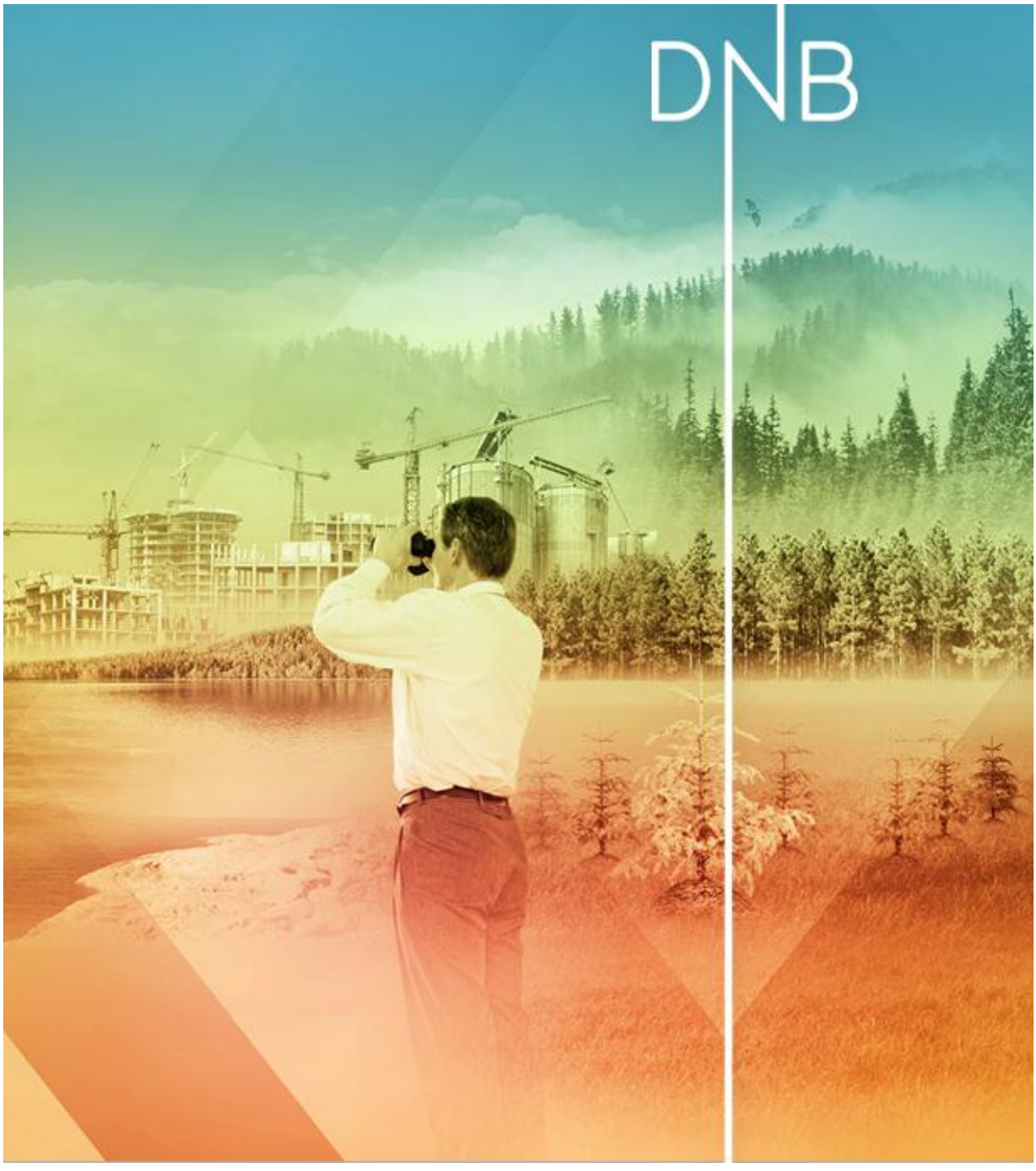
Short Term Oil Market Outlook

- Bearish fundamentals next 2-4 months, despite political unrest in Libya, Venezuela, Iraq, Nigeria



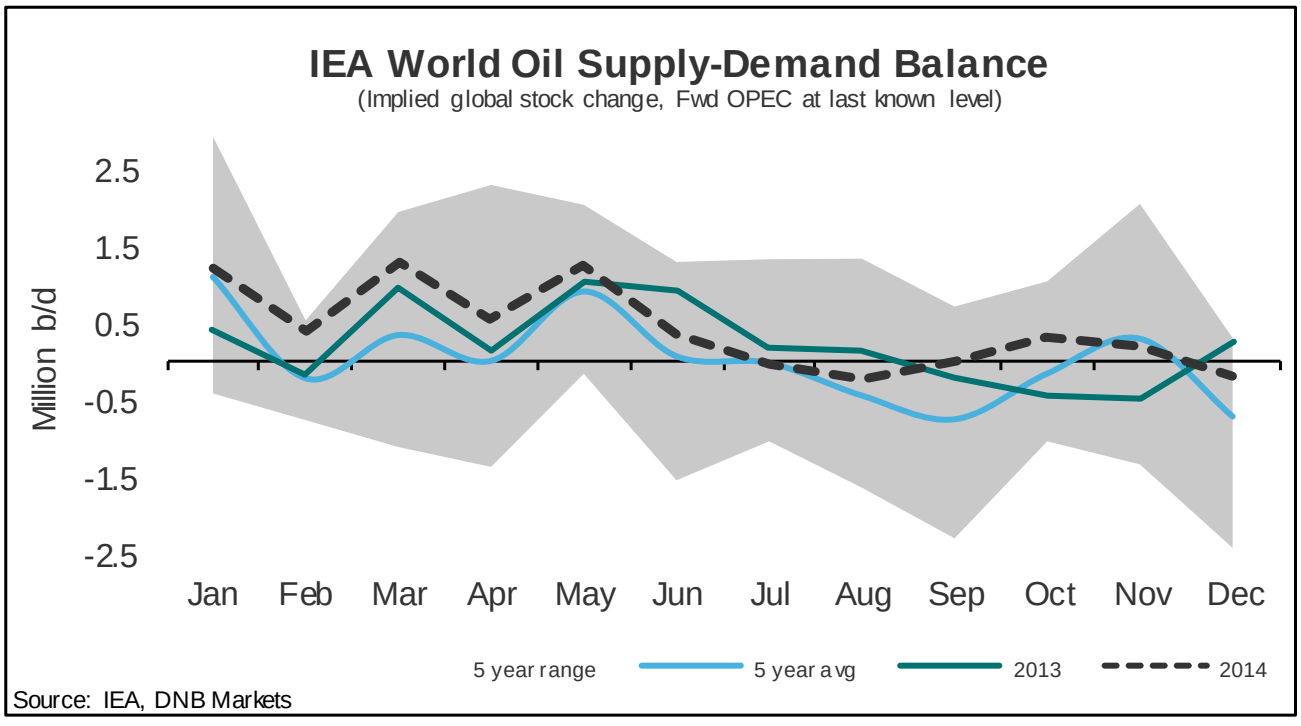
Content

1 Overall outlook

Our overall assessment of the Brent market in the coming 4-6 weeks is bearish. Physical oil fundamentals will weaken seasonally in the coming two months. At the same time global refinery maintenance is set to peak in April, which should reduce crude oil demand meaningfully during the next 4-6 weeks. When we forecast a weakening supply-demand balance for oil in the coming two months at the same time as speculative positions on the NYMEX are record high, we cannot avoid having a negative view on oil prices in the short term. This is despite the always present risk for geopolitics to support crude oil prices. For the next two months the largest wild cards with respect to political risk in the oil market comes from Venezuela, Nigeria, Iraq and Iran.

