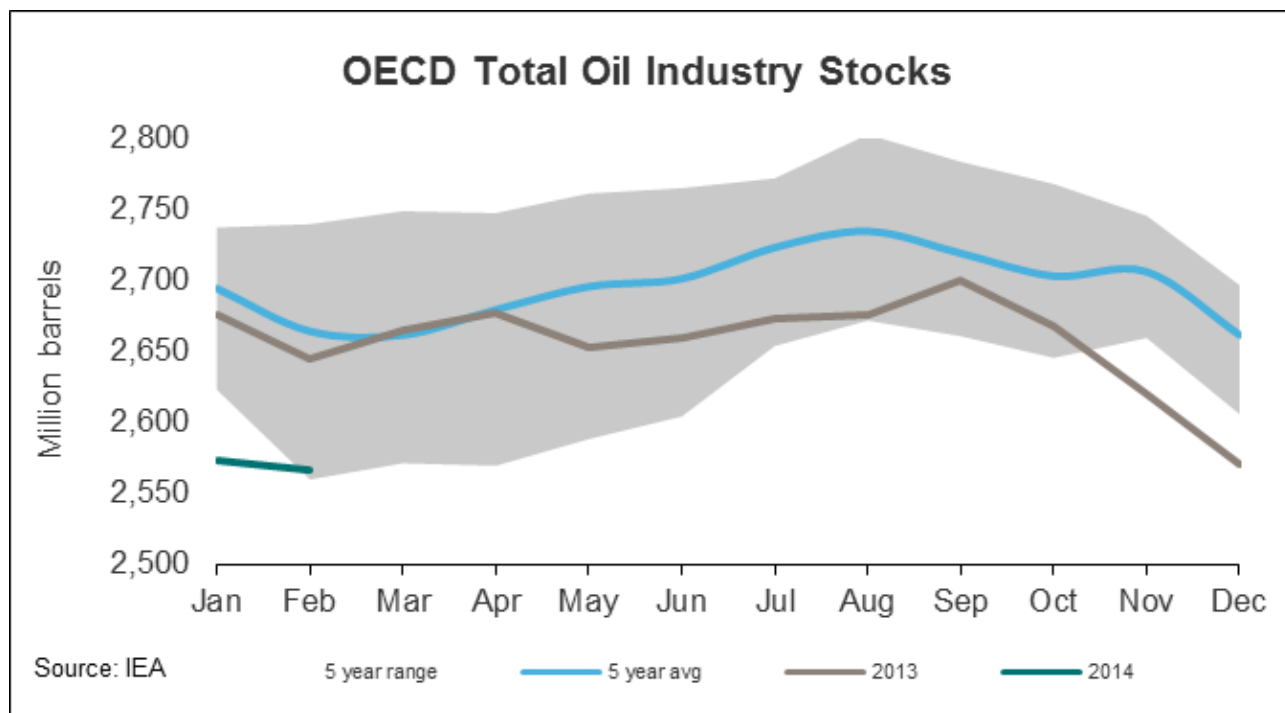


The key region with strong refinery margins is in the US, where crude stocks are record high and product stocks are low. Refineries in the US are coming out of maintenance in May and June and this should help replenish some of the product tightness.

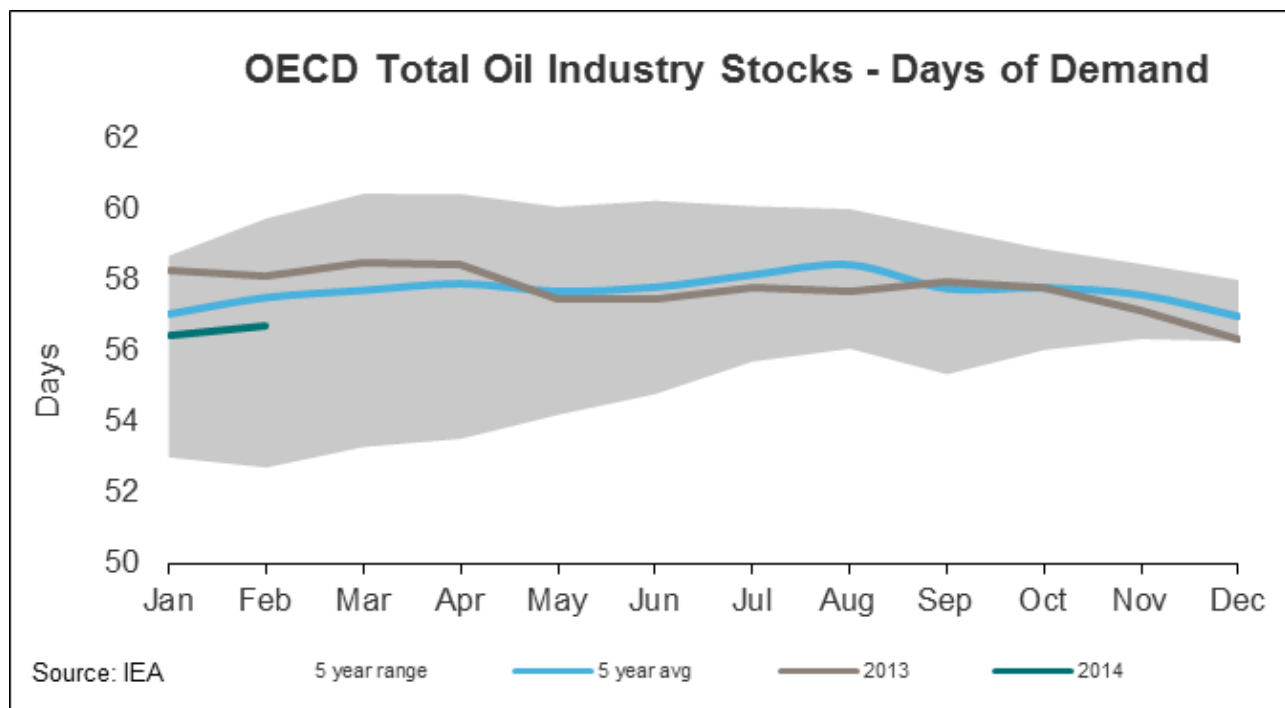


4 Oil stocks

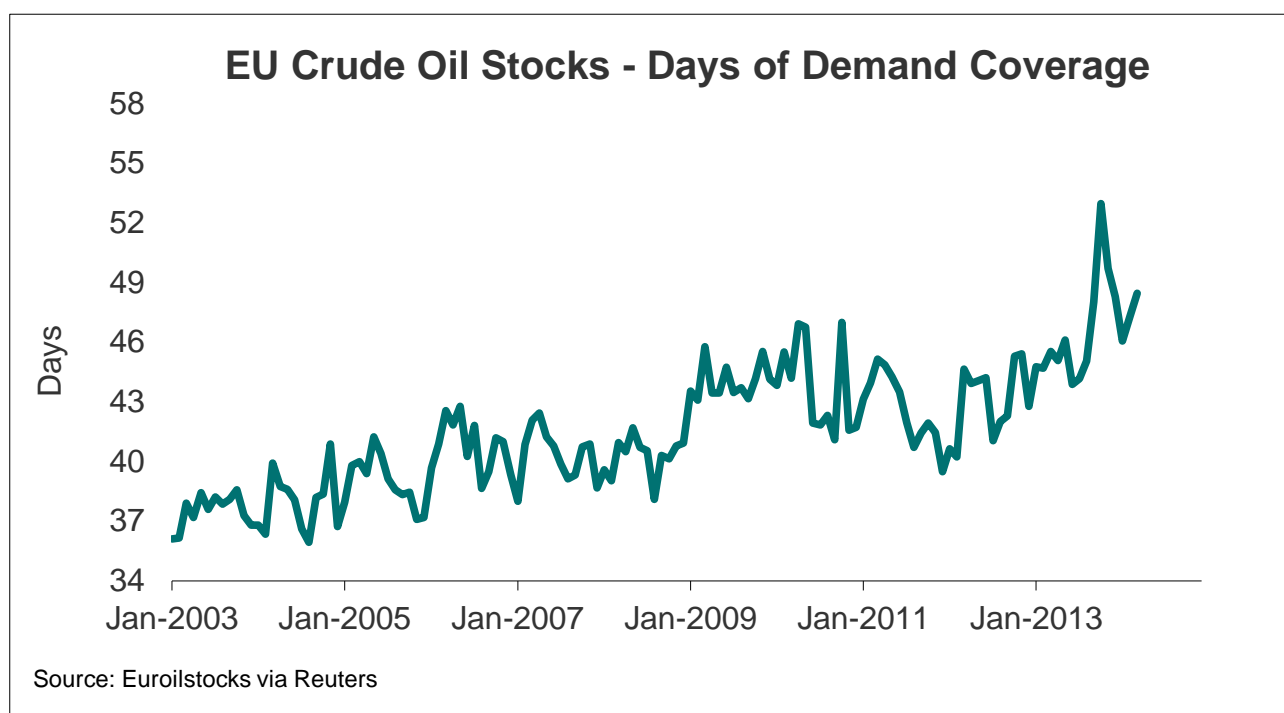
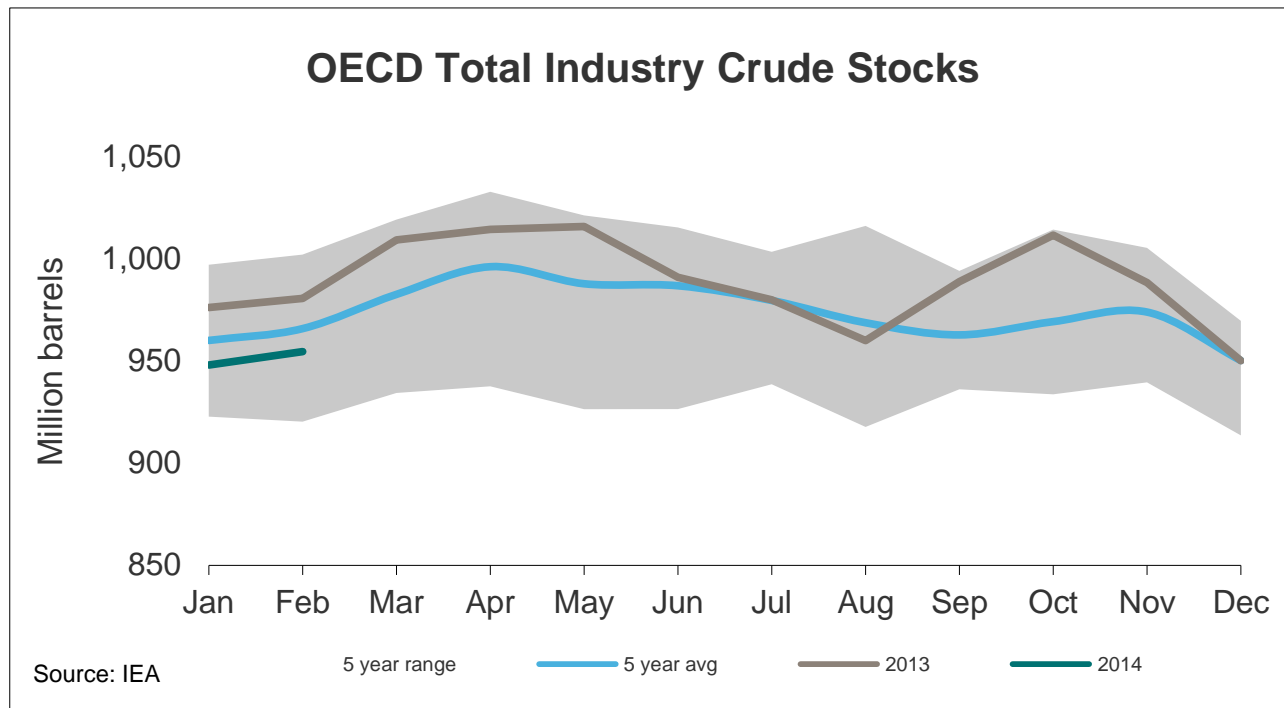
Total oil stocks in the OECD are low when measured in barrels.



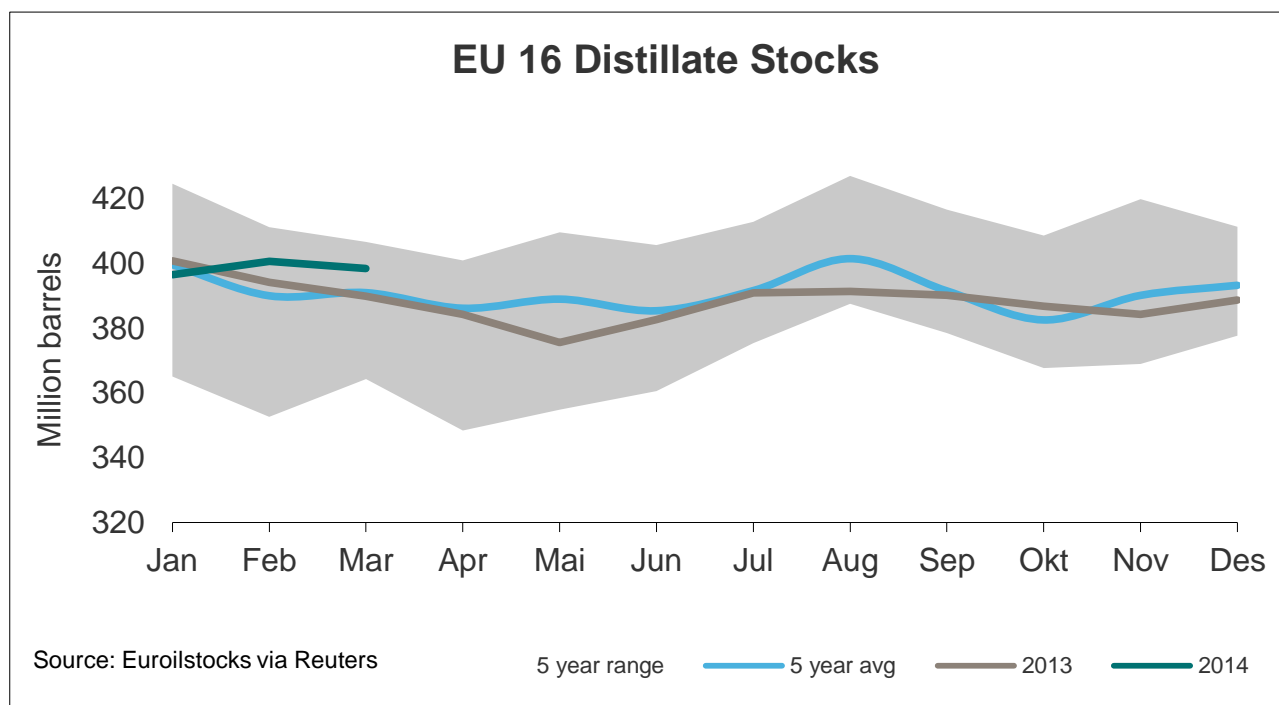
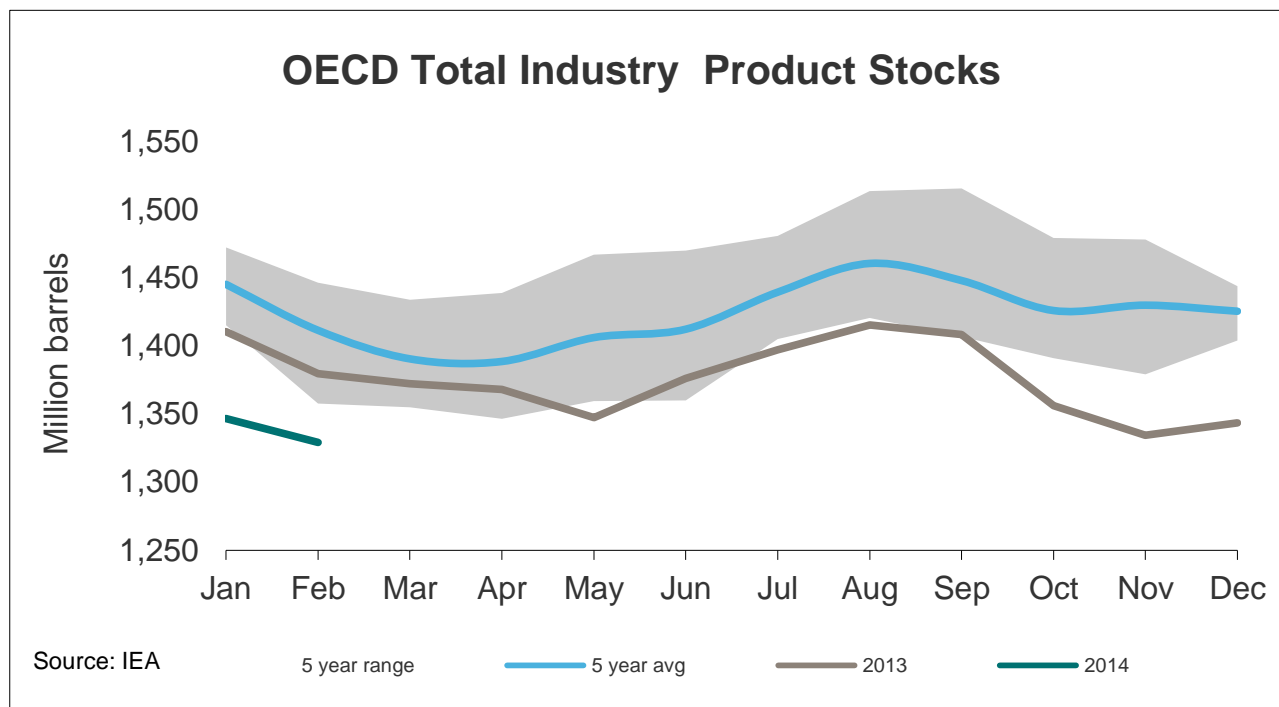
Stocks are however not that low when translated into days of demand coverage.