2 Global oil supply-demand balance

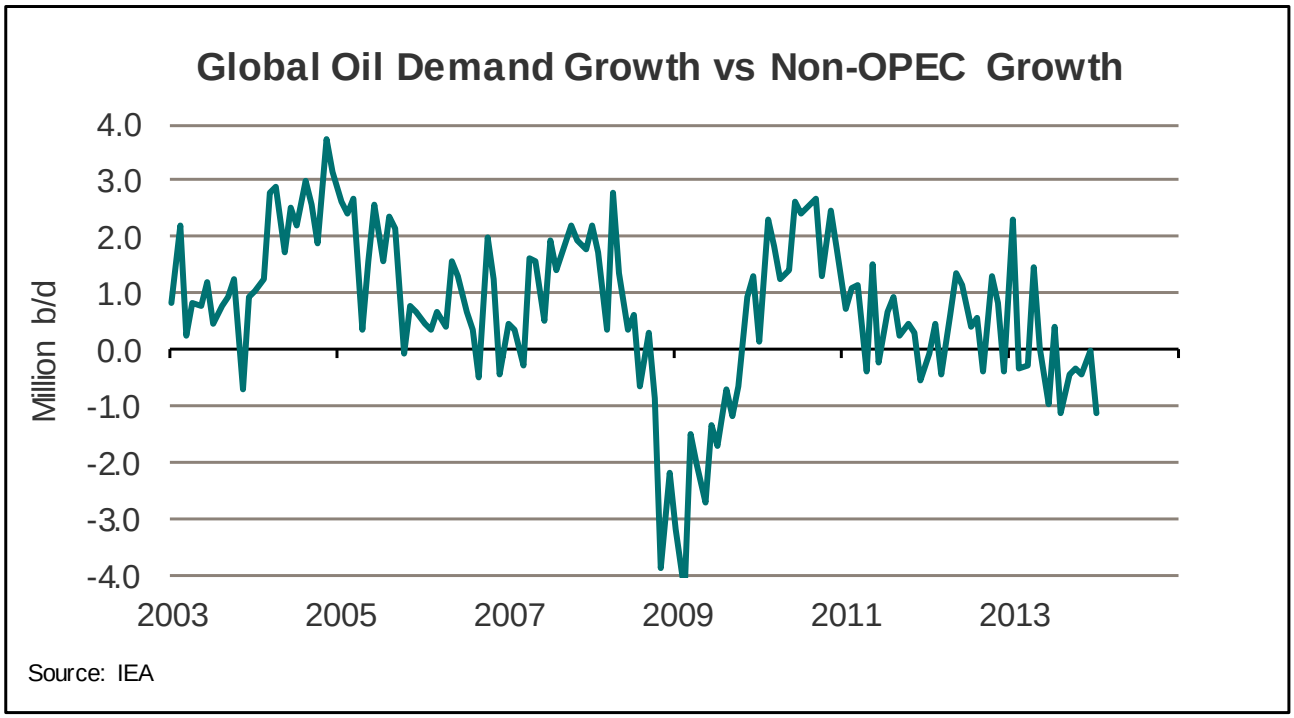
The numbers in our global supply-demand balance can be viewed under headline 17 in this report. We compare our own balance with that of the IEA, OPEC and EIA. We forecast that the so called “call on OPEC” (the need for crude oil from OPEC) will drop by 0.7 million b/d in 2014 compared with 2013. This is in fact the same number as the IEA, except that the content of the 0.7 million b/d is different. We believe that demand will perform better in the OECD that what the IEA is forecasting but at the same time perform weaker in the non-OECD. IEA is in a process of tweaking their numbers in the same direction and we suspect that by the next three-four months the IEA-split between OECD and non-OECD demand will look quite similar to our own figures. On a yearly basis we have found that such meaningful changes in the “call on OPEC” tend to have an effect on the average oil price between the years. We hence still believe the average Brent price in 2014 will be lower than that of 2013.



Source: IEA, DNB Markets

We do prepare our global fundamental balance with a monthly resolution, country by country on the supply side and by 13 regions on the demand side. When we summarize the numbers we have the “call on OPEC” dropping from 29.5 million b/d in December to 28.7 million b/d in April. This is all due to lower seasonal demand. Non-OPEC supply growth is not really picking up pace until second half 2014. This has also been the story in 2012 and 2013 and one of the larger seasonal effects in global non-OPEC production is the seasonal change in biofuel output which normally peaks in the third quarter. This year the IEA forecast global biofuel production to increase from 1.54 million b/d in February to 2.45 million b/d in August. This is one of the key elements that offset the price effects of the seasonal demand increase from spring to summer.

Year-on-Year non-OPEC supply growth in January was 1.6 million b/d, while global oil demand was up 0.5 million b/d according to our calculations. We use IEA data for all countries except USA and China. Non-OPEC supply growth has in fact been above global oil demand growth in all of the last six months. This is hardly a description of a bull market…

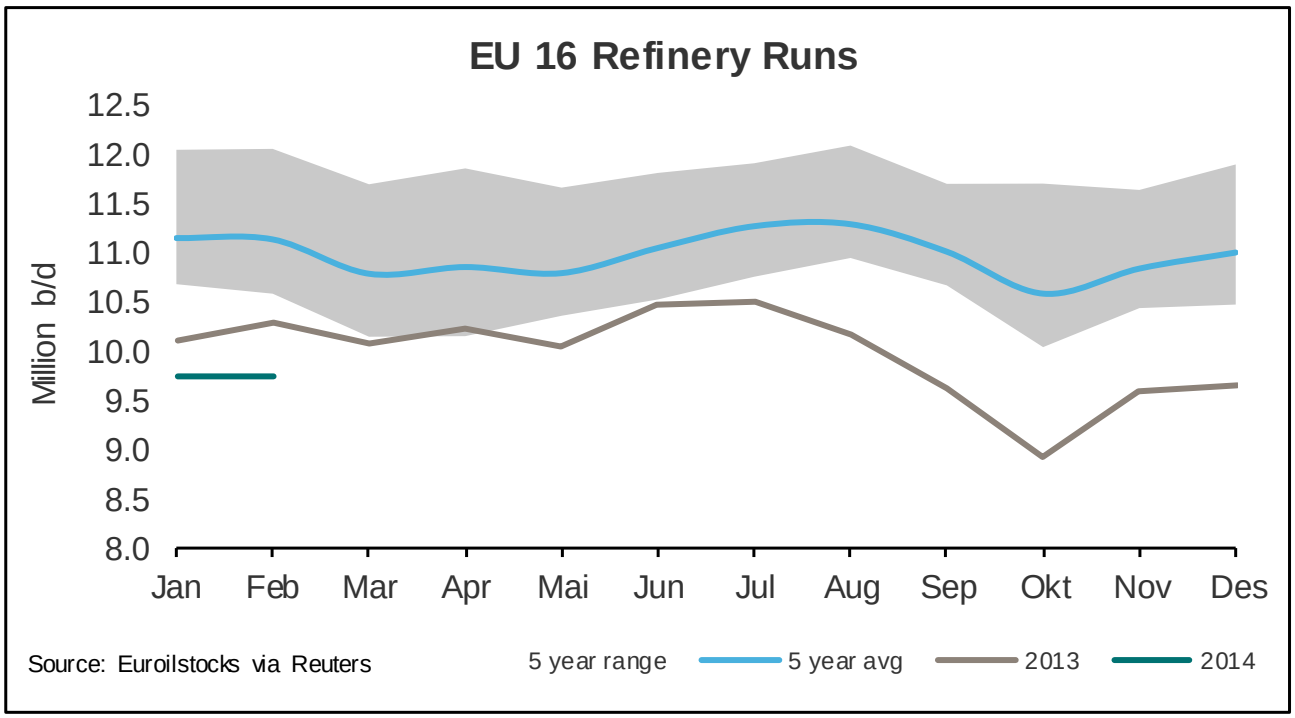


Source: IEA

3 Refinery activity

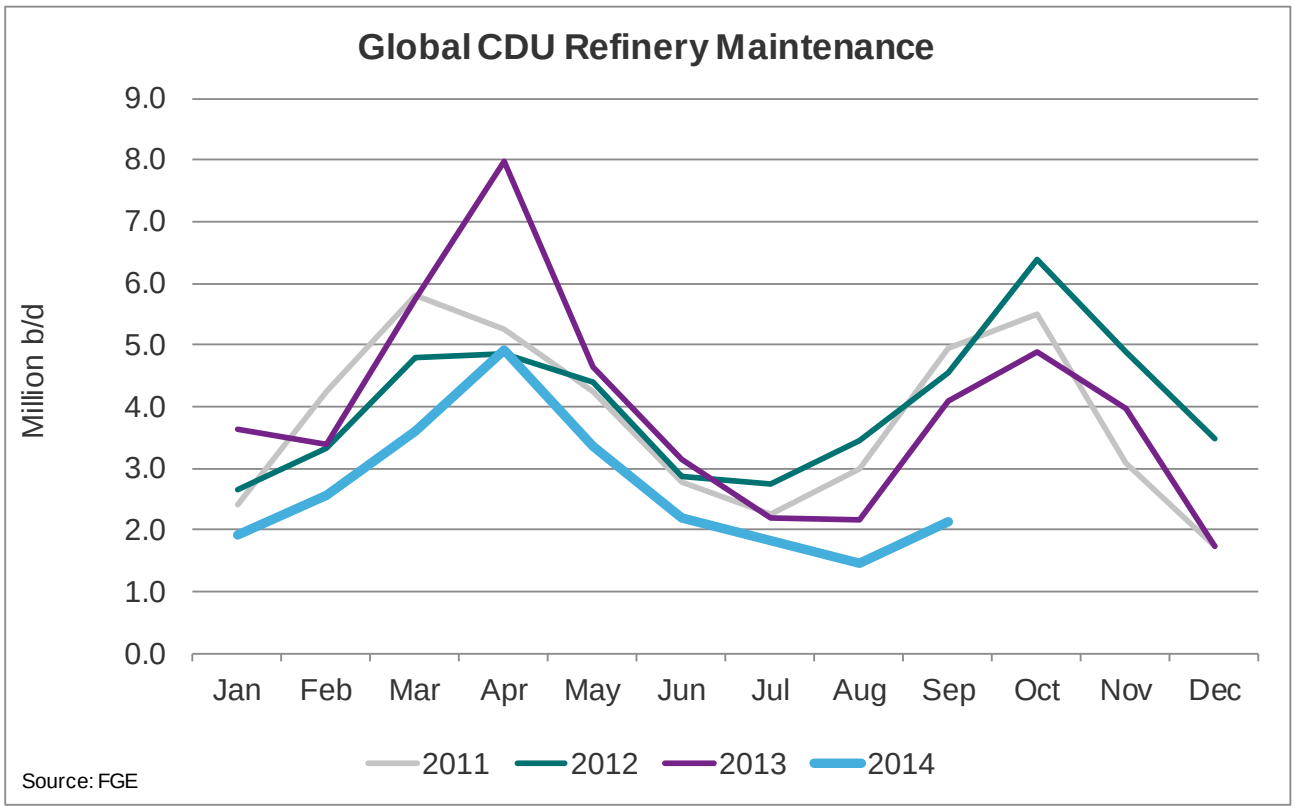
Refinery margins in Europe have improved from the very low levels we saw in January and are currently looking decent in both North West Europe and in the Med. We have however not seen the same improvement in Singapore margins where cracking margins based on Dubai has been flattish around the 5-year average while Hydro Skimming margins have weakened to almost zero.

In the US the refining margin based on domestic crudes as feedstock have stayed strong and hence justified refinery throughput at US refineries a massive 830 kbd higher than the prior year on a 4-week moving average basis. In Europe the throughput at refineries in EU was down 366 kbd vs the prior year in January and 836 kbd down in December. This is the flip side of the US shale story and shows how this has a global effect on oil prices. The last half a year the average refinery throughput in EU is down 900 kbd, while for US refiners the average throughput is up more than 600 kbd for the same period. This is the answer to why the lost Libyan barrels have not been able to send the Brent-price higher. We have not only lost a lot of crude supply to Europe, we have lost a lot of crude demand as well. This lost demand for crude in Europe is due to US refiners taking market share from European refiners and this is a direct consequence of the US shale revolution. US refiners have both cheaper feedstock and cheaper operating costs, so how can European refiners compete? One year ago Libya produced 1.4 million b/d but output started to decline in June and fell to almost nothing in November/December. Still the Brent price has continued to trend lower since August last year when it priced as high as 117 $/b at the highest. That is quite remarkable noting that Libyan production the last half a year is down 1.1 million b/d on average vs the year before and knowing that most of the Libyan crude normally feeds European refineries.



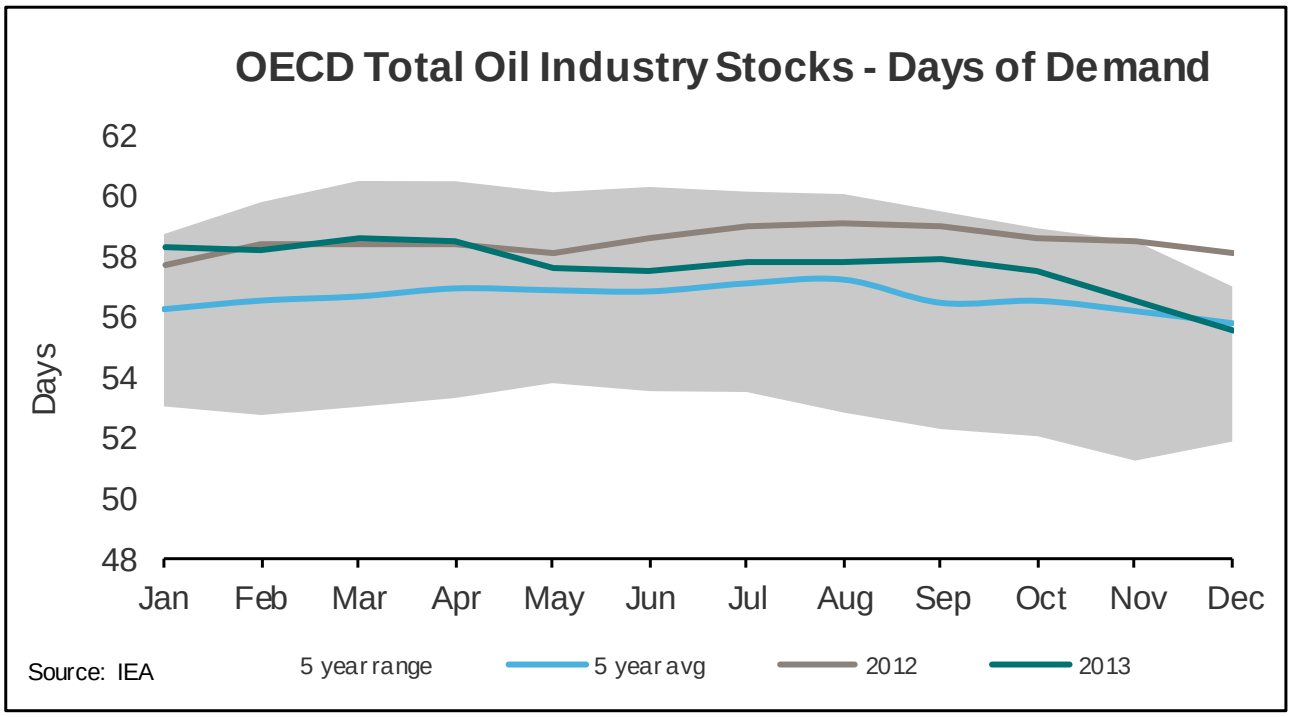
The US refineries are entering maintenance season which according to a survey by PIRA Energy should peak in March/April this year. US crude demand should drop by about 800 kbd from January to March, purely based on maintenance schedules. The important Padd 2 region (The Midwest, where Cushing Oklahoma belongs) is scheduled to lose 300 kbd of crude demand from January to March and this may halt the decline in Cushing crude stocks in the coming month as it is should be worth more than 2 million barrels stock build per week, all else being equal.