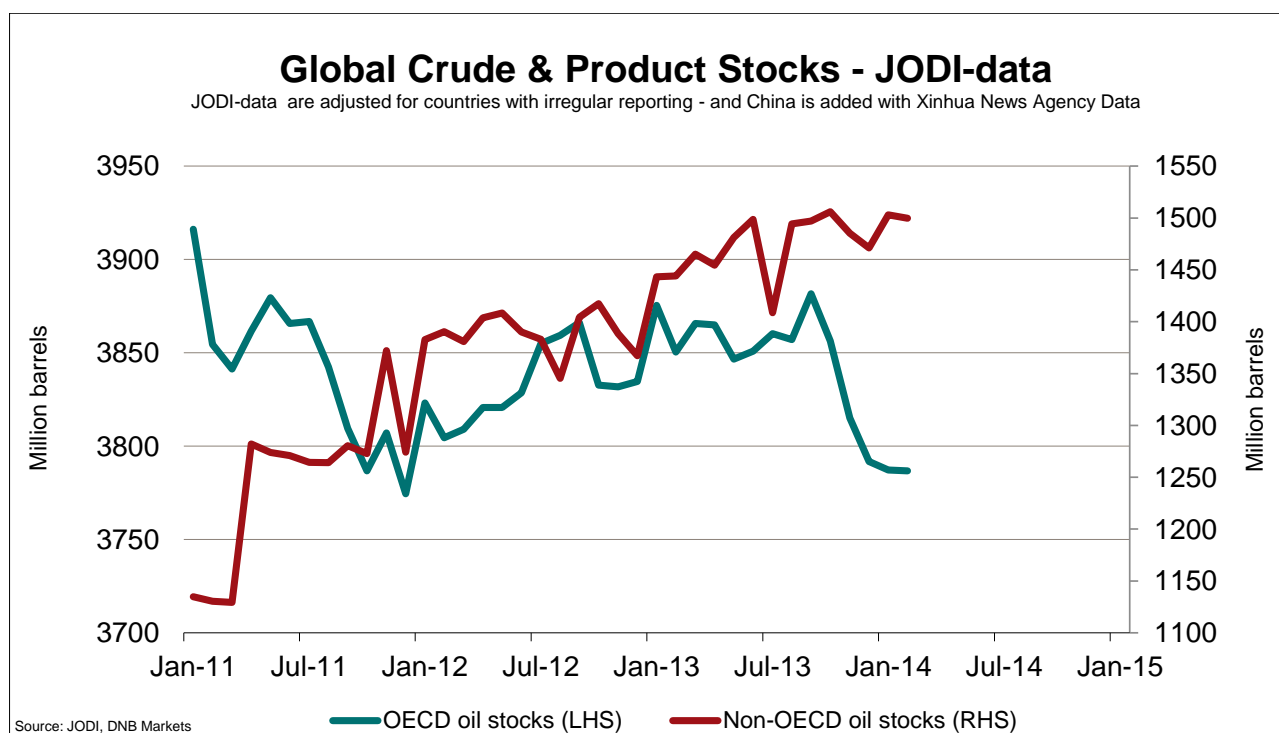
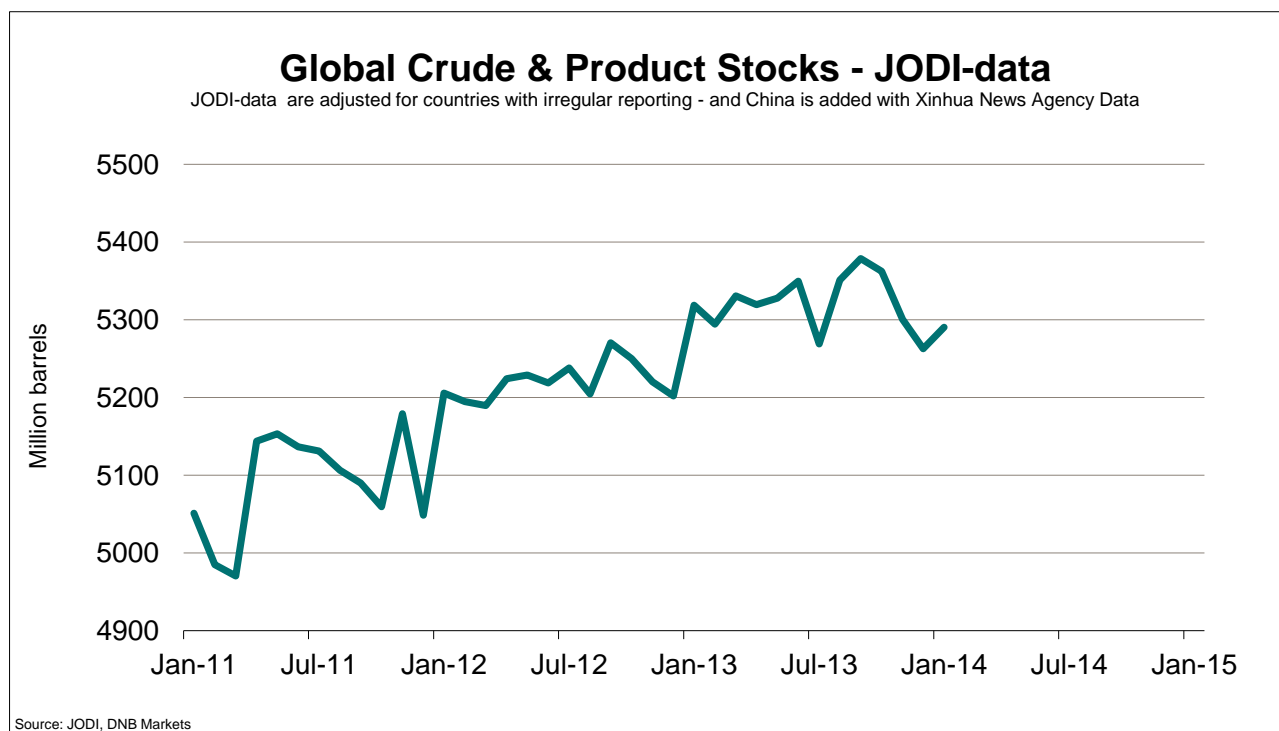
OECD crude oil stocks are not low. They are on the low side but crude stocks in the US are currently record high (the highest since records began in 1982) and in Europe the days of demand coverage keeps on growing as refinery throughput (crude demand) keeps on falling.



The only tightness is to be found in OECD product stocks. It is however only able to support margins in the US as in Europe distillate stocks are on the high side and as many would know, distillates (diesel) is the key refined product in Europe.

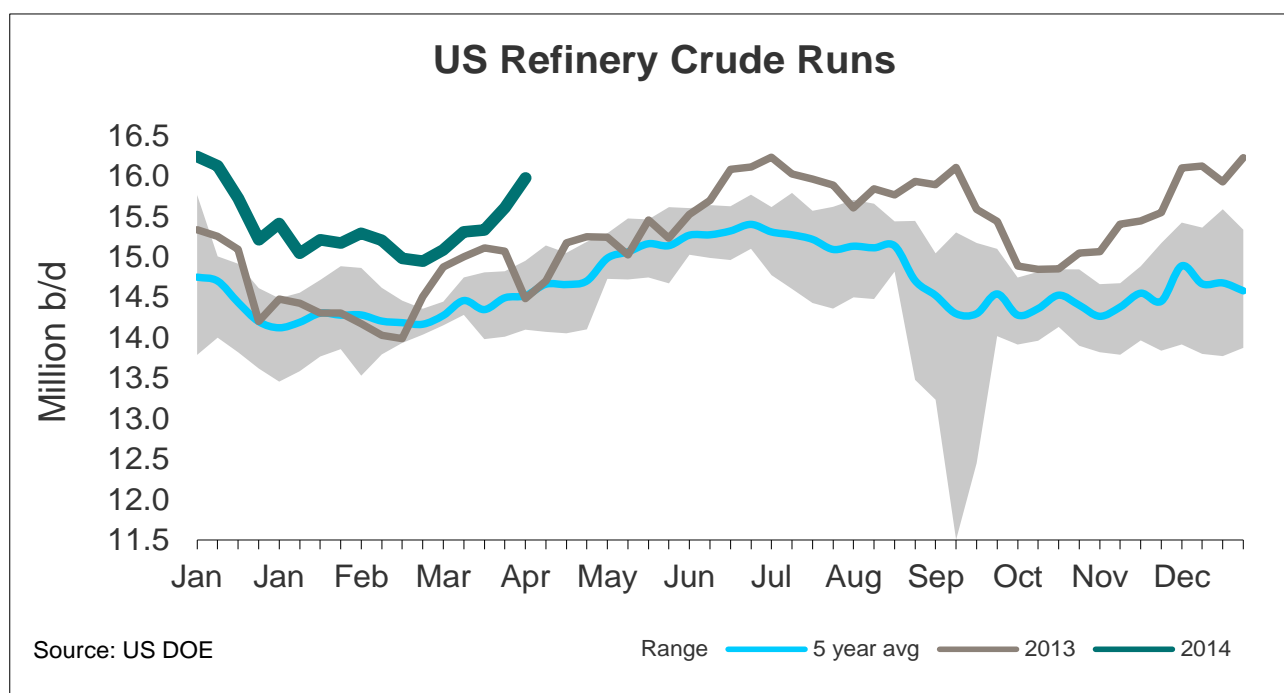


Due to the JODI data (Joint Organizations Data Initiative) it is starting to be possible to say something about global oil stocks. China data is still missing in the JODI database but we have collected Chinese oil stocks data since May 2009 so this is not a problem anymore. Based on this data it looks as if global oil stocks are still on a growing trend, even if OECD oil stocks have fallen to low levels (due to the already mentioned product stocks). The global oil stock draw has as such not been close to as dramatic as some commentators are suggesting who are only observing OECD stocks.

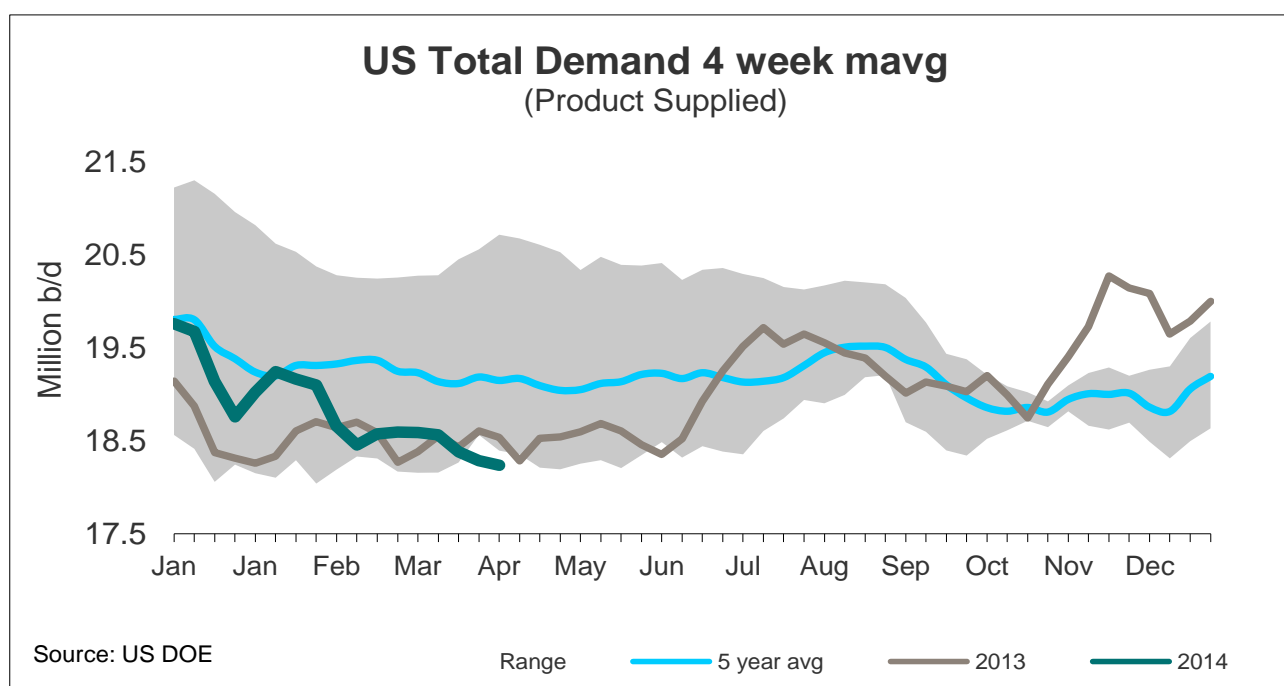


5 US oil data

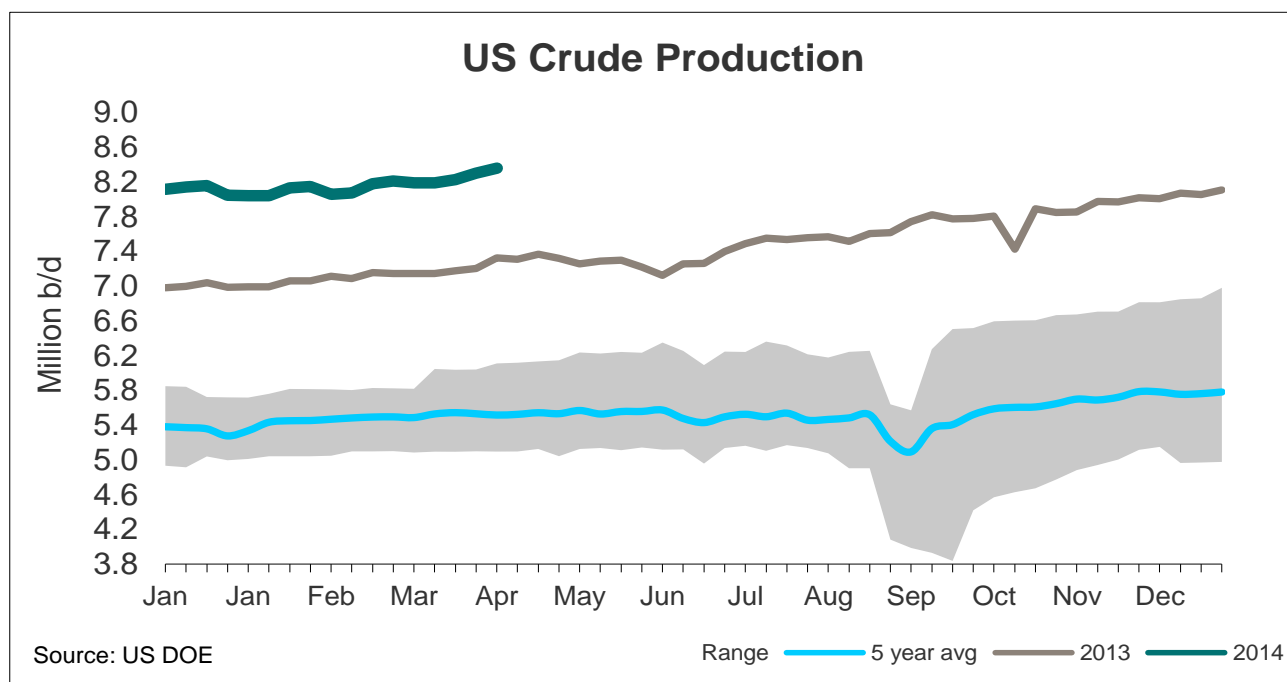
The total impression from the reported US oil data is still bearish. Refinery runs are record high for this time of year, but most of this is probably going to exports (the latest available product exports numbers are still from January) and not domestically consumed as total US oil demand has trended lower since the start of the year.



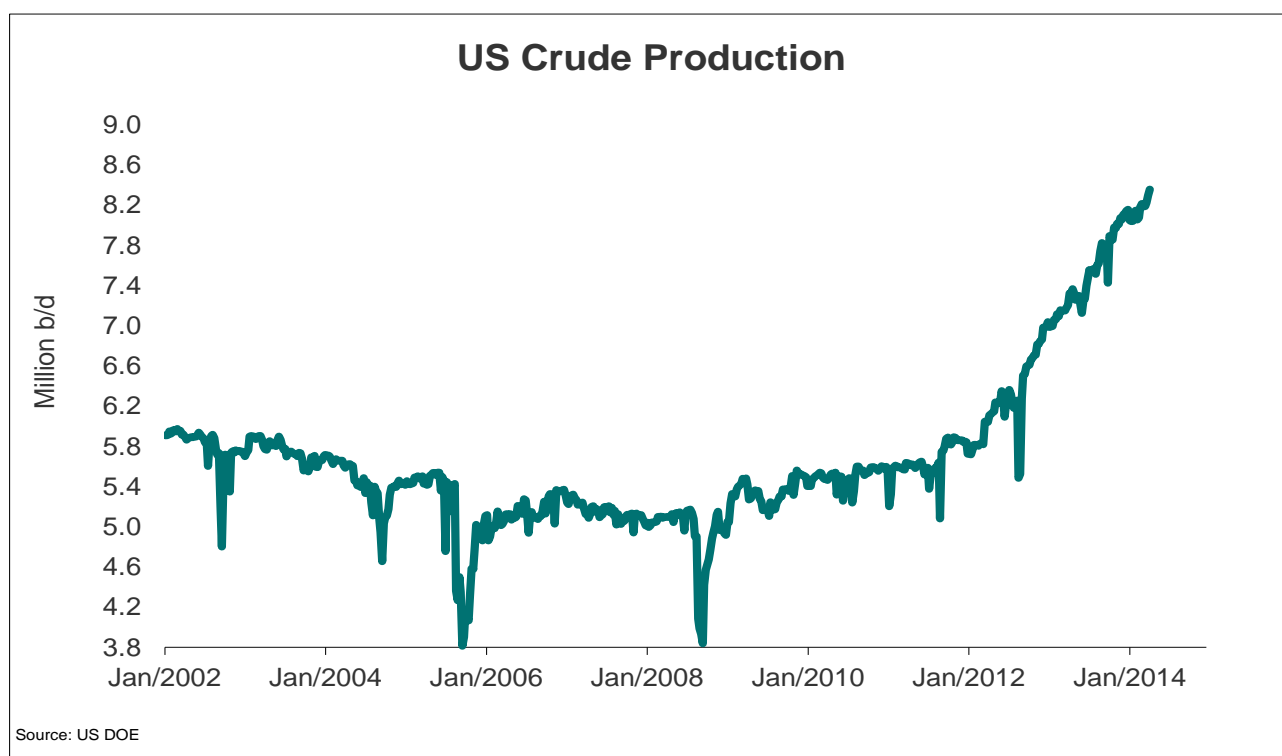
Total US oil demand showed very strong growth rates in the second half of last year. This strength has now faded away and year on year growth is now negative, as can be seen in the graph below.