Refinery maintenance in Europe is set to peak in April at about 1 million b/d which is 0.6 million b/d higher than in February. On a global scale the refinery maintenance is set to increase by 2.5 million b/d from February to April, which looks to be the seasonal peak. What does it mean? It basically means less demand for crude oil in the coming month or two.



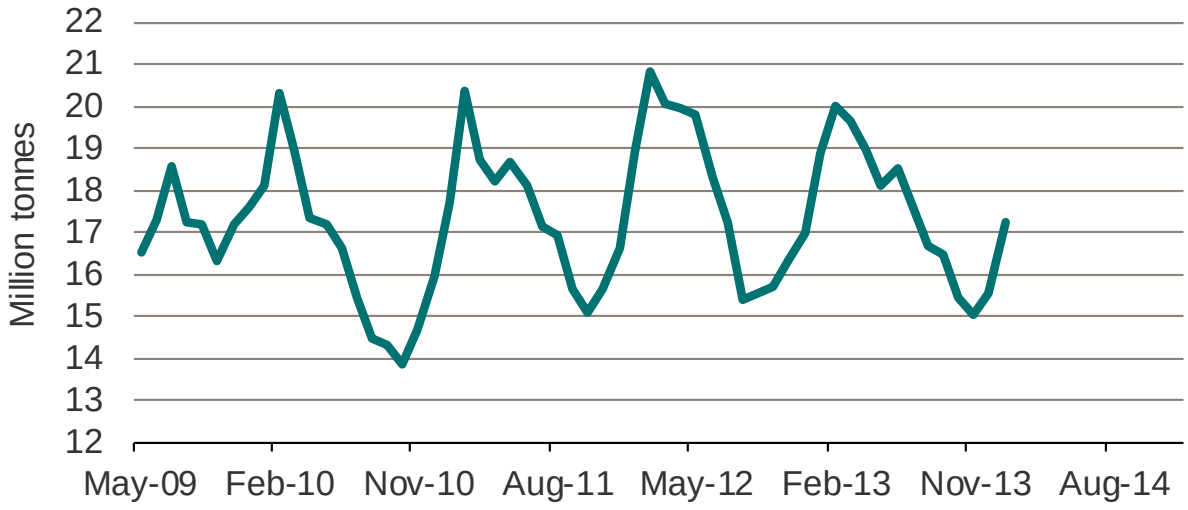
4 Oil stocks

When it comes to OECD oil stock levels there is unfortunately a significant time lag in the reporting by the IEA. The latest numbers reported by the IEA is now from December. If we only use the OECD data the IEA reported a stock draw of 57 million barrels in December and made a point that the 4Q-13 stock draw in the OECD came in at an average 1.5 million b/d which was the steepest OECD quarterly stock decline since 4Q-99. If we however look at the global stock changes as reported by JODI (Joint Organizations Data Initiative – APEC, EUROSTAT, IEA, OLADE, OPEC and UNSD) the average becomes a stock draw of 0.67 million b/d and the ball park of this stock draw took place in November when global oil stocks drew a large 1.6 million b/d. This actually makes good sense when looking at the oil price movement through November when Brent-prices rose by about 10 $/b from 103.5 $/b to almost 113 $/b.



Global oil stocks did however not draw in December even though OECD stocks posted the large draw of 57 million barrels according to the IEA. Based on JODI-data global oil stocks were flat in December. Crude stocks drew 1.48 million b/d while product stocks built 1.52 million b/d. Note however that China is not part of this data. Note also that countries like Argentina, India and Thailand did not report stock data for December. We hence kept these countries flat vs November to get to the figures mentioned above.

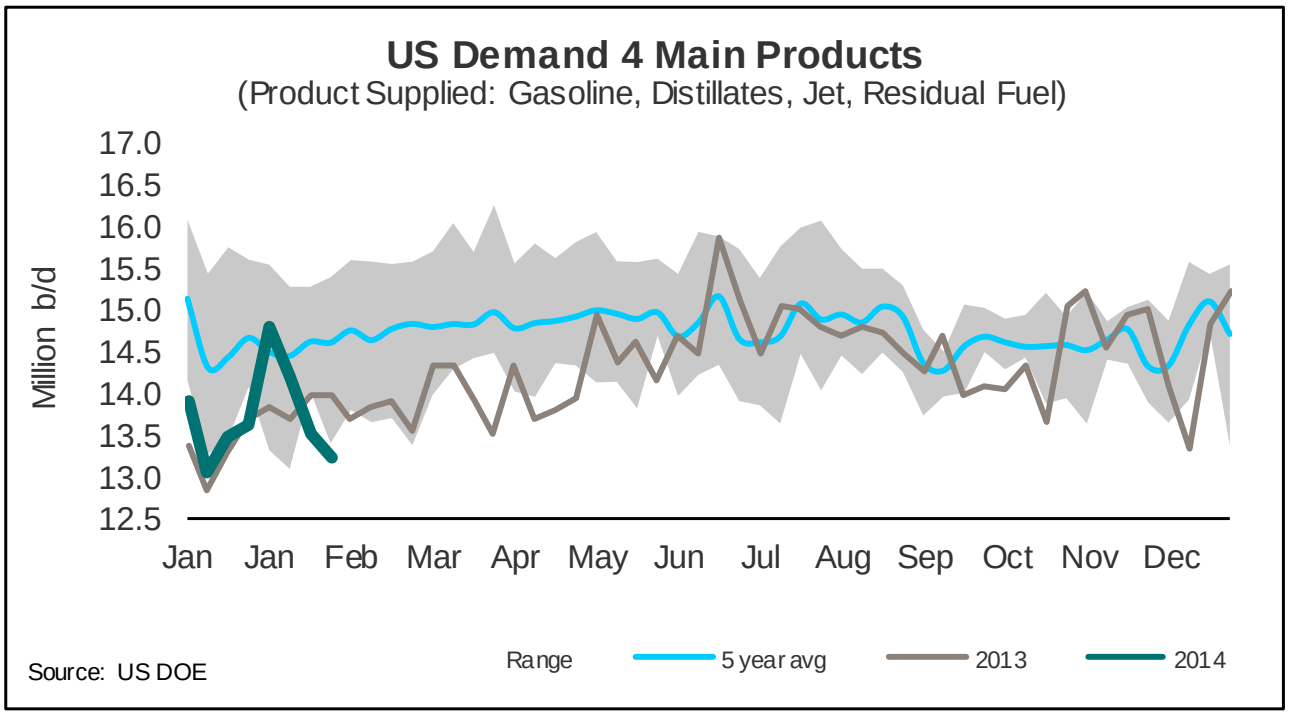
So what has happened with oil stocks after December? If we look at the most important regions; USA, China and Europe, we can use the weekly DOE-data for the US, Euroilstocks for Europe and Xinhua News Agency for China as data sources. Using the mentioned sources of data we add up an 8 million barrel stock build in Europe for January, while the same number for crude and the main oil products in USA and China is 7 million barrels and 19 million barrels respectively. This adds up to a quite large stock build of 34 million barrels for January from these key regions. This is more than 1 million b/d of stock builds and makes sense when we look at the IEA fundamental balance which suggests a global stock build of 1.2 million b/d took place in January.



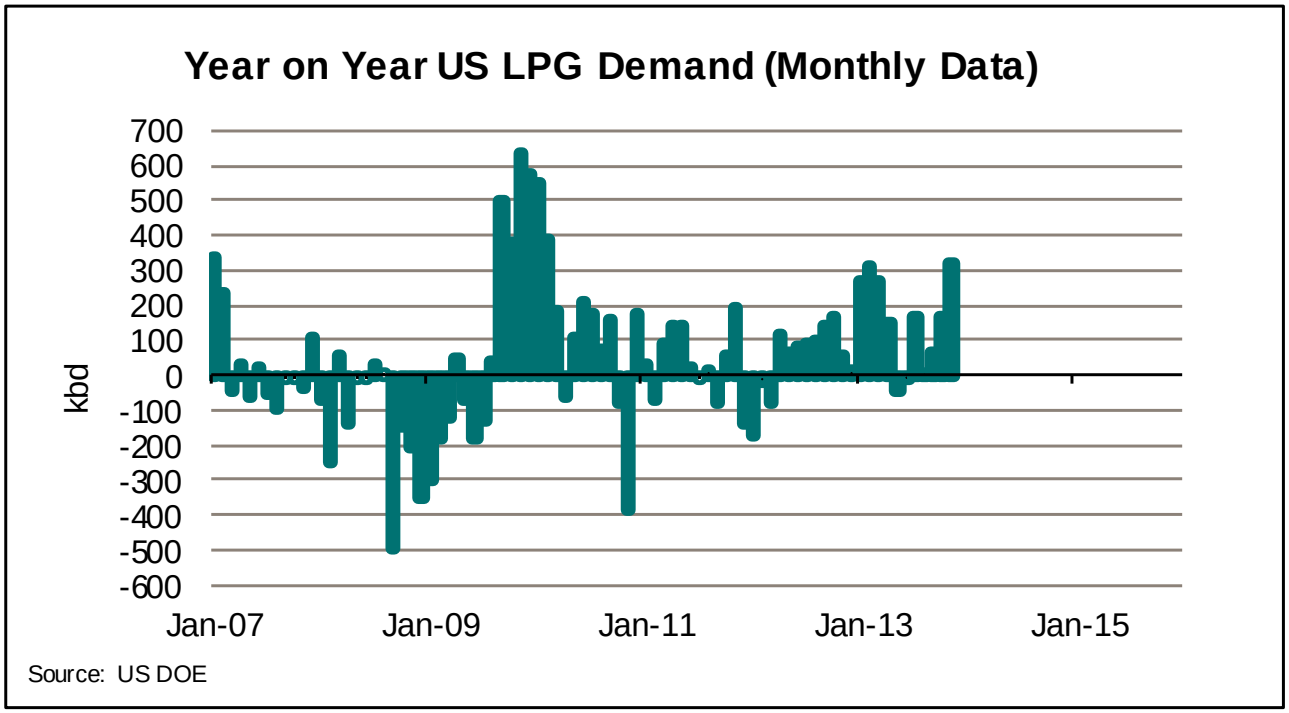
Source: China OGP, Xinhua News, The Chinese General Administration & Customs, National Bureau of Statistics

5 US oil data

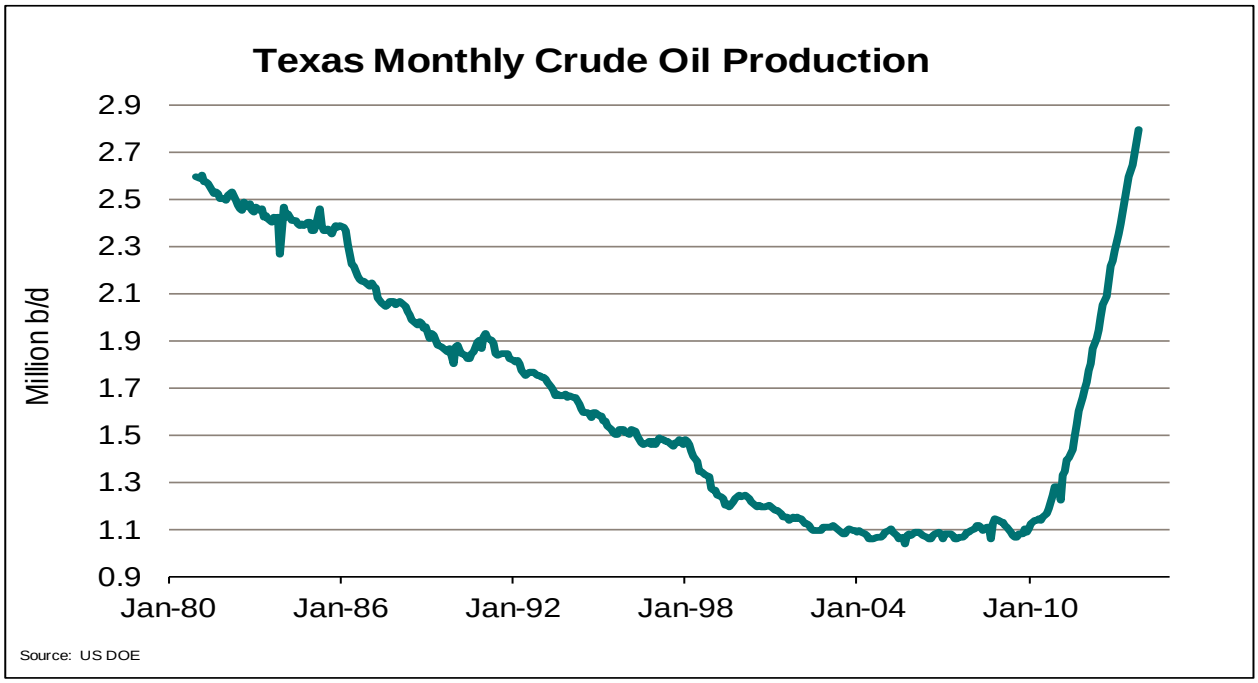
As we have already mentioned above, US crude and the main product stocks built about 7 million barrels in January and has so far been flattish in February. Demand has however been very much supported by the very cold winter in the US in January and February. According to calculations by PIRA Energy the cold weather has increased oil demand in the US by 249 kbd in January and by 110 kbd in February compared with 2013. Despite the cold weather recently total US oil demand is reported up only 394 kbd (2.1%) vs last year in the weekly stats, using a 4-week moving average. This demand growth is not coming from the key four oil products which are up only 57 kbd (0.4%) vs last year. Distillate demand is of course supported by the cold weather and is up 133 kbd but gasoline demand is down 83 kbd and resid fuel demand and jet fuel demand are both flattish vs last year. Other products demand is in other words the clear winner and LPG demand is the key in this category.



The latest reported monthly US oil data is still from November. Oil demand was then revised down 626 kbd vs the weekly data that was posted through November. This was as expected as exports of refined products were obviously much higher than what the DOE-models had suggested. Year on year US oil demand for November was still very strong however at 885 kbd. This is bullish but not at all as bullish as the headline suggest. First of all one should keep in mind that in November 2012 the US East Coast was hit by superstorm Sandy, which affected demand negatively, providing easy year-on-year comps for November 2013. Secondly LPG posted the by far largest growth at 316 kbd and this part of oil demand does not need crude oil and the refining process. If we look at the year-to-date demand numbers for 2013 until November the demand growth is now 344 kbd, where LPG demand is almost half of that at 151 kbd. LPG plus unfinished oil is up 241 kbd of the total 344 kbd (70%) reported Jan-Nov oil demand growth in the US. This hardly justifies headlines like “Gas-guzzlers back in fashion”. Gasoline demand is in the same period up only 72 kbd (0.8%), not due to a return to gas-guzzlers but due to higher total vehicle miles driven recently.



Crude production year-on-year for November was up 737 kbd. This is the weakest growth number seen for a while and was mainly caused by Offshore GOM production down 197 kbd vs last year in November. We do not expect the same weakness in US Offshore GOM production going forward as large new fields are set to start up. The US Department of Energy expect offshore US GOM production to increase by 300 kbd from 2013 to 2015 based on current and planned drilling projects. When it comes to the shale states (Texas, North Dakota, Oklahoma and New Mexico) these states continued their relentless growth pattern in November. Texas continued up 50 kbd on the month and North Dakota 28 kbd. Year on year growth in these four states were 905 kbd, close to the record growth level of 921 kbd seen in September. Jan-Nov growth for these four states is 886 kbd while Jan-Nov 2012 the growth was 834 kbd.



When it comes to crude oil production, there has probably been some negative effects caused by the freezing weather this winter, but the last numbers reported in the monthly data is November and as such it will take some time before we see these negative effects reported.