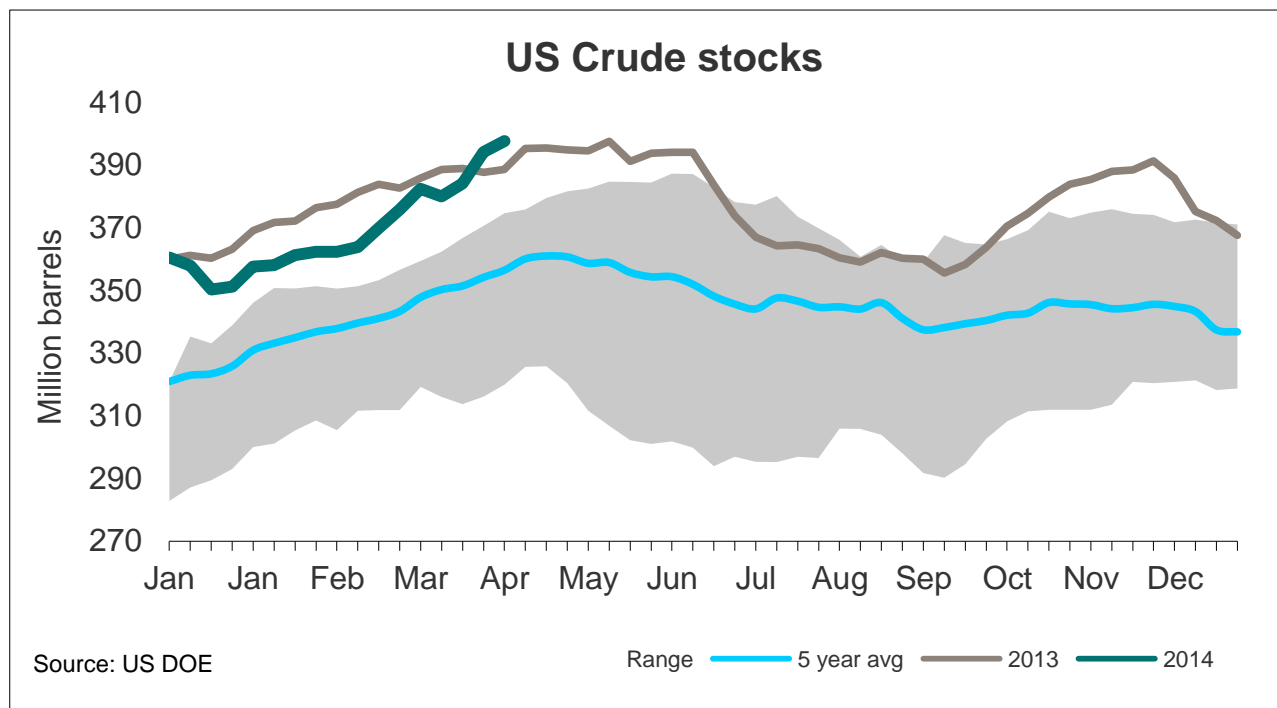
Total US crude production continues to rise and we expect very strong growth rates from both Bakken and Texas in the coming 6 months. Bakken oil production increased 16 kbd in February (which was still a cold month) and we expect even better monthly growth in coming months.



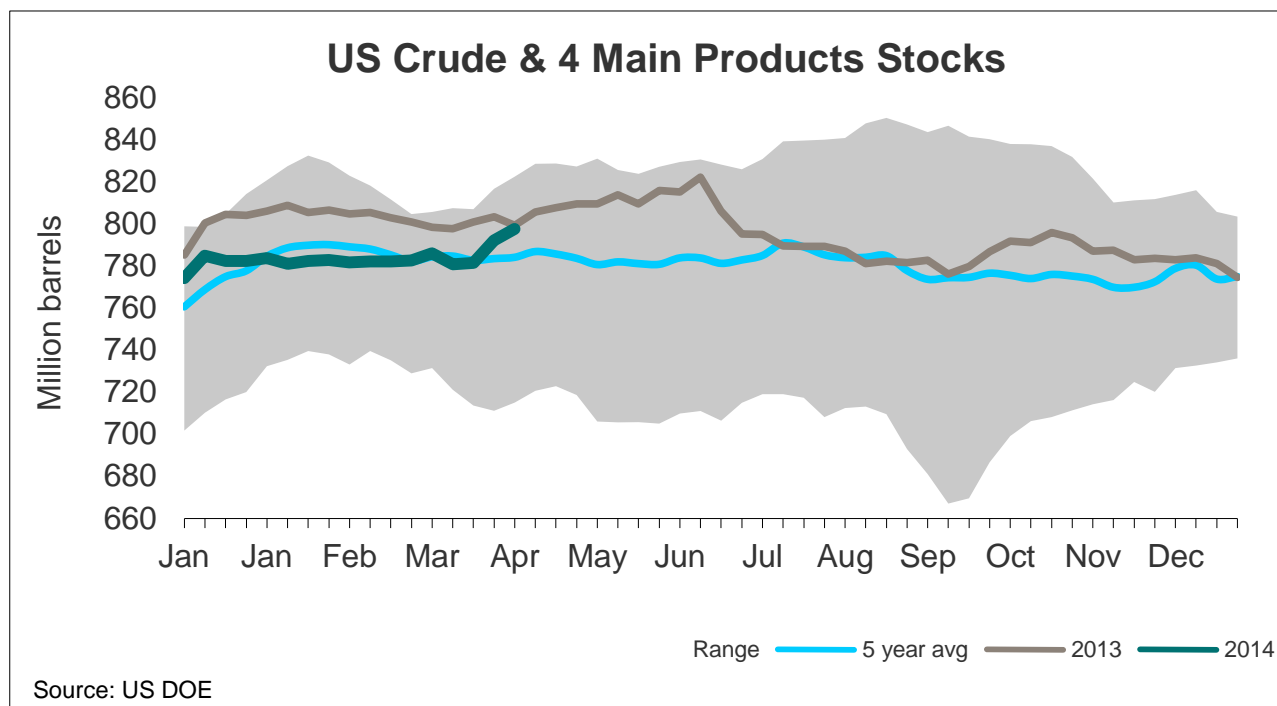
Total crude production is reported at 8.4 million b/d in the last weekly stats (up 1.1 mbd vs last year) and even if we see no more production growth from that level the rest of the year, production will grow 870 kbd in 2014. We do however expect production to continue to increase and hence expect a growth of about 1 million b/d in 2014.



The incredible increase in crude production has led to record levels of crude oil stocks in the US. In fact there have never been higher crude oil stocks in the US ever since records began in 1982.

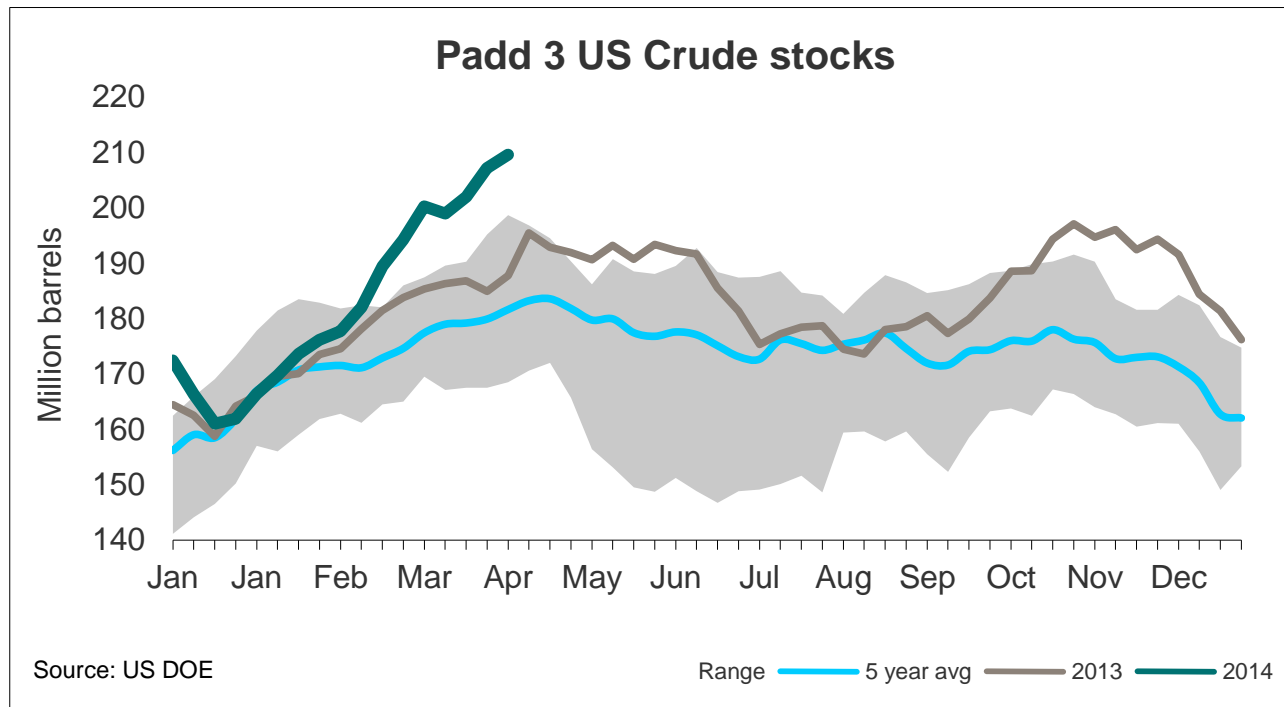


Crude and 4 main product stocks are hence almost on par with last year in the weekly data reporting. This is of course not a bullish story for oil prices.

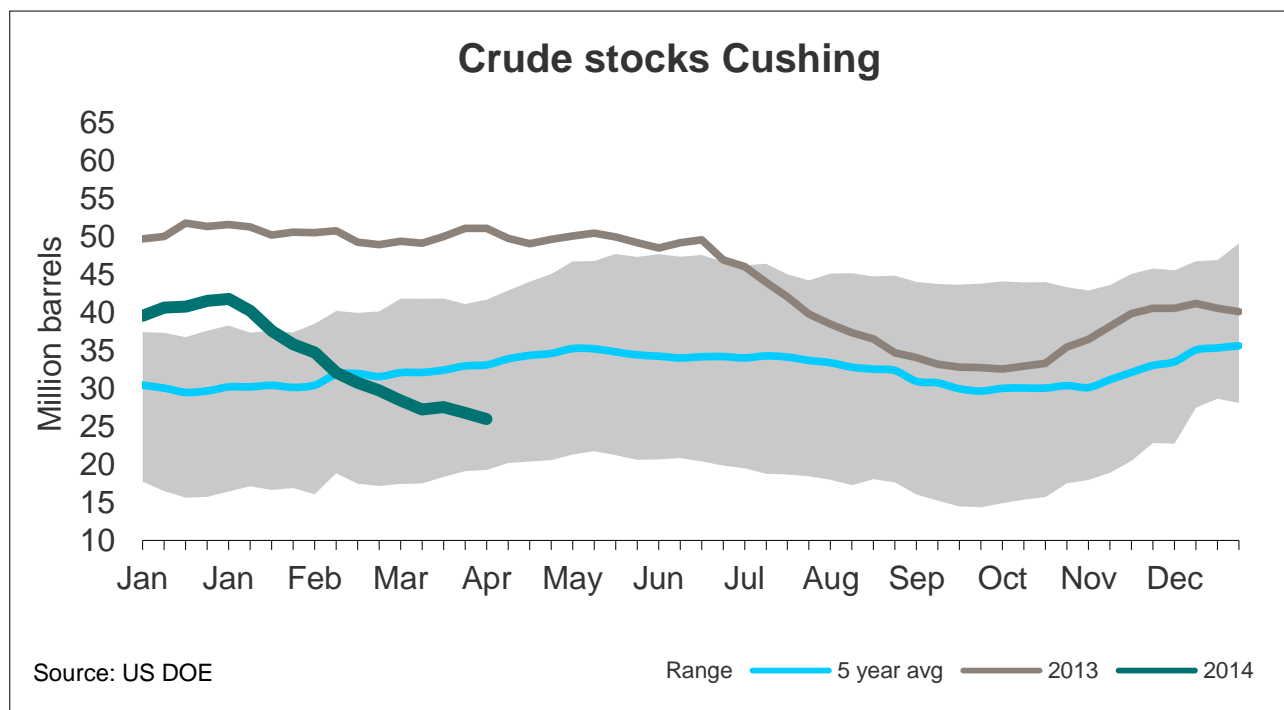


6 Other important energy news

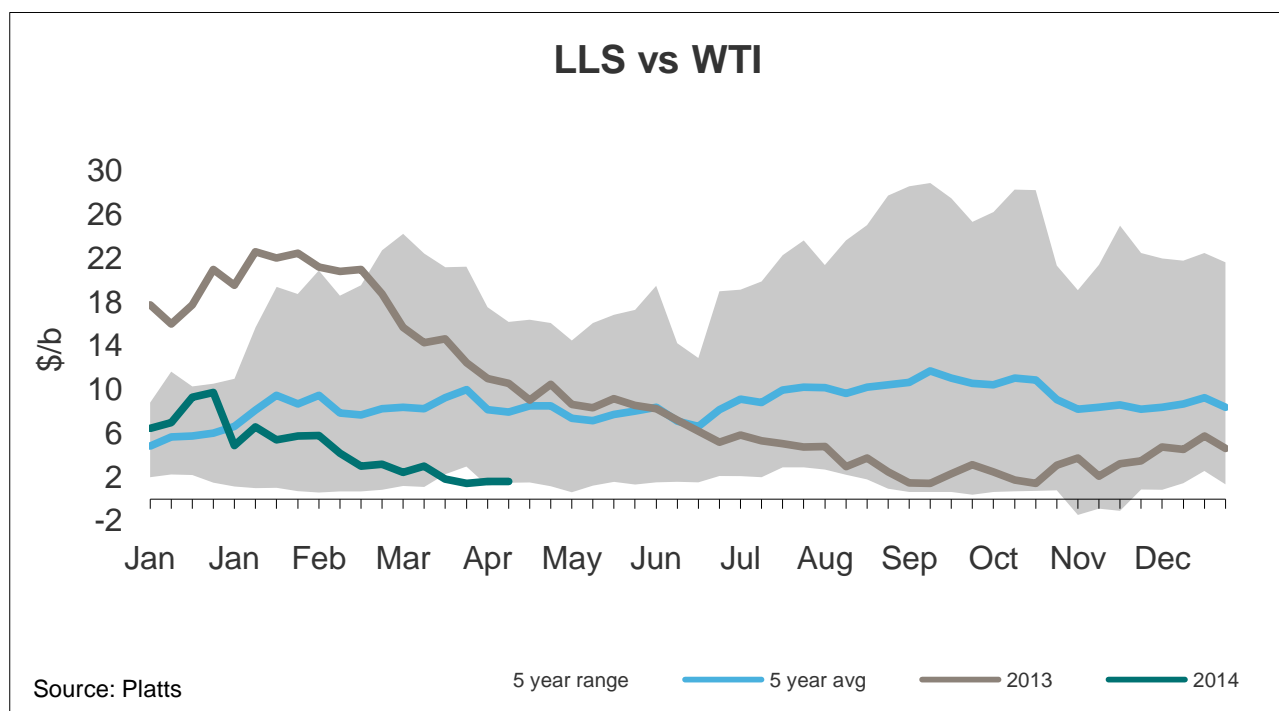
It has been particularly interesting to note that crude stock in the US Padd 3 region (the US Gulf Coast) has reached levels we have never seen before.



Stocks are being moved from Cushing to the US GOM due to the increased pipeline infrastructure. This has led to a drawdown in Cushing stocks and has hence supported the WTI price.



But the incentive to send crude from Cushing to the Gulf is only there is the price differential between WTI and LLS (Louisiana Light Sweet) is large enough to pay for the transportation. This no longer seems to be the case. Hence either the LLS price should come up to reopen the arb or the WTI price must come down. We believe the last of these will happen and it will probably be initiated by stock builds that will start to take place in Cushing in coming months

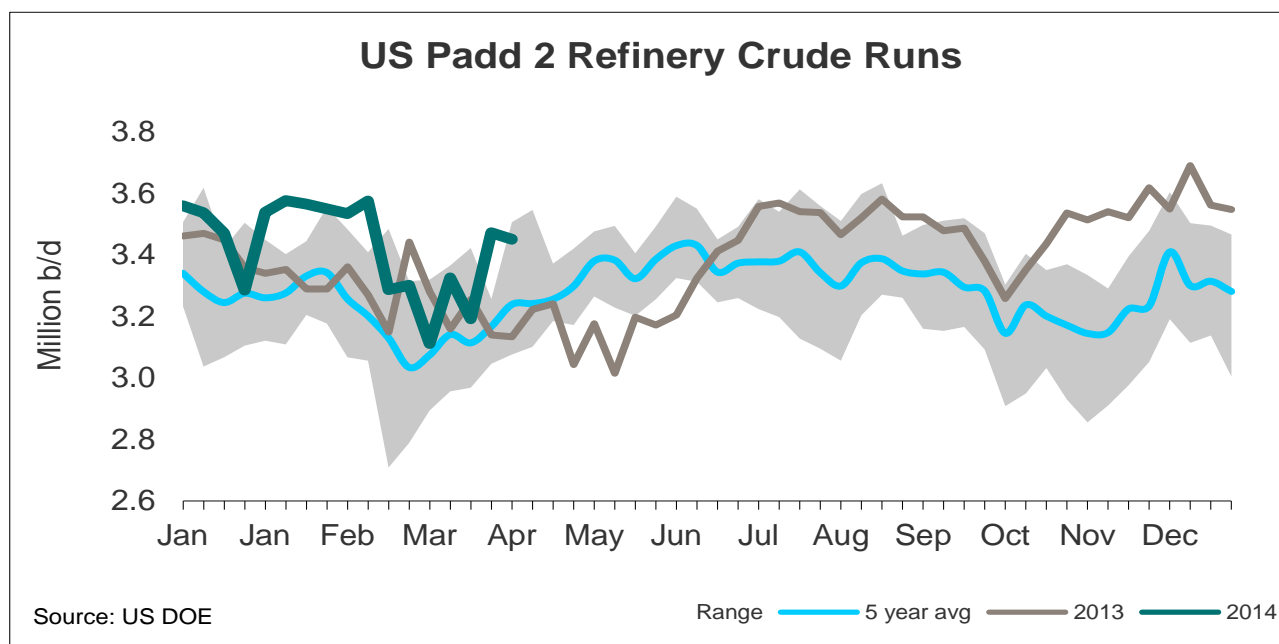


As can be seen in the graph below the market has now returned to the historical price relationship between LLS and WTI that used to prevail before 2011. The blow out of this spread was the key reason for the blow out of the Brent vs WTI spread, by the way, but now the spread between Brent and WTI is mainly caused by the spread between Brent and LLS.

LLS v WTI (source Reuters):

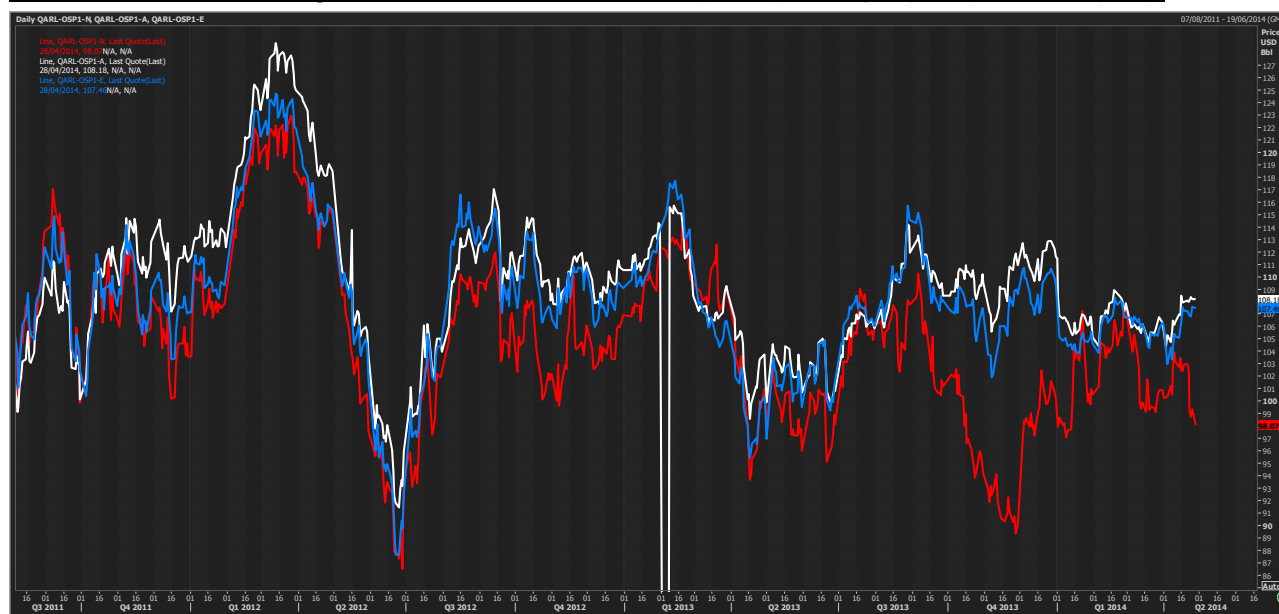


Demand for crude (refinery runs) cannot rise much more in Padd 2 and then the only way to see further stock draws in Cushing would be exports to Padd 3, which is likely to fade with the current low spread between WTI and LLS.

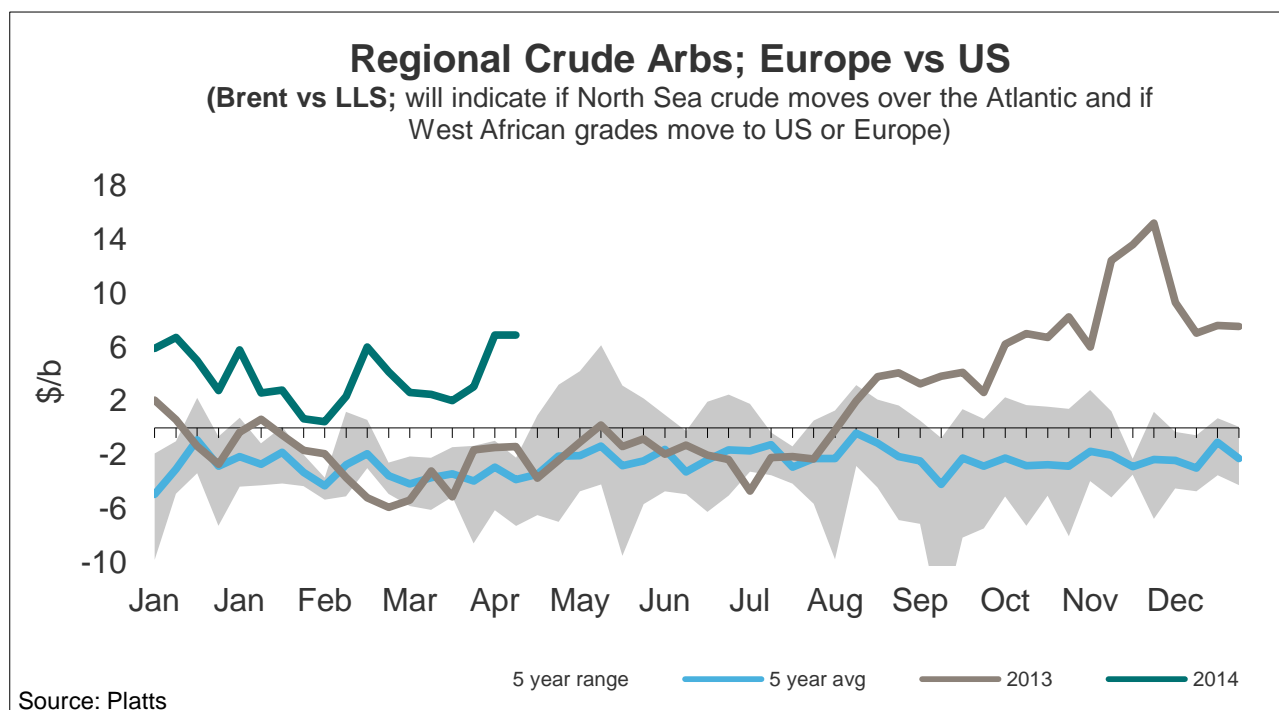


The only way to clear the US GOM and get stocks to start drawing would be to incentivize US refineries to run more domestically produced crude oil. Light sweet US domestically produced crude oil is too expensive to be chosen as feedstock compared with imported crudes. The graph below shows the Saudi OSPs for Arab Light for USA, Europe and Asia. Saudi Arabia now accept to lose 10 \$/b on sending Arab Light to the US compared with Europe and Asia. They are however in a process of increasing the US price as we speak as the OSPs for May delivery were significantly increased.

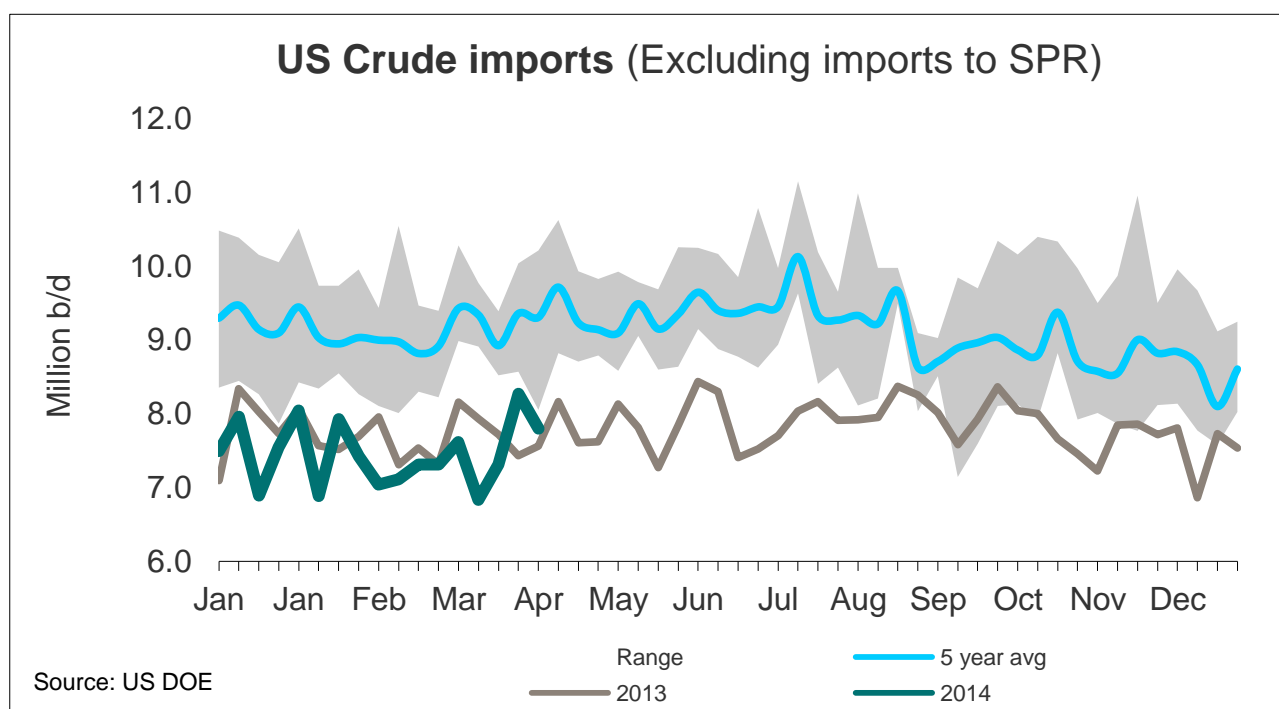
Saudi OSPs for Arab Light FOB Ras Tanura to Asia (white), Europe (blue) and US (red):



The Brent vs LLS spread is increasing and this may incentivize US refiners to process more domestically produced crude.

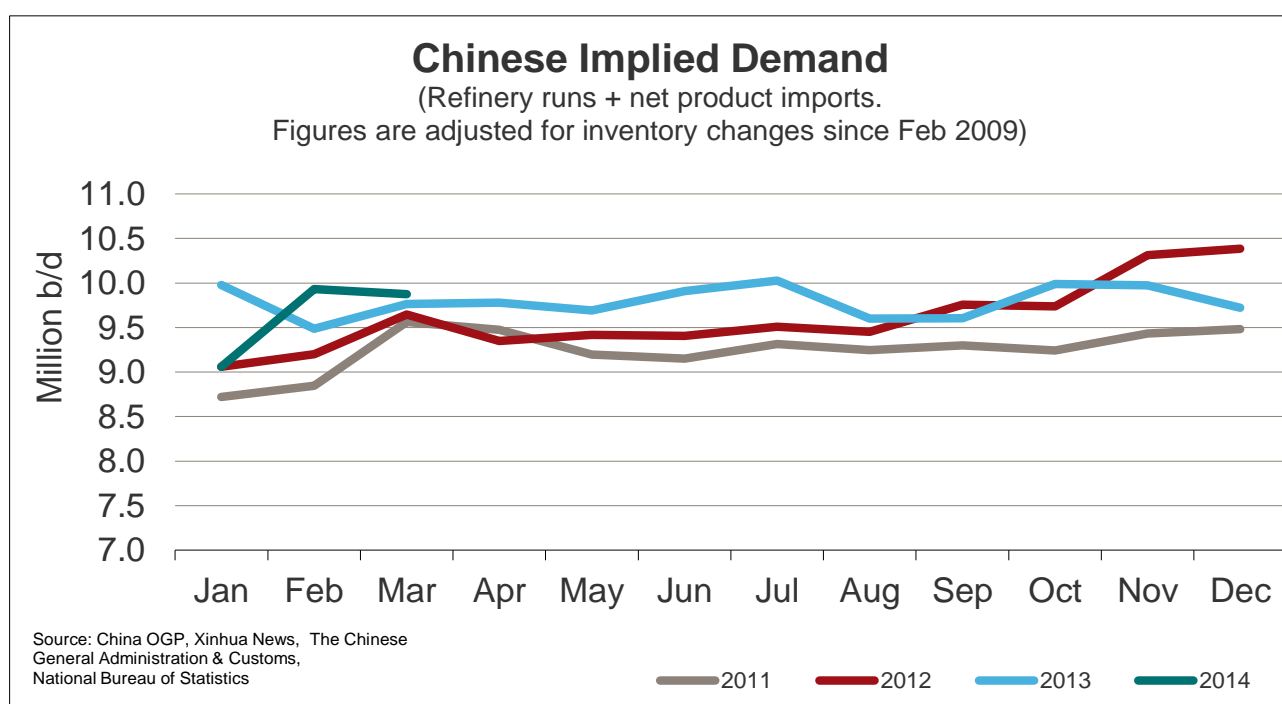
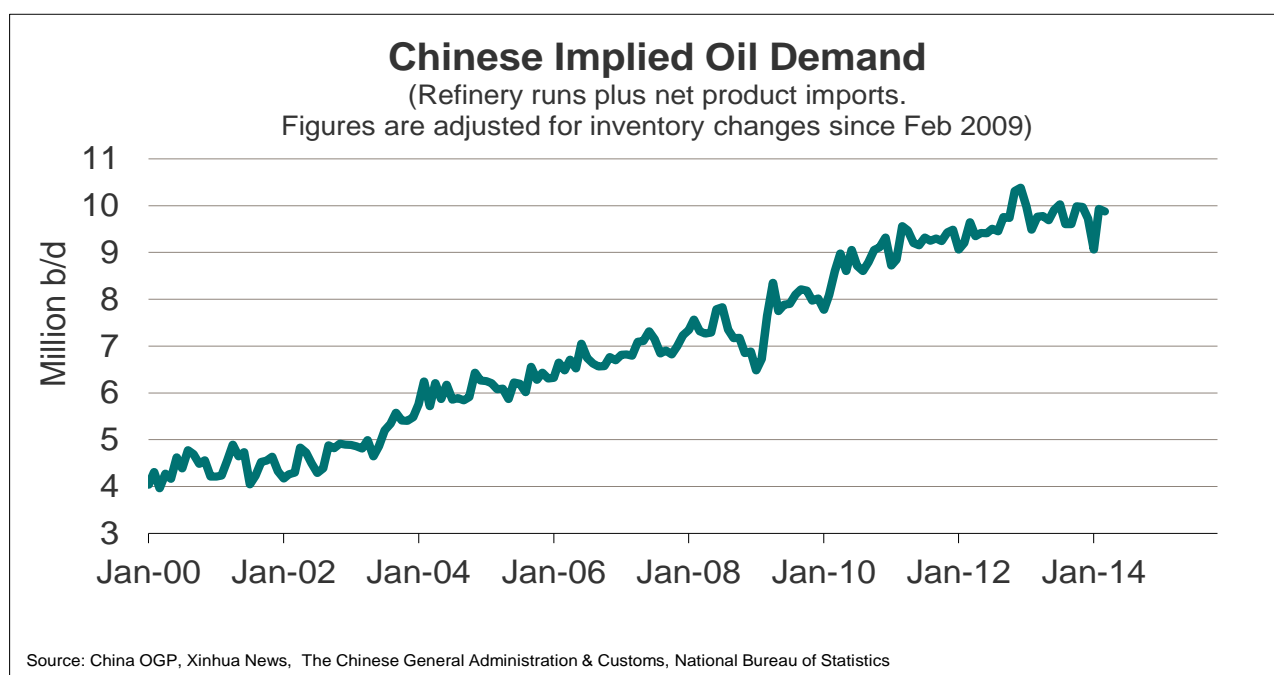


If more domestic crude is run by US refiners, the crude imports will again start to decrease. It has not decreased so far this year due to the mentioned lack of incentives, but if the US domestic price drops to low enough levels we expect this to again start affecting imports negatively. And if imports again start to be pushed away from the US it means more crude available to other regions which again spill over to the global crude oil prices.



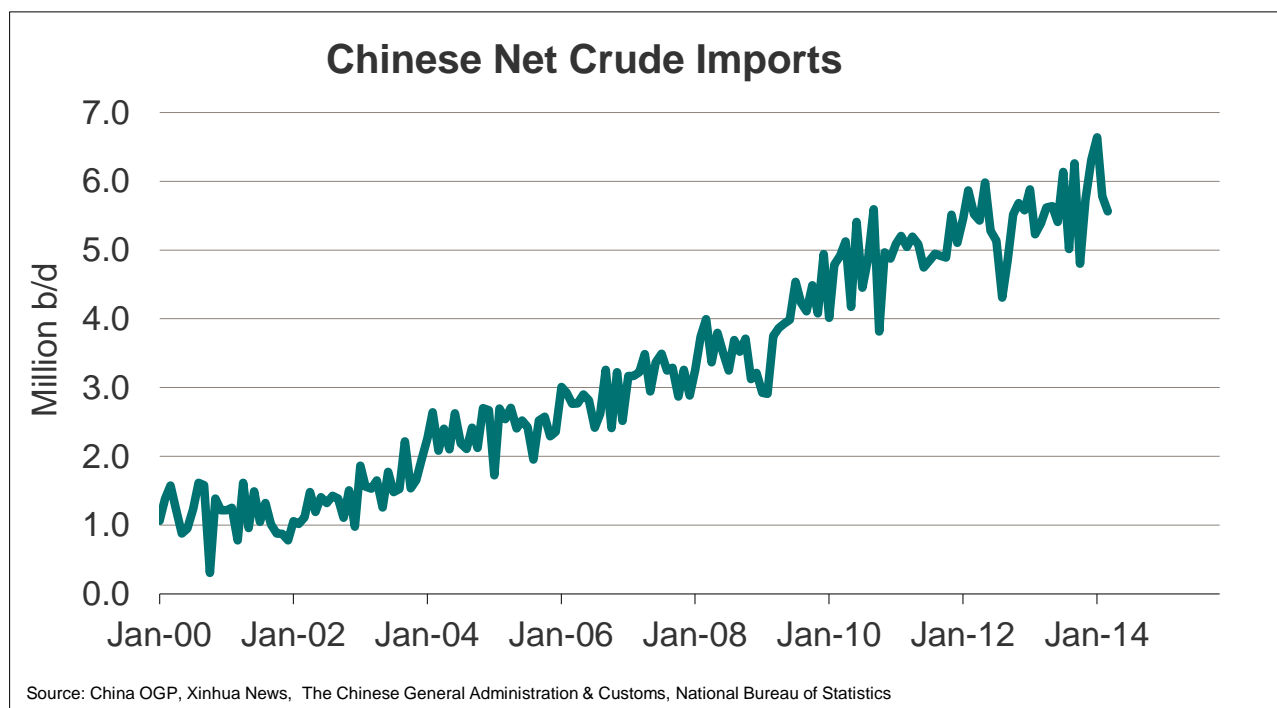
7 Chinese oil data

We calculate that Chinese oil demand based on refinery throughput plus net oil product imports and adjusted for inventory changes increased by 110 kbd (1.1%) to 9.78 million b/d vs the prior year in March. This means that first quarter Chinese oil demand fell to 9.8 million b/d which was 120 kbd (-1.1%) lower than last year. IEA forecast that Chinese oil demand will grow by 347 kbd this year. In order to see that kind of growth in 2014, we would need to see calculated oil demand at 10.3 million b/d for each of the remaining three quarters of the year. In other words a jump of 0.5 million b/d from what was reported for the first quarter. Do we think that will happen? We think this is highly unlikely and instead believe Chinese oil demand will grow less than 200 kbd in 2014.