The total impression of US oil stats is still that crude supply keeps on rising more than demand for refined products and we think US crude imports in 2014 is set to drop another 500-600 kbd vs 2013.

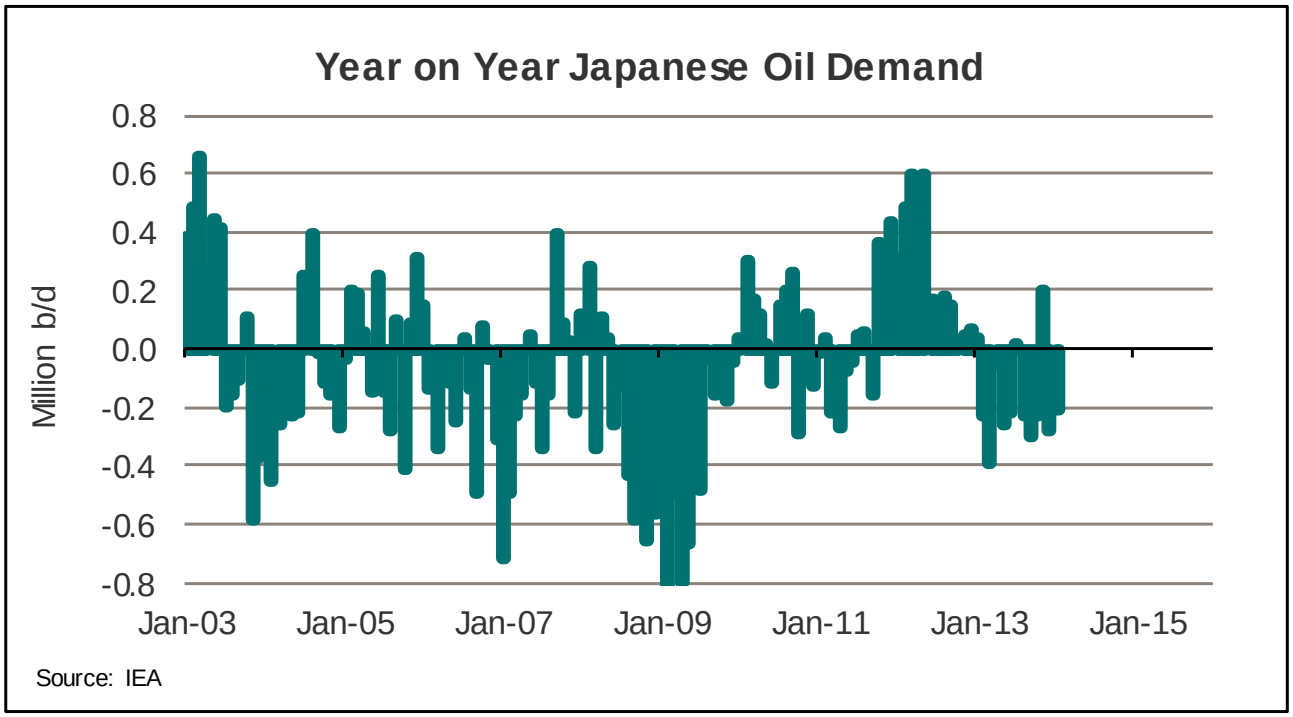
6 Other important energy news

Japan is the third largest oil consumer in the world but is very often forgotten on the expense of USA and China. Japan consumed 4.6 million b/d of oil in 2013. This is still significantly higher than both Russia (3.4 million b/d in 2013) and India (3.4 million b/d in 2013). Japanese oil demand saw a boost from the middle of 2011 until the middle of 2012 on the back of increased oil usage to make up for the shut in nuclear reactors after the Fukushima accident. The positive effect on oil demand has however faded away after we started comparing with a period when the nuclear reactors were already shut.

In 2013 demand for oil in Japan fell 162 kbd, despite the boost to the general economy by the so called “Abenomics”. This falling oil demand is not caused by any restart of nuclear facilities. All the 48 commercial nuclear reactors in Japan remains closed. The Japanese government did however this week reveal a draft energy policy that characterizes atomic power as an important electricity source. In the draft the government characterized nuclear energy as an important base-load power source and vowed to push for the restart of reactors that have satisfied the new safety requirements introduced after Fukushima. At the same time the government added emphasis to the section on renewable energy, stating that efforts to accelerate the introduction of such sources will continue.

The economic policy branded Abenomics (named after prime minister Abe) had as its goal to lift GDP growth and end deflationary pressure in the Japanese economy. On the surface these goals appear to be reached as GDP-growth in 2013 came in at 2.7% after having declined the year before. Note however that economic growth was much weaker in the second half of 2013 (1.1%) than the first half (4.4%) and that about half of the growth was due to increased government spending which is not likely to be repeated in 2014. It is also very interesting to note that despite the large drop in the value of the Yen, the trade sector contributed negatively to economic growth in the second half of 2013. One of the key elements behind this negative impulse is that the cheap Yen makes energy imports much more expensive and Japan is a country that needs to import most of its energy consumption. Japan has been able to push inflation higher to 1.6% in December, but note that about half of this is due to the lower Yen which again has increased the price of energy.

In April the Japanese government is set to increase the consumption tax from 5% to 8%. This means GDP-growth in Q1-2014 will most likely be strong as consumers rush to spend before the tax hike, but Q2-2014 is set to be equally weak when all the prices increase by 3%. Japanese oil demand in January fell 204 kbd vs January in 2013 and based on the arguments above we believe this negative growth in Japanese oil demand will continue through the coming two years.