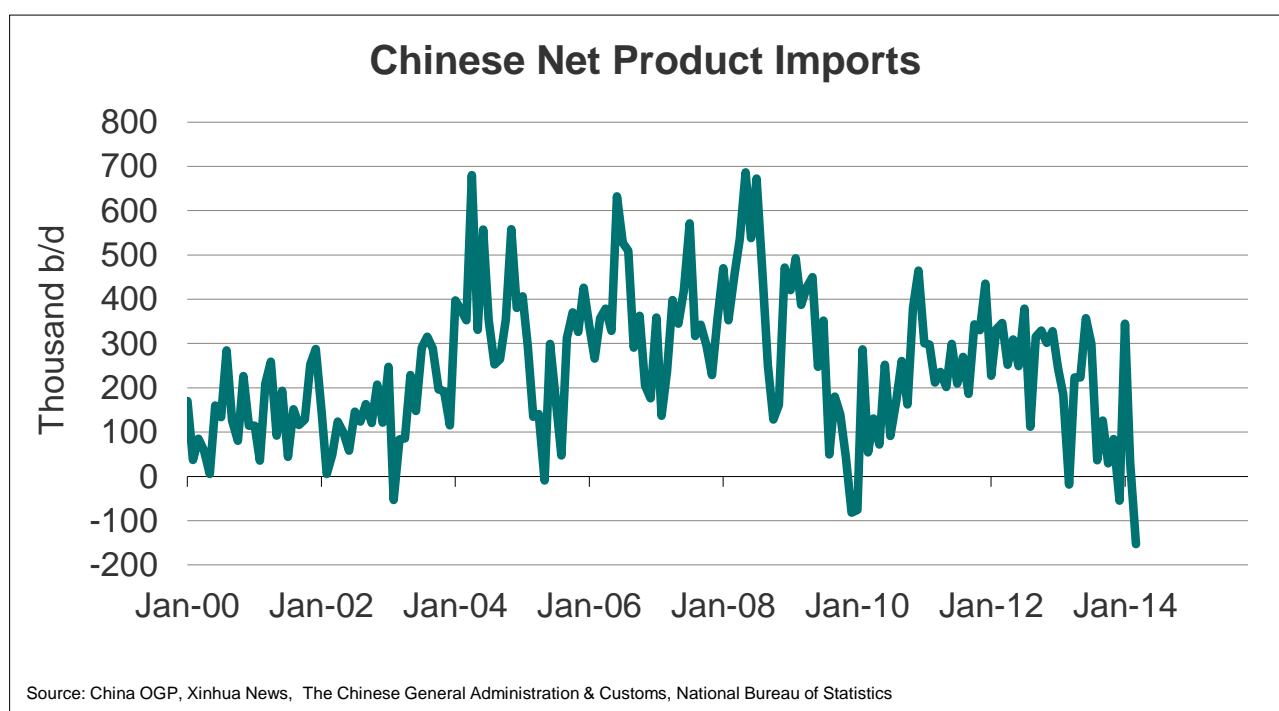
Crude oil imports for March were reported at 5.6 million b/d, which was 1 million b/d lower than the 6.6 million b/d reported in January. Still, if we measure crude imports vs the first quarter last year, imports is up a large 500 kbd and April imports is estimated by Reuters to climb back to about 6.3 million b/d. Refinery throughput is however down 50 kbd in Q1 vs last year and Sinopec and PetroChina are expected to reduce April refinery throughput by about 4% from March levels, so why is imports up so much? We can only see two reasons and that is filling up of strategic storage and filling up of new operational storage in new built refineries.

Reuters reports that China has started to pump oil into new strategic tanks at Bihai Oil Terminal in Tianjin and at Huangdao. The average missing crude barrels since November last year (crude supply larger than crude demand) is 0.4 million b/d which translate to about 60 million barrels. Most of this is probably related to the filling of the Tianjin site which reportedly was opened in November last year. It was originally planned to be ready by the end of 2011. The current level of strategic crude storage in China is unclear, but on January 28 China's National Energy Administration (NEA) reported that phase one (which is supposed to hold 103 million barrels) is now full. Phase two consist of six tank farms under construction. The mentioned Tianjin site is part of phase two and has started filling. When finished, phase two is supposed to have a capacity of 207 million barrels, but most of the filling of that capacity is not expected to start until 2015. FGE estimates that Chinese SPR has reached 156 million barrels currently and that it will reach 182 million barrels by year end and 219 million barrels by end 2015. If these numbers come through it means crude requirements for SPR filling for the rest of this year at about 100 kbd. This is probably not enough to provide any impulse to the global crude oil pricing. The filling pace next year is also on track to be about 100 kbd according to the FGE estimates.



China seems to have been building to much refining capacity for its own domestic consumption. The evidence of this comes in the form of increasing exports of refined products from the country. Net exports of refined products reached a record level of 150 kbd in March. From 2004 to 2013 the average net imports of refined products into China was almost 300 kbd. This was also the net imports level we saw through most of 2012.

Since 2012 we have hence seen a massive swing of about 450 kbd in net refined product imports into China. Gasoline, diesel and jet fuel exports are all growing, particularly jet fuel exports. Net residuel fuel oil imports which used to be around 400-500 kbd is now cut in half.

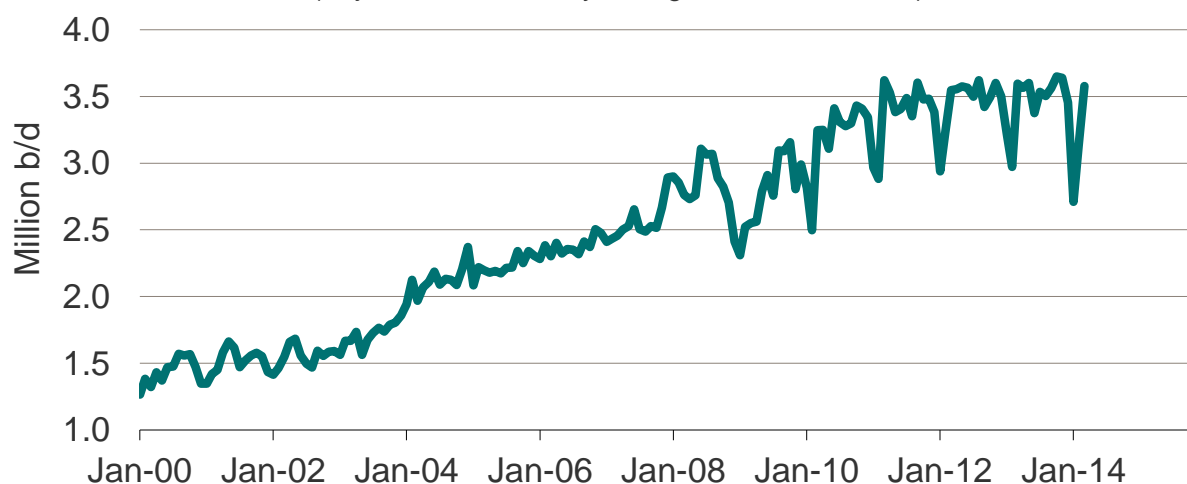


A trend that we have written about many times before with respect to the very large difference in performance between diesel and gasoline demand, continues. Diesel demand is down 120 kbd vs the prior year in Q1, while gasoline demand is up 160 kbd in the same period. This means that the key product directed towards personal consumption (gasoline) continue to perform on the back of strong car sales while the key refined product directed more towards industrial production, heating and power generation (diesel) is not performing anymore. We think this story will continue through this year and would not be surprised if diesel demand decreases through 2014.

We think part of the weaker diesel story is related to natural gas stealing market share in transportation and also that diesel is losing market share to renewables in the stationary sector. This has mainly to do with local pollution and air quality issues. The key target is of course to reduce coal consumption, but diesel is also losing out to renewables in the same process. It is striking to see how the increase in coal production which used to correlate so well with the growth in electricity output has broken apart. Something is going on with respect to the use of renewables in the Chinese electricity generation and it is happening quickly.

Chinese Calculated Diesel Demand

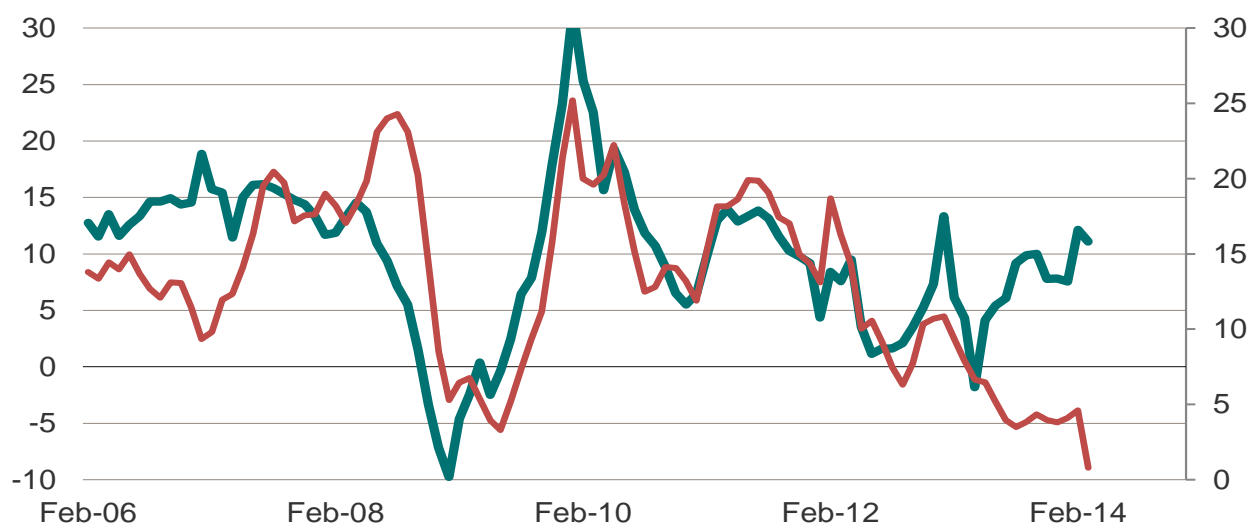
(Adjusted for inventory change since June-2009)



Source: China OGP, Xinhua News, The Chinese General Administration & Customs, National Bureau of Statistics

Chinese Electricity Output & Coal Output

Percent, year-on-year, monthly data, 3 months mavg

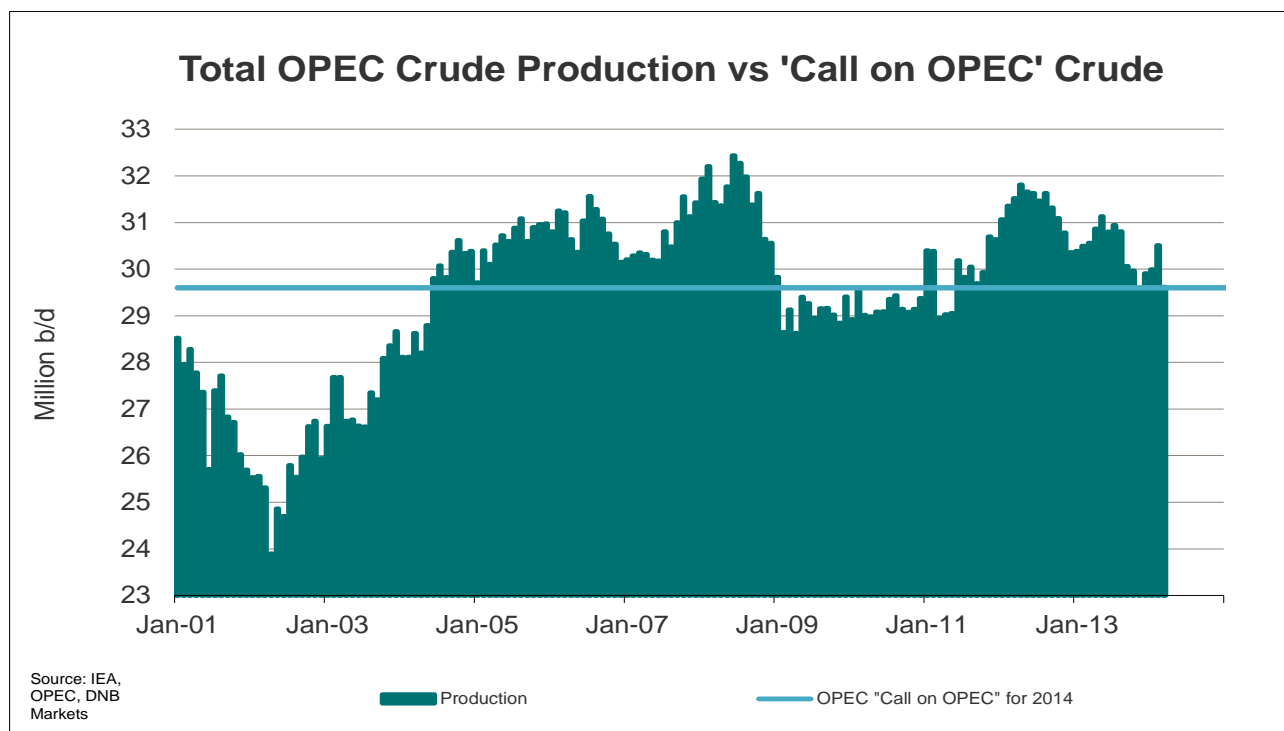


Source: Datastream, Thompson Reuters

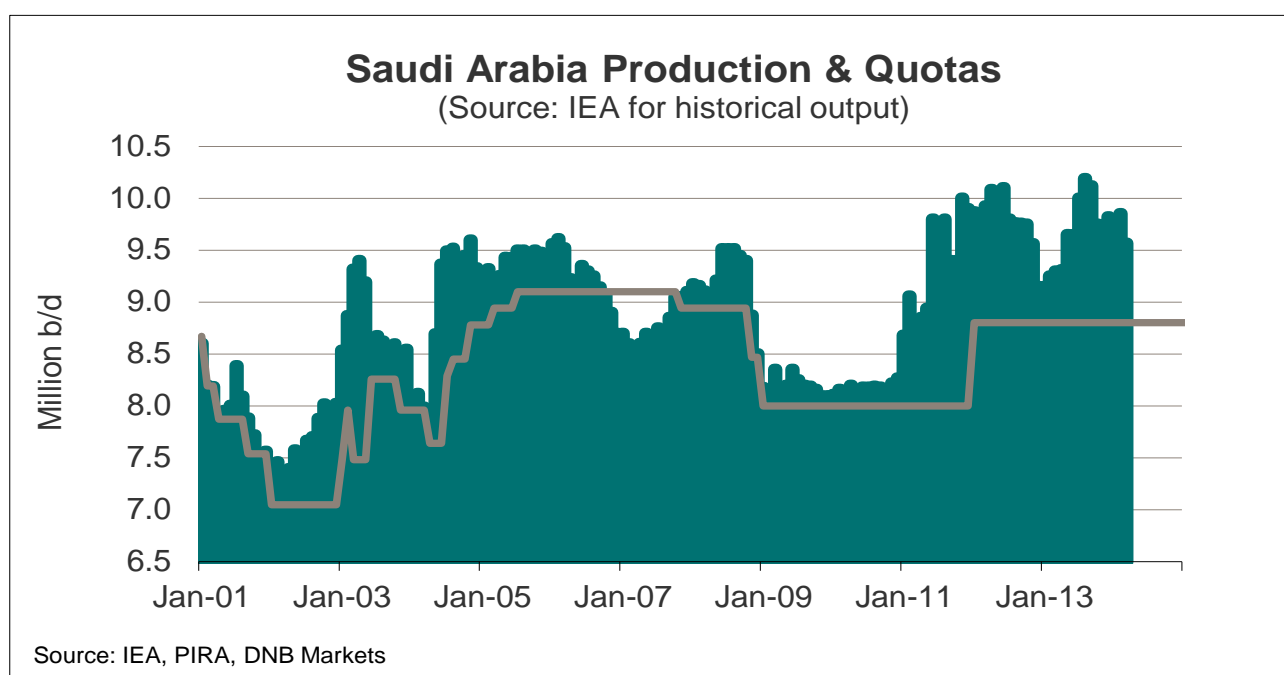
— Electricity production (LHS) — Coal production (RHS)

8 OPEC

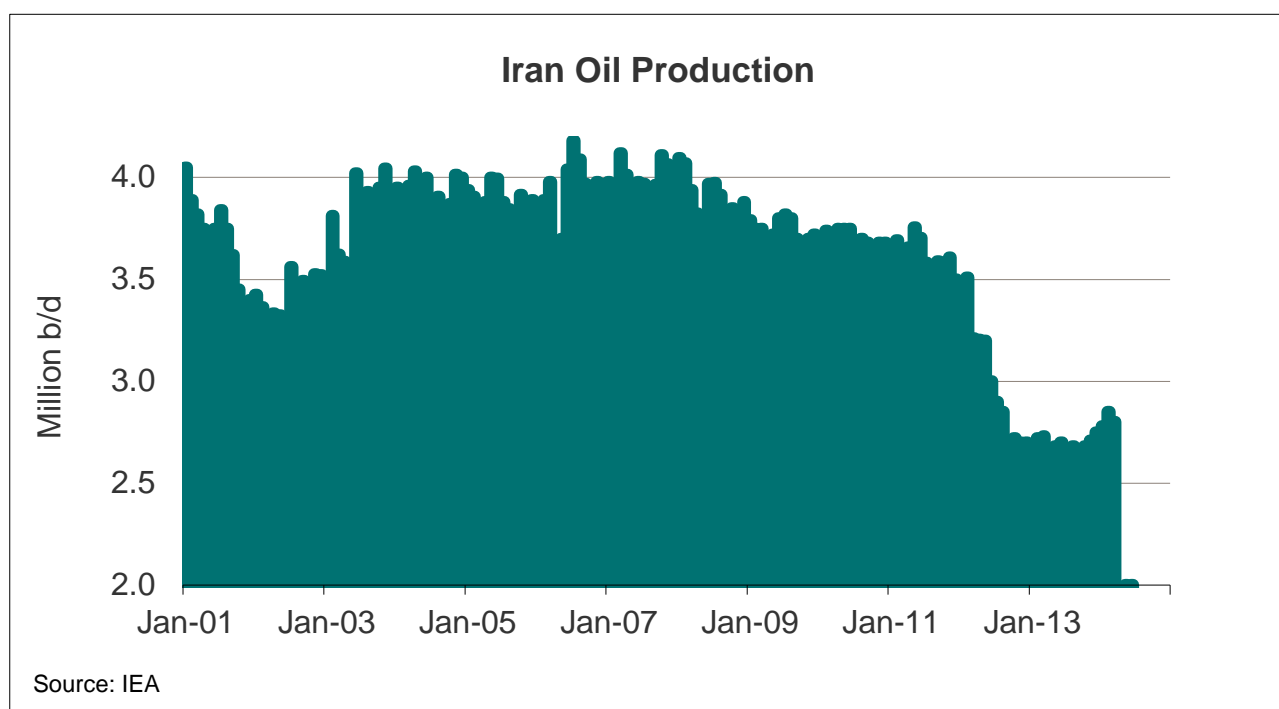
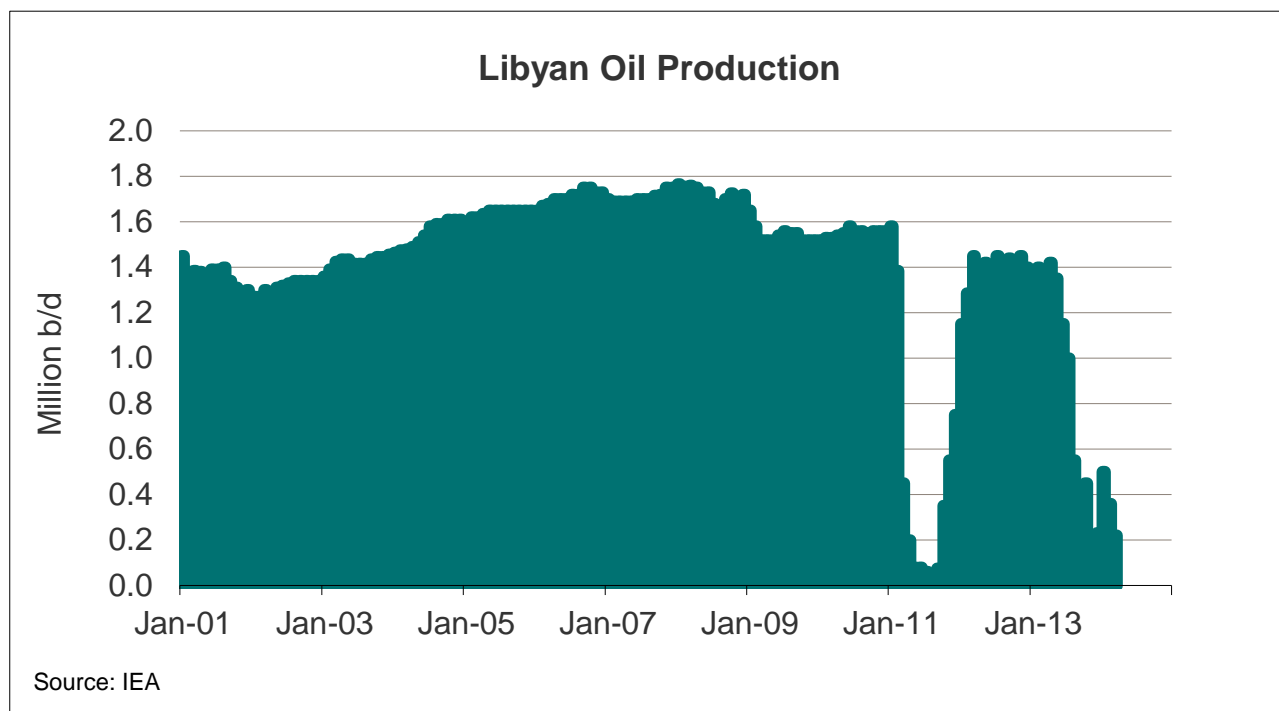
Total OPEC production in March was down a large 890 kbd to 29.6 million b/d in March compared with February. Most of the reduction was in Iraq (-340 kbd), Saudi Arabia (-285 kbd) and Libya (-140 kbd). After this recent reduction in output OPEC is producing spot on the cartel's own assessment of the call for its crude in 2014.



Despite the recent decrease, Saudi is producing 740 kbd more than the calculated quota, if we use the old quota allocations on a pro rata basis on the current 30 million b/d production target (quota).

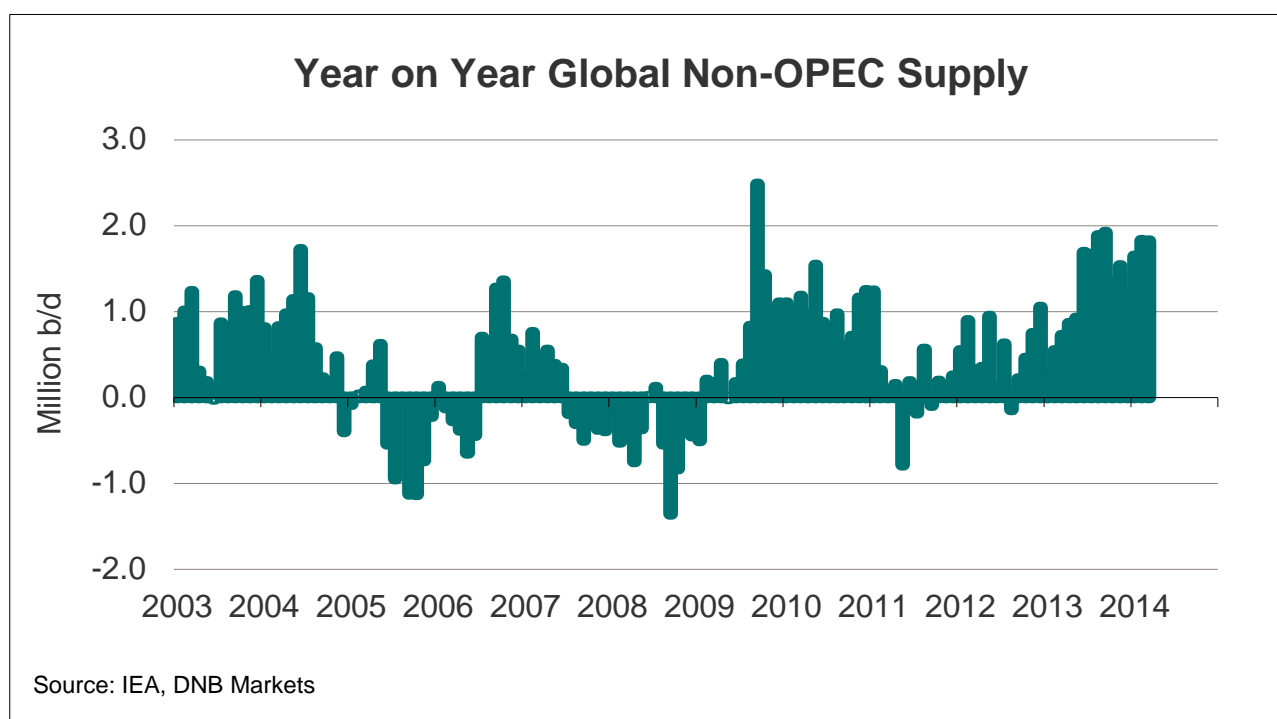


OPEC production in March was 940 kbd lower than a year ago. More than 100% of this reduction can be attributed to Libya which produced about 1.4 million b/d a year ago. Iranian production has been down for more than a year and is still about 1 million b/d lower than before the European oil embargo and the financial sanctions. The strength in non-OPEC production is hence matched by weakness in OPEC production and this keeps the oil market in balance. It is however difficult to see that we can lose any more barrels from Libya and Iran than the current situation.



9 Non-OPEC

OPEC is not performing but non-OPEC production is now growing extremely quickly. At a growth of 1.8 million b/d non-OPEC output growth is able to cover both lost OPEC output of 0.9 million b/d and global demand growth. Most of the growth in liquids output is coming from the US, but as can be seen in the table below, other countries are contributing to growth as well. The growth in Q1 production from non-OPEC was 1.8 million b/d but 0.5 million b/d of this growth came outside the US. This is different from how the situation looked a year ago. In March 2013 total non-OPEC growth was only 0.3 million b/d which meant all the growth was in the US while the rest of non-OPEC was down 0.6 million b/d. Non-OPEC without the US is hence now performing 0.9 million b/d better than last year. Key contributors are Canada, South Sudan, Russia, Brazil, China and Norway (see table below).



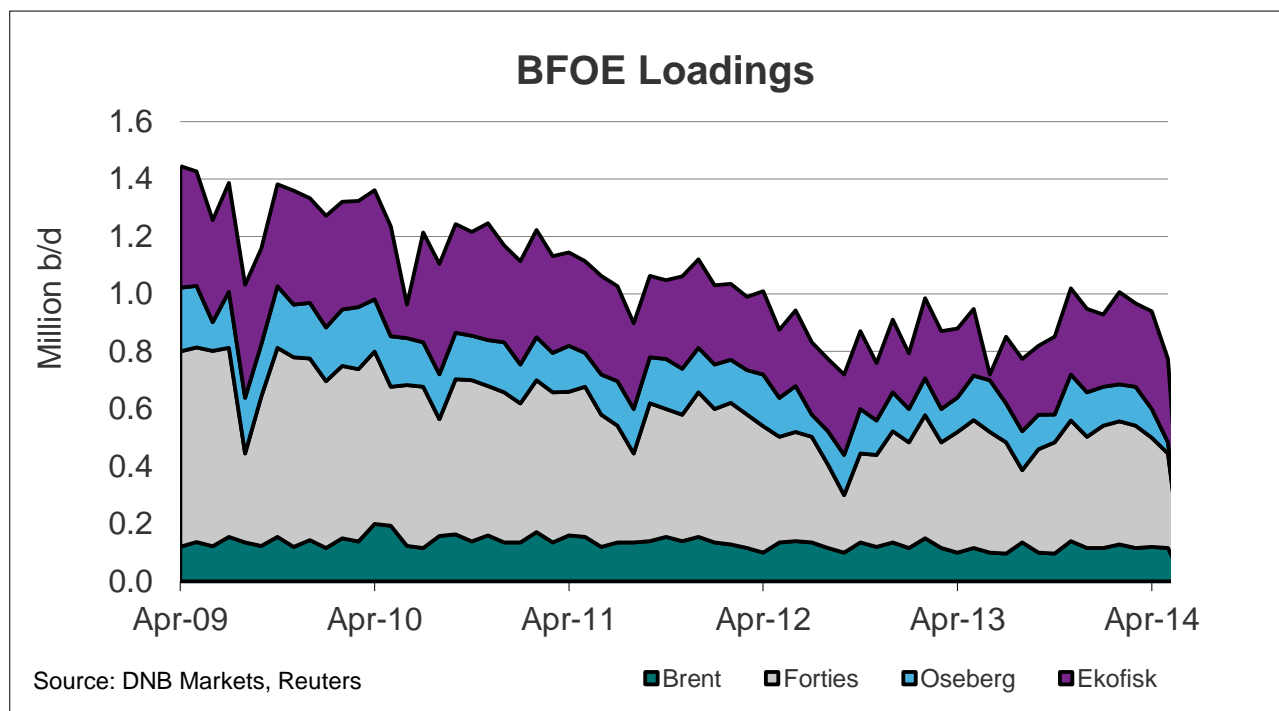
Liquids Supply	Change 2010	Change 2011	Change 2012	Change 2013	2014 YTD Change	Forecast 2014
Canada	128	193	225	238	190	172
Mexico	-20	-15	-23	-31	-39	-11
Norway	-222	-96	-126	-78	61	40
United Kingdom	-120	-248	-171	-96	-45	-58
United States	346	357	1,042	1,141	1,308	992
Azerbaijan	-9	-118	-45	4	2	7
Kazakhstan	60	11	-18	56	-28	32
Russia	247	141	131	149	80	126
Ghana	1	70	4	22	15	13
South Sudan	0	171	-140	67	194	82
Sudan	-10	-183	-201	41	18	11
Malaysia	3	-63	18	-16	-39	-33
China	273	24	74	2	60	48
Brazil	114	56	-43	-41	79	80
Colombia	116	130	29	60	9	40
Oman	53	24	31	30	11	12
Syria	-16	-32	-182	-115	-50	-12
Yemen	-15	-62	-50	-38	-34	-6
Sum:	927	360	555	1,395	1,794	1,536

10 Temperatures, Hurricanes and other weather effects

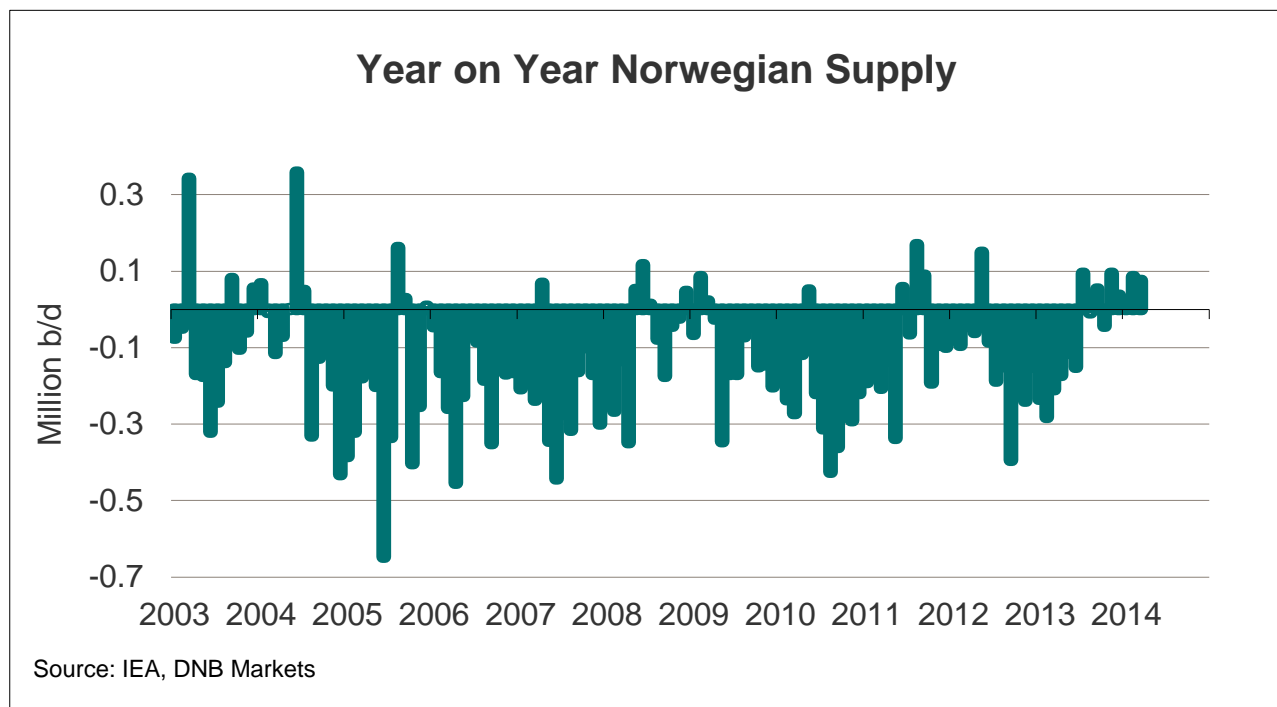
Hurricanes and temperatures are currently not a factor in the global oil market.

11 North sea output

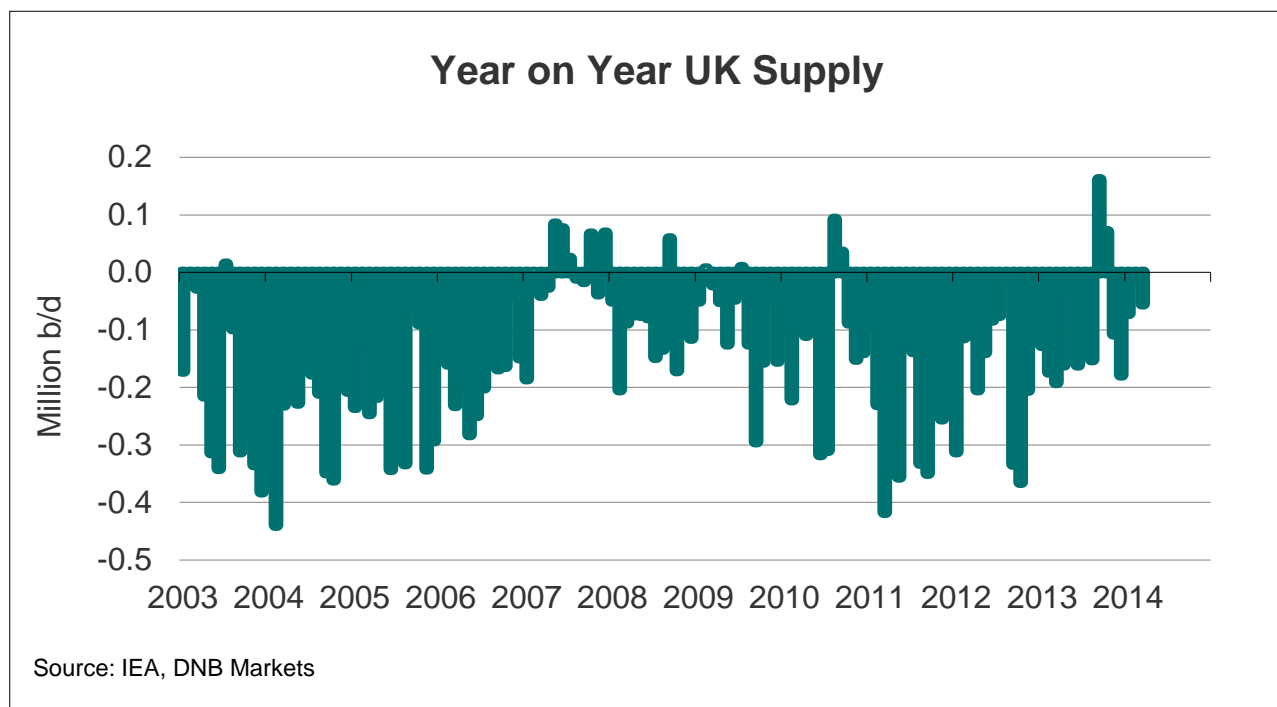
The loading program for Brent, Forties Oseberg and Ekofisk (BFOE) is down in May due to field maintenance. Ekofisk is down 50 kbd to 290 kbd while Oseberg is down 60 kbd. Forties loadings are down 50 kbd due to maintenance at the Buzzard field. Support from maintenance could however be lower than usual since there is also maintenance at the Hound Point jetty 1 which will close for two months. This means that VLCCs will not be able to load at the terminal which again means that fewer barrels will be moved to Asia from the North Sea in the coming two months.



It is interesting to note that total Norwegian oil production is increasing vs last year. It seems the increase in the number of production wells that we have seen since 2011 is starting to pay off in the form of increased Norwegian output.