Source: IEA

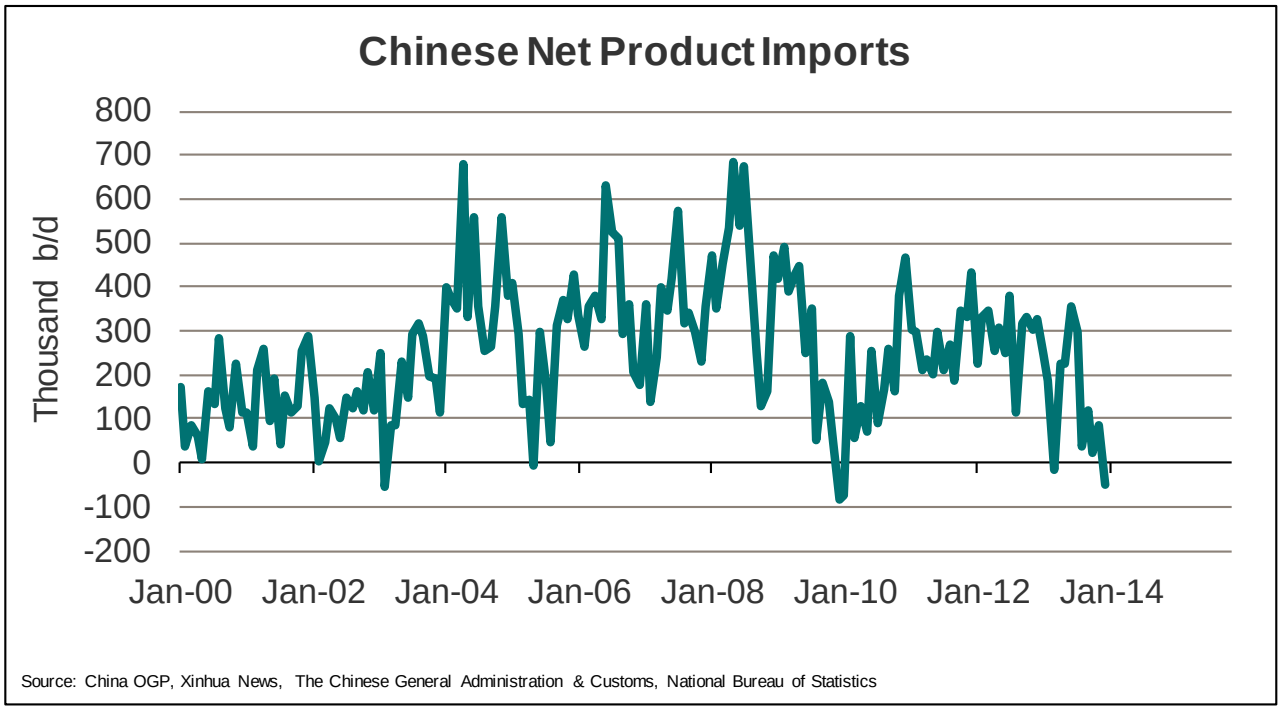
7 Chinese oil data

In order to calculate oil demand in China we need the trade data (imports/exports of crude and products) and we need refinery throughput and data for stock builds/draws. So far have the trade data and stock changes but not the refinery throughput data for January. We are hence still not able to correctly calculate Chinese oil demand for January. Crude imports in January were record high at 6.6 million b/d but this does not say too much about demand for oil. We need to know how much of this crude that was run through the refineries and how much gasoline, diesel, jet, etc which was produced before we can calculate demand per product. What we do know through a report by Xinhua News agency is that Chinese commercial crude stocks increased by 3.57% in January which should equal about 6 million barrels. Some of the increased crude imports may also have entered strategic storage. The very negative issue for Chinese oil demand is that Xinhua News Agency reported a stock build of refined products of a large 10.9% in January. This equals about 13 million barrels (0.41 million b/d) and needs to be deducted when we calculate demand for January. The stock build was mainly in diesel stocks which built a large 26.95% while gasoline stocks built 5.03%.

As our regular readers will know we have warned of weaker oil demand growth numbers from China for a while now. In September 2012 we wrote in our monthly China report that "*China's planned refinery expansion from 2011-2015 will*

outpace Chinese oil demand growth in this period and hence we expect that China soon will end up being a net exporter of oil products. Already the country is a net exporter of gasoline, diesel and jet fuel. These volumes are only set to increase in our opinion and pretty soon we could even see the country as a net exporter of residual fuel oil." The December data shows that China is now a net exporter of refined products. Since 2012 the country has gradually increased its exports of gasoline, distillates and above all jet fuel. China has also practically ceased to be a net fuel oil importer. The country is still importing about 250 kbd of residual fuel oil but it is exporting about the same amount, and it is of course the net amount that is interesting in a macro oil perspective.

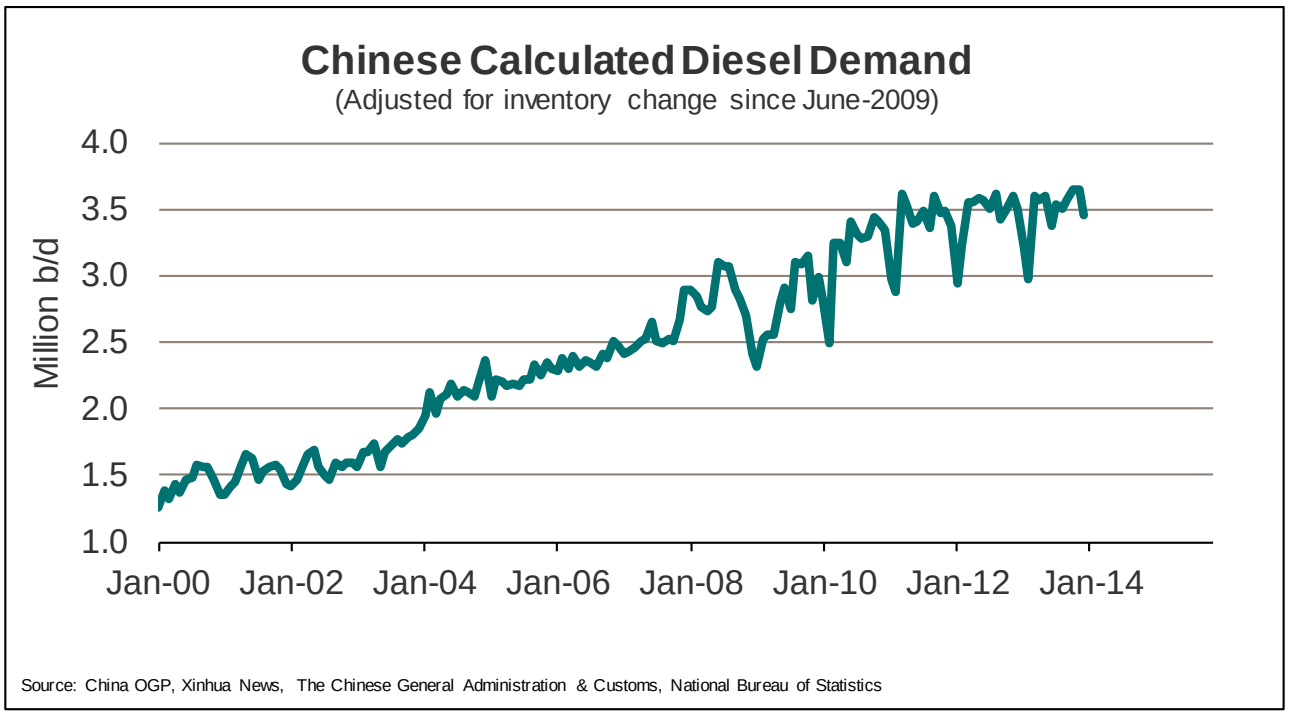
The above shows that China has been building, and planning to build, too much refinery capacity to cover its own demand growth for refined products the last couple of years. Refined oil products demand growth in China became only 190 kbd (2.1%) for 2013 based on our calculations of refinery throughput, net product imports and adjusted for stock changes in refined products. It its last monthly oil report the IEA writes that growing concerns over the risk of oversupply in the Chinese fuels market have led at least four projects to be cancelled in recent months. PetroChina announced in January that it had put off starting up two new refineries and delayed the expansion of another due to the threat of overcapacity. This latest news follows a number of project delays and cancellations during 2013.



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

Gasoline demand in China does however continue to perform quite well on the back of increased car sales. Gasoline demand was up 163 kbd vs the prior year in December and for 2013 demand for gasoline grew 205 kbd compared with 166 kbd in 2013. You should however be aware that the sequential growth in gasoline demand is not looking as strong as the year-on-year growth. Gasoline demand in January-February a year ago was in fact stronger than gasoline demand reported for December and gasoline demand in July-August was about the same level as that reported in December. We do in other words need to see a huge jump in gasoline demand in January in order to maintain the year-on-year growth rates.

Unfortunately for those who want and need strong oil demand growth, diesel demand is continuing to perform very poorly in China. In December we calculate diesel demand to have been 3.46 million b/d (output of diesel plus imports minus exports minus a commercial diesel stock build of 2.14%). This means that diesel demand in December was down 46 kbd vs December 2012. Looking at the whole of 2013 compared with 2012, the demand for diesel increased only 9 kbd (0.3%). The demand for this refined product, which has been the star performer in the Chines petroleum mix until 2011, has practically stopped increasing. Demand for diesel grew on average 203 kbd per year from 2003-2011, but in 2012 the growth was only 81 kbd and as already mentioned there was practically no growth in 2013. So what has "killed" the star Chinese oil demand performer (and hence the star global oil demand performer for that matter)?