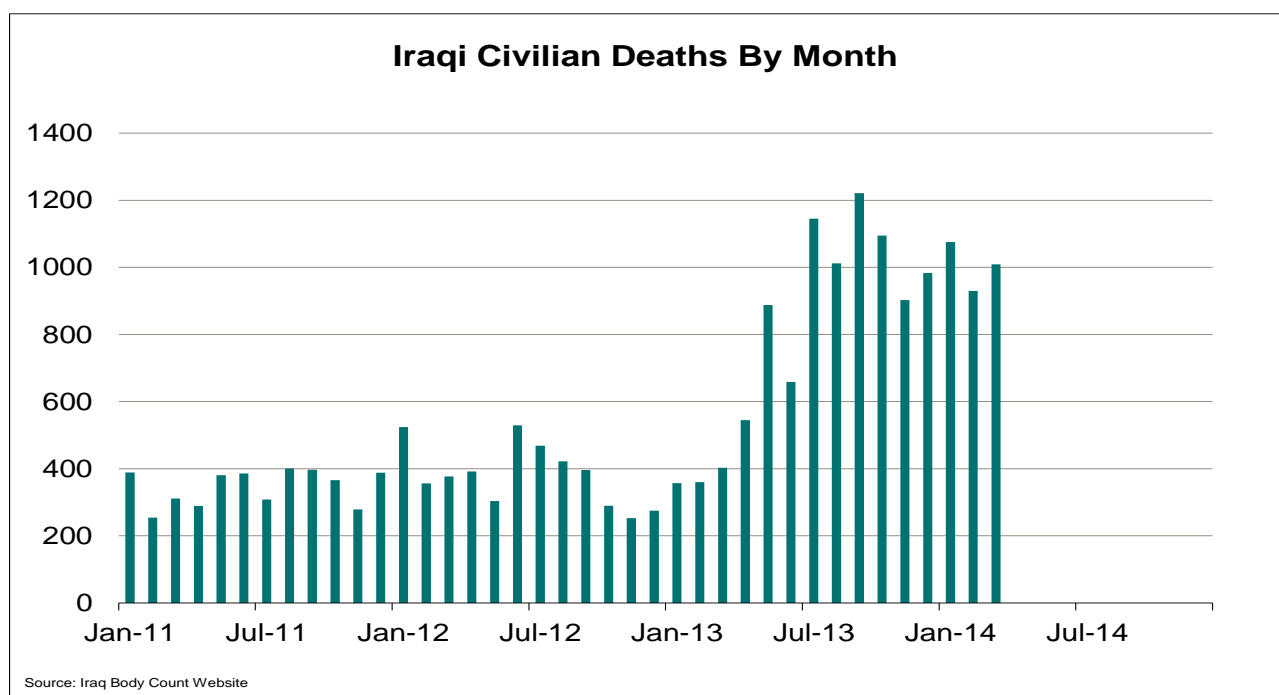


The UK sector is not performing as well as the Norwegian sector with respect to production, but at least the decline rate is currently lower than what we have seen in recent years.



12 Political risk

Violence is already high in Iraq as can be seen in the graph below. Civilian deaths started increasing last summer, and could escalate further as Iraq holds parliamentary elections tomorrow. Prime Minister Maliki is likely to retain his position and if he wins a narrow victory, we could see bureaucratic delays which will negatively affect oil development. Iraq has been very successful in the southern oil development recently and is about to set a record level of exports from the south in May. The situation remains more difficult in the north of Iraq where the northern key export pipeline (Kirkuk-Ceyhan) has been more or less shut down the last month due to attacks.



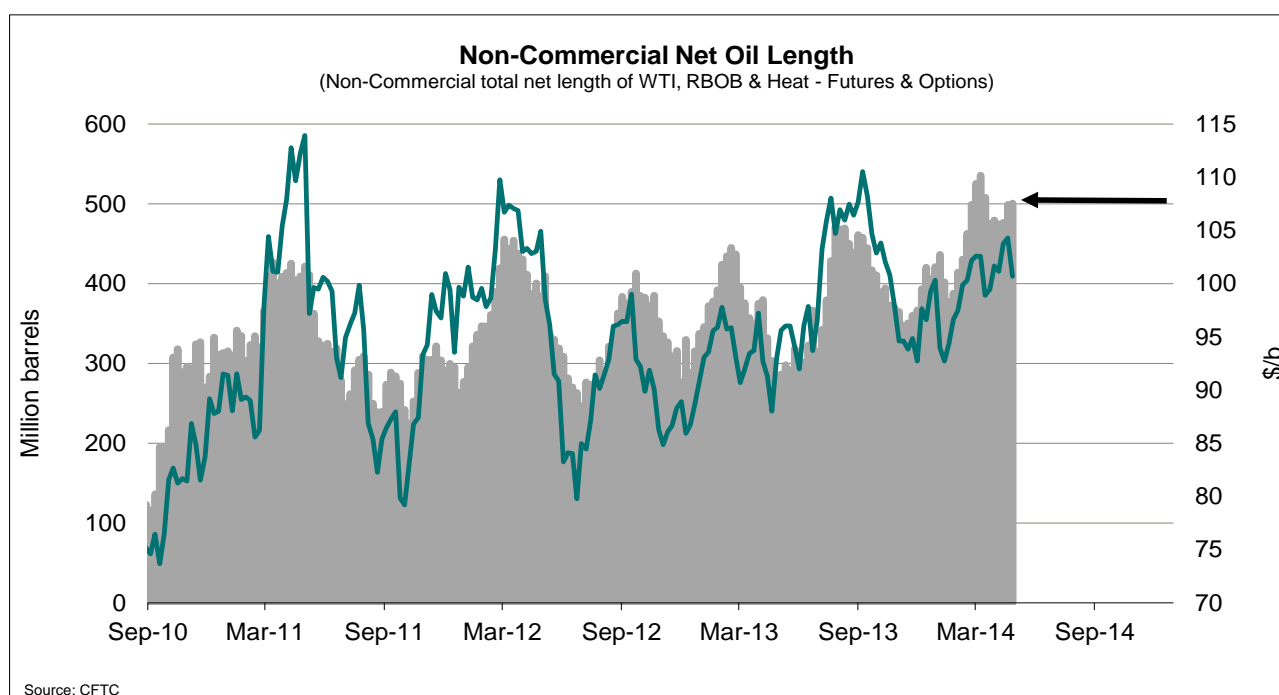
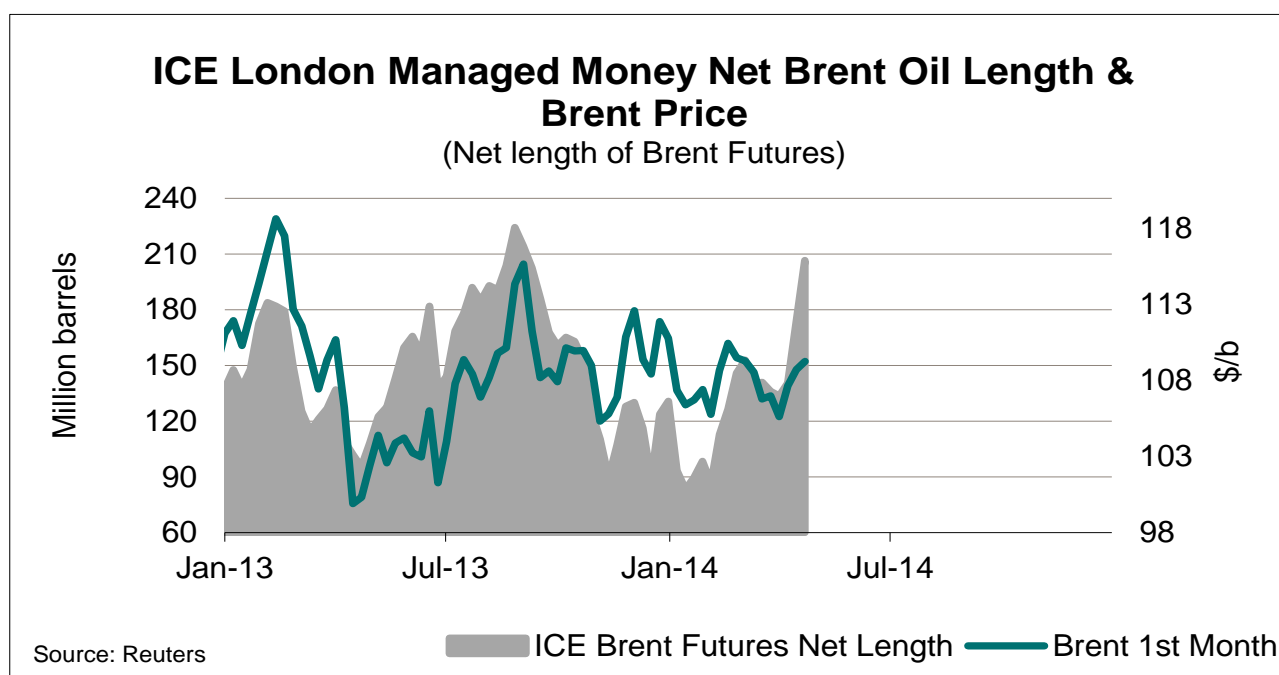
When it comes to the Iranian nuclear negotiations they are scheduled to resume on May 15. Before that, drafting of a final nuclear agreement will begin on May 5-9 in New York. It will be very exciting for the oil market to see what can come out of these negotiations as a positive outcome could bring back more than 1 million b/d to the market within 1-2 years.

The Ukraine crisis escalated further when Russia recently started military exercises near the Ukrainian border and as Pro-Russian protesters occupied government buildings in eastern Ukraine. Yesterday it was known that US sanctions towards Russia are broadened to hit amongst others Igor Sechin, the head of Rosneft and by many viewed as Russia's second most powerful individual after Putin himself. Sechin has shown utter loyalty to Vladimir Putin – a key component to his current standing, the US Treasury said on Monday in its explanation of the new round of sanctions.

Libya has removed the Force Majeure on the oil port of Zueitina. That means the 70 kbd facility is now ready to receive tankers for loading. Brent prices fell on the news, but further price drops is in the cards if a cargo really loads as evidence that something is in fact happening in this issue.

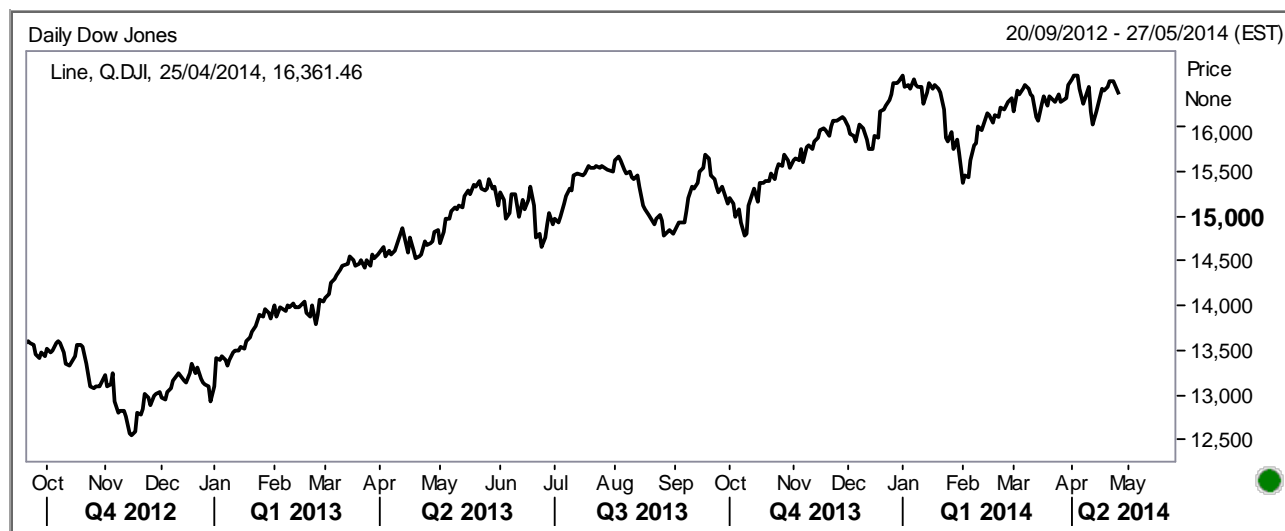
13 Hot money – net speculative positions

Paper oil positions held by financial players are close to record high in both London and in New York. This is always a danger signal and increases the risk for a downward correction. These players can quickly turn their positions if “fear takes over from greed”. We have seen this play out many times as we have seen two large sell-offs taking place the last 12-15 months. History has proven that these players rarely hold on to their record net long positions very long before they take profit.

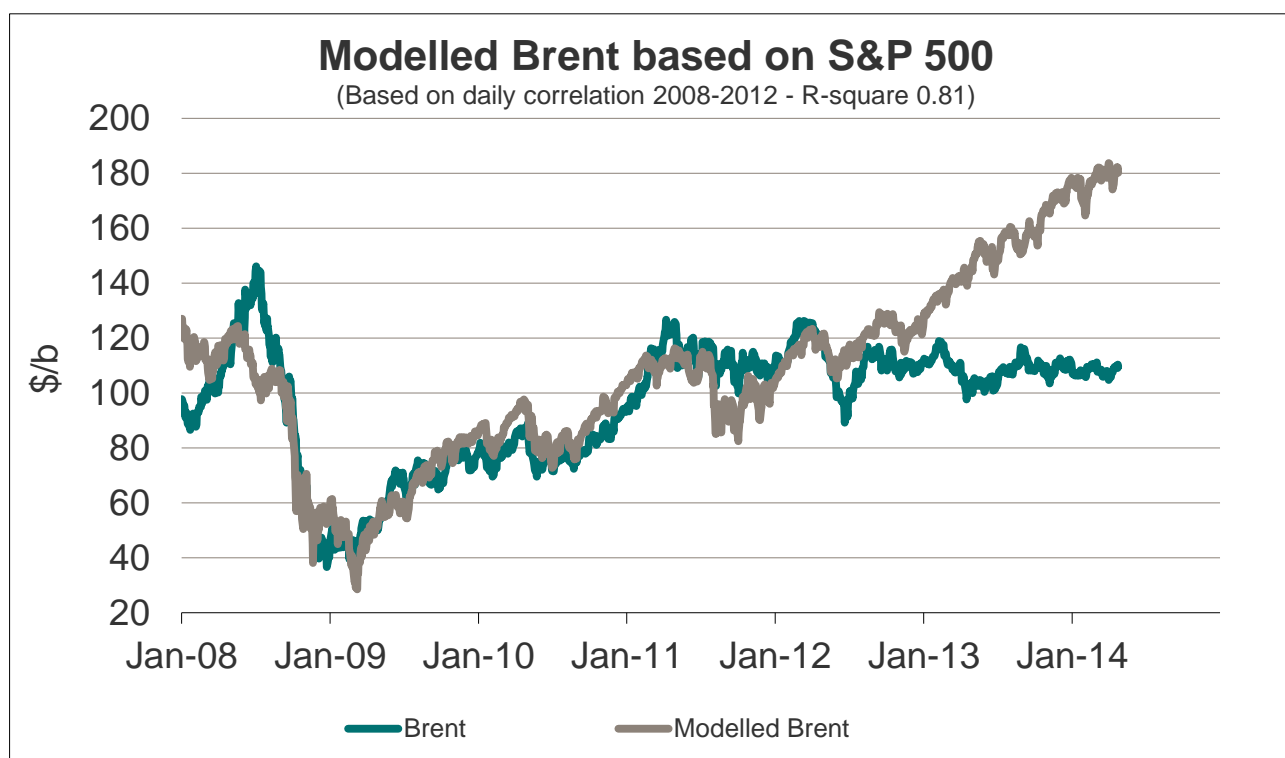


14 Market psychology – sentiment- macro economics

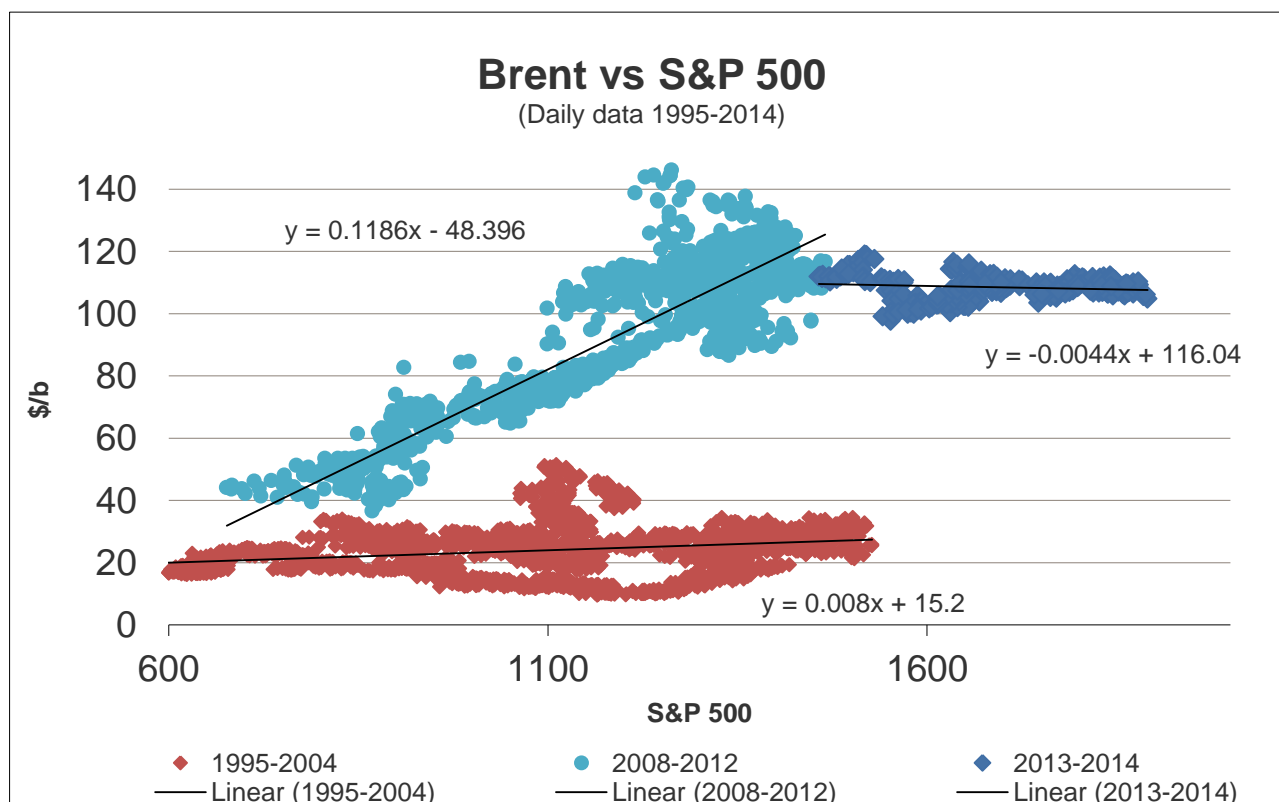
The broader risk market (represented with S&P 500) has flattened out so far this year.



The equity market is however not correlating very well with oil prices anymore. The very strong equity market we saw through 2013 did not do anything for oil prices. Our model based on the daily correlation between oil prices and S&P 500 from 2008-2012 suggest that Brent should be pricing at 180 \$/b. Oil has again started to price more based on its own fundamentals rather than just the broader risk market. This is of course positive for an oil analyst...

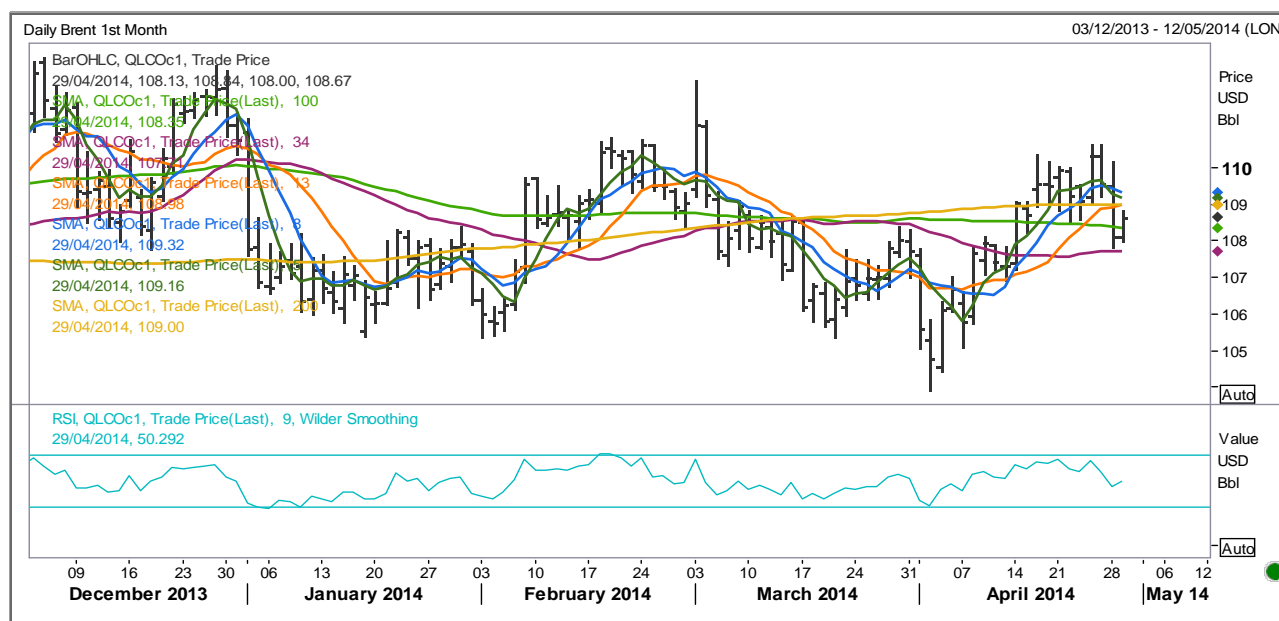


Based on the scatter plot of Brent prices and S&P 500 it is quite easy to see that since 2013 the very strong relationship between equity markets and oil prices that developed after the financial crisis in 2008-09 is now gone.

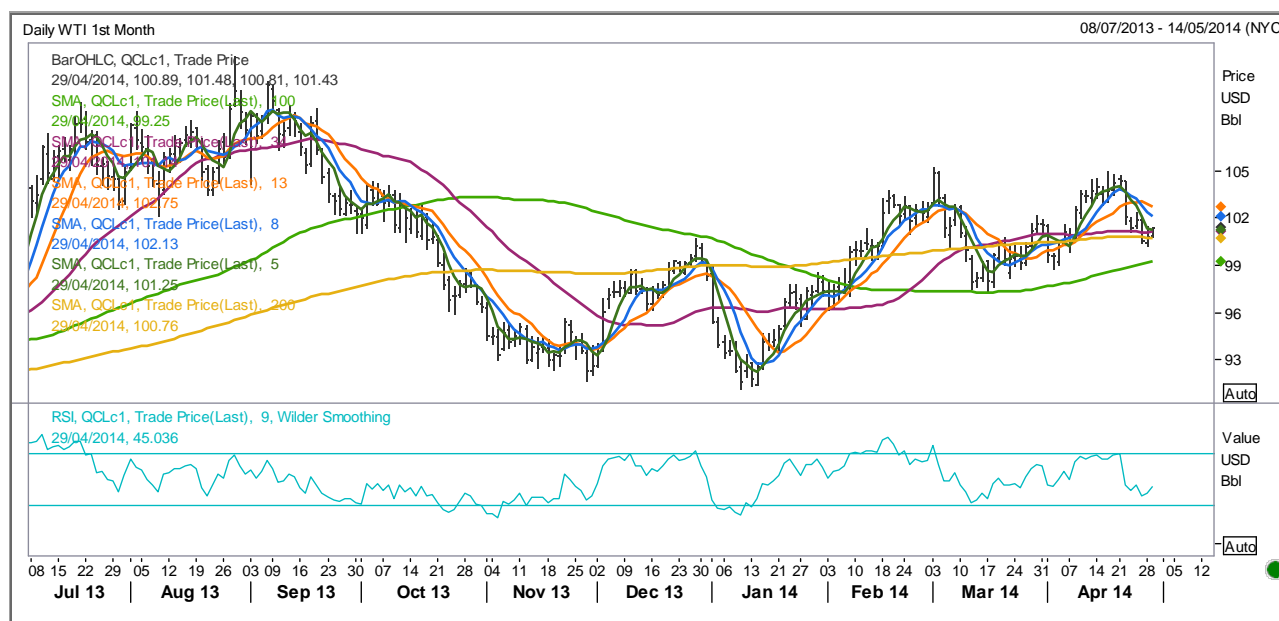


15 Technicals

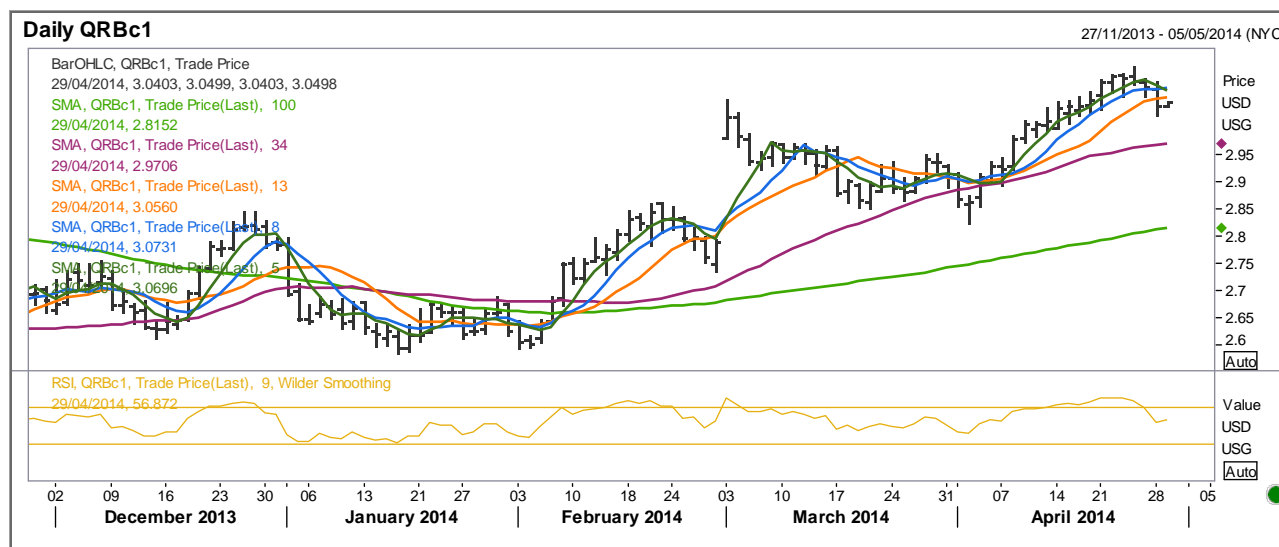
The Brent market is struggling to maintain its momentum above the short term moving averages and is trying to break below the 100-day moving average which is at 108.3 \$/b. If it breaks below this level the next support is at 107.7 \$/b which is the 34-day moving average.



The 200-day moving average for WTI is at 100.8 \$/b. If WTI drops below this level the next support is the 100-day moving average at 99.2 \$/b.



The NYMEX RBOB-contract (gasoline-contract) is often the market leader at this time of year. The contract has just fallen below its short term moving averages but should have solid support at the 34-day moving average which is now at 2.97 \$/gallon.



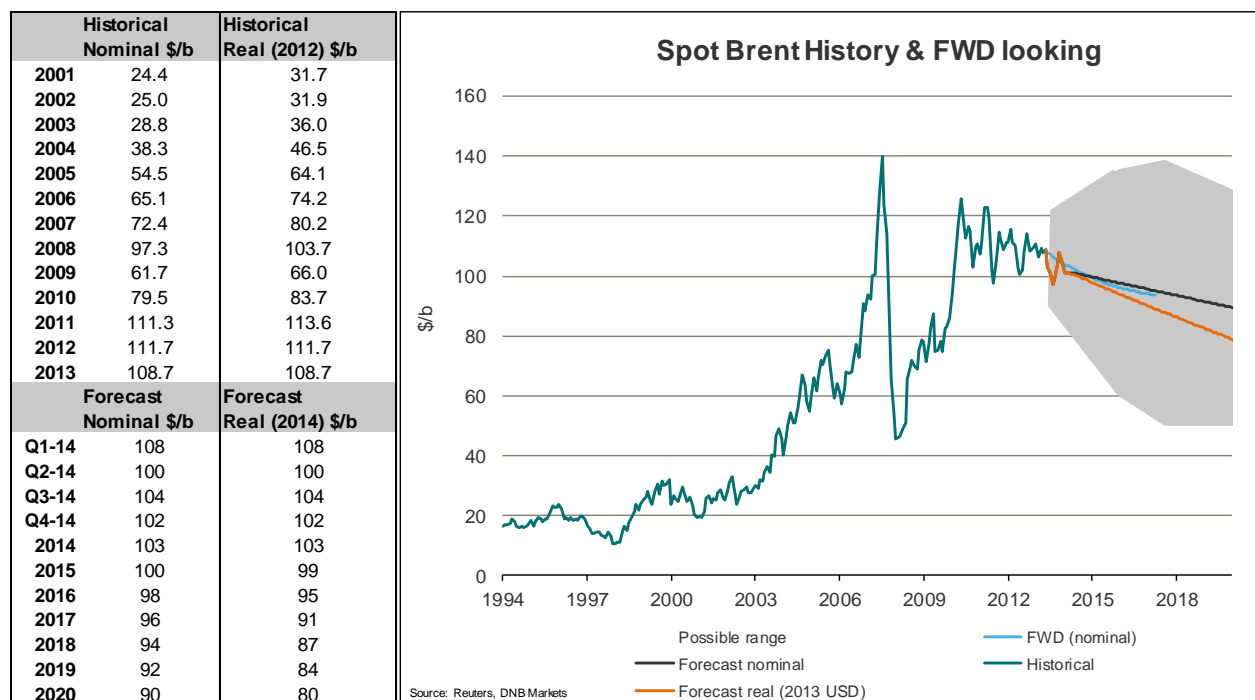
16 Short term oil price score card

Monthly Scorecard	Comments	Oil Price	Weight
Overall Outlook	Non-OPEC production growth continue to massively outpace global oil demand growth and speculative positions are close to record net length in both London and New York. The Ukrainian situation provides support, but for how long?	BEARISH	
Fundamentals			
Global Fundamental Balance	Weak global supply-demand balance	BEARISH	HIGH
Refinery Margins (Crack Spreads)	Weak simple margins in Europe and Asia, but margins still strong in the US.	BEARISH	LOW
OECD Oil Stock Levels	Low products stocks in the OECD, but not that bullish when including non-OECD	BULLISH	LOW
US Oil Statistics - Fundamentals	Crude production is growing much quicker than demand and crude stocks are at all time high	BEARISH	MEDIUM
Other Important Energy News	US GOM crude prices must fall to reopen the Cushing-GOM arb and this will reduce US crude imports	BEARISH	MEDIUM
Chinese Oil Statistics & News	Negative demand growth for oil in the first quarter	BEARISH	HIGH
OPEC	Large cut in OPEC production from Iraq, Saudi Libya	BULLISH	MEDIUM
Non-OPEC	Non-OPEC supply growth is broadening to countries outside the US	BEARISH	MEDIUM
Seasonals			
Temperature Outlook	Importance of temperatures are fading out	NEUTRAL	NA()
Hurricanes & Other Weather	Hurricane season is not a factor at this time of year	NEUTRAL	NA()
North Sea Fundamentals	Field maintenance is cutting North Sea loading programmes for May	BULLISH	MEDIUM
Political Risk			
Iraq, Iran, Nigeria, Venezuela, US, Russia, Israel, China, etc	Do we risk sanctions relating to oil in connection with the Ukraine crisis?	BULLISH	HIGH
Other factors			
Hot Money Net Exposure (Speculators)	Close to record net long positions held by Money Managers on both NYMEX and ICE	BEARISH	HIGH
Market Psychology/Sentiment/Macroeconomics	The link between the broader risk markets and oil prices are fading away	NEUTRAL	MEDIUM
Technical/Price Trends	Support is being tested for all key contracts	NEUTRAL	MEDIUM

17 Global supply vs demand – DNB, IEA, OPEC & EIA

DNB Markets World Oil Supply-Demand Balance:													
2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	
OECD Demand	48.1	-2.0	46.1	0.6	46.7	-0.6	46.1	-0.5	45.6	0.1	45.7	0.0	45.7
Non-OECD Demand	37.9	1.2	39.1	2.3	41.4	1.1	42.5	1.6	44.1	1.2	45.3	1.1	46.4
Total Demand	86.0	-0.9	85.2	2.9	88.1	0.5	88.6	1.1	89.8	1.3	91.0	1.1	92.1
Non-OPEC Supply	49.2	0.6	49.9	1.0	50.8	0.2	51.0	0.5	51.5	1.2	52.7	1.5	54.2
OPEC NGL's and non-conventional oil	4.6	0.6	5.1	0.5	5.6	0.4	5.9	0.4	6.3	0.1	6.4	0.2	6.6
Global Biofuels	1.4	0.2	1.6	0.2	1.8	0.0	1.8	0.0	1.9	0.1	2.0	0.1	2.1
Total Non-OPEC supply	55.2	1.4	56.6	1.7	58.2	0.6	58.8	0.9	59.7	1.5	61.1	1.8	62.9
Call on OPEC crude (and stocks)	30.9	-2.2	28.6	1.3	29.9	0.0	29.8	0.3	30.1	-0.2	29.9	-0.7	29.2
OPEC Crude Oil Supply (Last known number dragged fwd)	31.6	-2.5	29.1	0.1	29.2	0.7	29.9	1.4	31.3	-0.9	30.5	-0.7	29.7
Implied World Oil Stock Change	0.8		0.5		-0.7		0.1		1.2		0.5		0.5
IEA World Oil Supply-Demand Balance (April 2013):													
2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	
OECD Demand	48.4	-2.0	46.4	0.6	47.0	-0.5	46.5	-0.5	46.0	0.1	46.1	-0.1	46.0
Non-OECD Demand	37.9	1.2	39.1	2.3	41.4	1.1	42.5	1.6	44.1	1.2	45.3	1.4	46.7
Total Demand	86.3	-0.8	85.5	2.9	88.4	0.6	89.0	1.1	90.1	1.3	91.4	1.3	92.7
Non-OPEC Supply	49.2	0.6	49.9	1.0	50.8	0.2	51.0	0.5	51.5	1.2	52.7	1.5	54.2
OPEC NGL's and non-conventional oil	4.6	0.6	5.1	0.5	5.6	0.4	5.9	0.4	6.3	0.1	6.4	0.2	6.6
Global Biofuels	1.4	0.2	1.6	0.2	1.8	0.0	1.8	0.0	1.9	0.1	2.0	0.1	2.1
Total Non-OPEC supply	55.2	1.4	56.6	1.7	58.2	0.6	58.8	0.9	59.7	1.5	61.1	1.7	62.8
Call on OPEC crude (and stocks)	31.1	-2.2	28.9	1.3	30.2	0.0	30.2	0.2	30.5	-0.2	30.3	-0.4	29.9
OPEC Crude Oil Supply (Last known number dragged fwd)	31.6	-2.5	29.1	0.1	29.2	0.7	29.9	1.4	31.3	-0.9	30.5	-0.7	29.7
Implied World Oil Stock Change	0.5		0.2		-1.0		-0.3		0.9		0.2		-0.2
OPEC World Oil Supply-Demand Balance (April 2013):													
2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	
OECD Demand	48.4	-2.0	46.4	0.6	47.0	-0.5	46.5	-0.5	46.0	-0.1	45.9	-0.1	45.8
Non-OECD Demand	37.7	0.7	38.4	1.9	40.3	1.3	41.6	1.4	43.0	1.1	44.1	1.2	45.3
Total Demand	86.1	-1.3	84.8	2.5	87.3	0.8	88.1	0.9	89.0	1.0	90.0	1.1	91.1
Non-OPEC Supply (Incl all Biofuel)	50.4	0.7	51.1	1.2	52.3	0.1	52.4	0.4	52.8	1.4	54.2	1.4	55.6
OPEC NGL's and non-conventional oil	4.1	0.2	4.3	0.7	5.0	0.4	5.4	0.2	5.6	0.2	5.8	0.1	5.9
Total Non-OPEC supply	54.5	0.9	55.4	1.9	57.3	0.5	57.8	0.6	58.4	1.6	60.0	1.5	61.5
Call on OPEC crude (and stocks)	31.6	-2.2	29.4	0.6	30.0	0.3	30.3	0.3	30.6	-0.6	30.0	-0.4	29.6
OPEC Crude Oil Supply (Last known number dragged fwd)	31.2	-2.5	28.7	0.5	29.2	0.7	29.9	1.4	31.3	-0.9	30.5	-0.7	29.7
Implied World Oil Stock Change	-0.4		-0.7		-0.8		-0.4		0.7		0.5		0.1
EIA World Oil Supply-Demand balance (April 2014):													
2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	
OECD Demand	47.6	-2.2	45.4	0.7	46.1	-0.3	45.8	0.1	45.9	0.1	46.0	-0.1	46.0
Non-OECD Demand	38.2	0.7	38.9	2.1	41.0	1.5	42.5	0.8	43.3	1.1	44.4	1.3	45.6
Total Demand	85.8	-1.5	84.3	2.7	87.1	1.2	88.3	0.9	89.2	1.2	90.4	1.2	91.6
Non-OPEC Supply (Incl all Biofuel)	49.7	0.8	50.5	1.3	51.8	0.2	52.0	0.7	52.7	1.3	54.0	1.6	55.6
OPEC NGL's and non-conventional oil	4.5	0.3	4.8	0.8	5.5	-0.3	5.3	0.5	5.8	0.6	6.3	0.0	6.4
Total Non-OPEC supply	54.1	1.1	55.2	2.1	57.3	-0.1	57.2	1.2	58.4	1.9	60.4	1.7	62.0
Call on OPEC crude (and stocks)	31.7	-2.6	29.1	0.7	29.8	1.3	31.1	-0.3	30.8	-0.7	30.0	-0.4	29.6
OPEC Crude Oil Supply (Last known number dragged fwd)	31.3	-2.2	29.1	0.1	29.2	0.7	29.9	1.4	31.3	-0.9	30.5	-0.7	29.7
Implied World Oil Stock Change	-0.4		0.0		-0.6		-1.1		0.6		0.4		0.1

18 Brent forecast



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