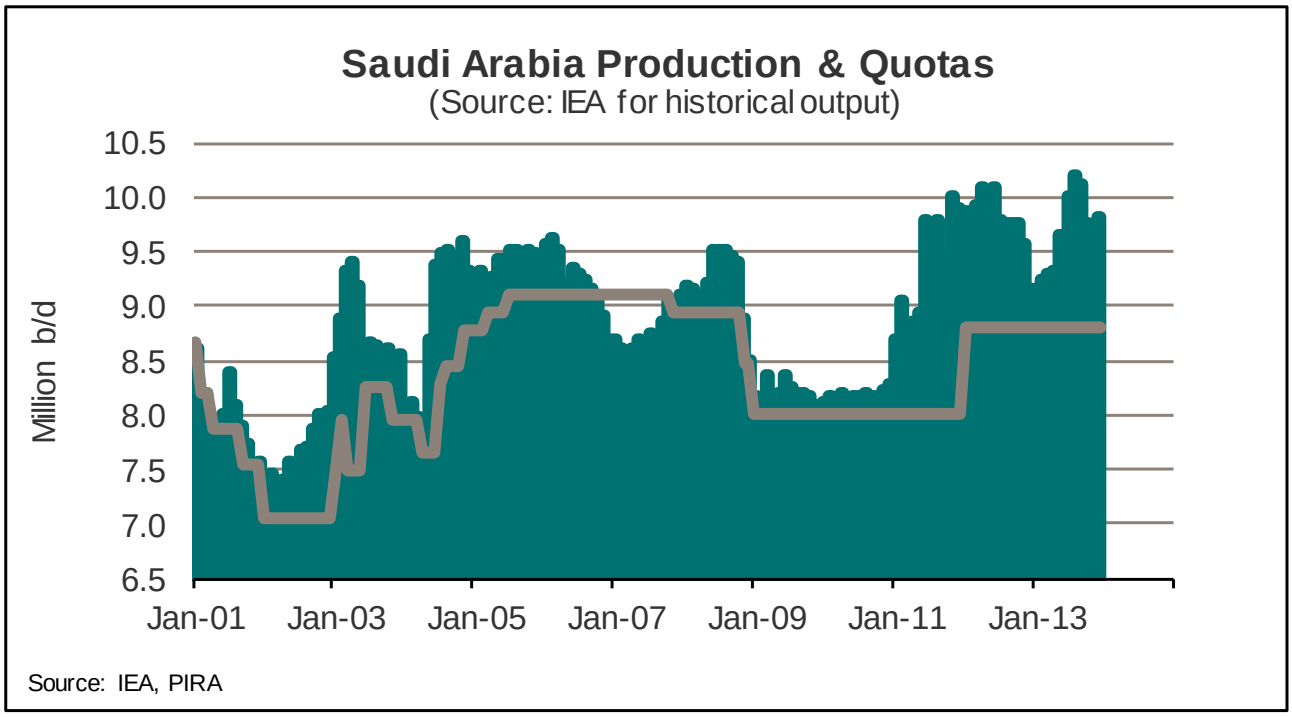
We have launched our thesis about this before. We believe diesel usage in China is suffering due to several specific developments. Diesel consumption is related to economic growth, both with respect to freight of goods but also with respect to the growth in investments. You use a lot of diesel when building new cities and China will not build as many new cities the next 5-10 years as the past 5-10 years. The shift towards using natural gas in Heavy Duty Trucking looks to be even greater in China than in the US, evidenced by the unbelievable growth in the number of LNG filling stations, which grew by almost 30% to 1.700 just through the third quarter last year. Beijing is limiting the use of motor vehicles to 6 million and has a target to reduce the usage of gasoline and diesel by 5% during the next 5 years, as older vehicles are replaced with newer models. There is also a target to move more than half of the city's journeys over to public transport by 2017.

Diesel is also meeting large competition from renewables in the stationary sector (power generation, industrial production, heating). On the 24th of January the Chinese energy officials published their commitments for 2014 to improving the environment by reducing the usage of coal and increasing the use of natural gas and renewables in the energy mix. Total energy consumption is planned to increase 3.5% but oil consumption is only planned to increase half of that at 1.8%. This stands in contrast to a forecast issued by CNPC in January stating that oil demand was forecasted to increase 4% in 2014… If oil demand increases 1.8% in 2014 it will imply an increase of 180 kbd, which would be weaker than the 190 kbd of growth posted in 2013. Natural gas consumption is planned to increase a large 14.5% to 193 BCM in 2014. When it comes to renewables the plan is to increase the share of renewables in the power generating mix by 2.1%. The country plans, during 2014 alone, to increase wind capacity by 18 GW, solar capacity by 14 GW, hydro capacity by 20 GW and nuclear capacity by 9 GW. These new additions translate to about 250 TWH of new electricity generation from renewables in 2014, using prudent utilization rates. You would need about 1.2 million b/d of oil in order to generate 250 TWH of power, just to put things into perspective…

8 OPEC

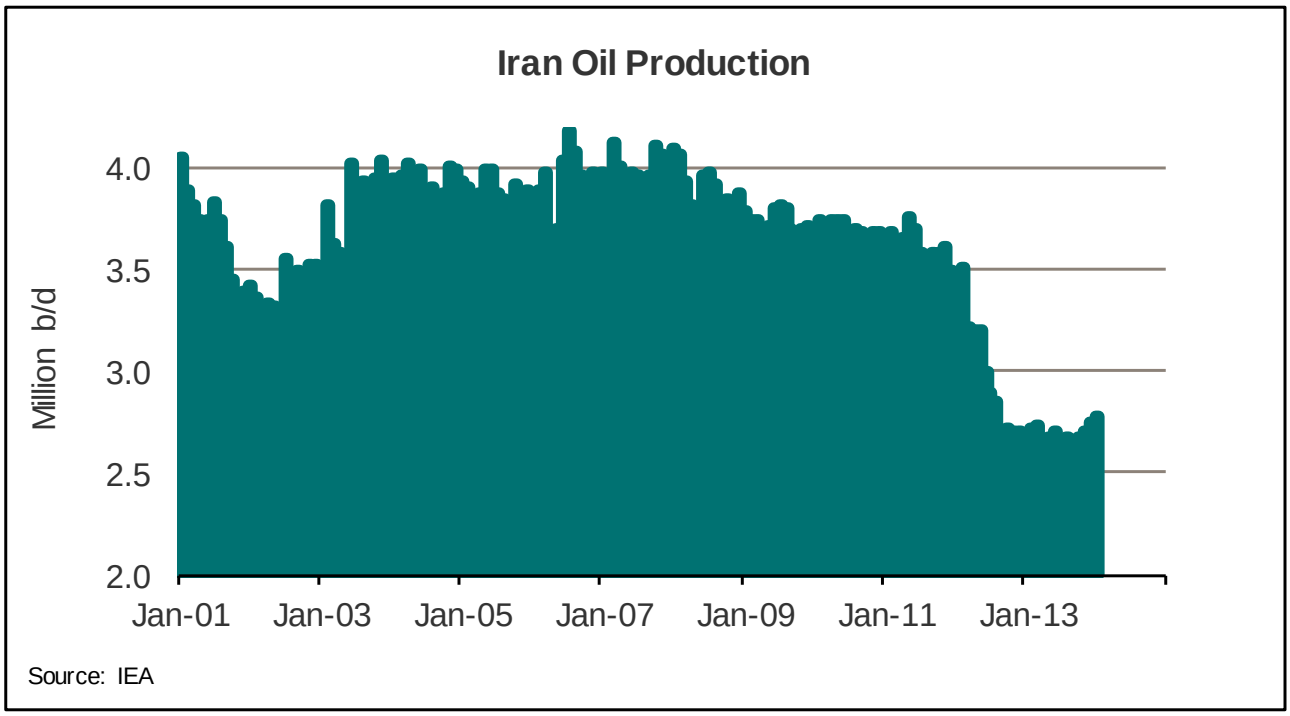
OPEC produced 29.99 million b/d of crude oil in January according to the last IEA monthly report. This is practically spot on the cartel's production target of 30 million b/d. Saudi Arabia produced 9.76 million b/d which was 60 kbd down from December. If we use the old pro rata production quotas that existed before OPEC communicated its 30 million b/d target at its December meeting in 2011, the Saudi production quota would have been 8.8 million b/d. Instead Saudi Arabia is producing almost 1 million b/d more to make up for the shortfall from Iran and Libya. Libyan production is the last half a

year on average down about 1 million b/d vs the prior year, so in that respect one could say that Saudi has just made up for Libya and no more. Iranian production is still reduced by about 900 kbd vs the average production in 2011. One way of looking at this would be to say that Saudi has covered for either Libya or Iran while non-OPEC (mainly the US) has covered for the other.



Source: IEA, PIRA

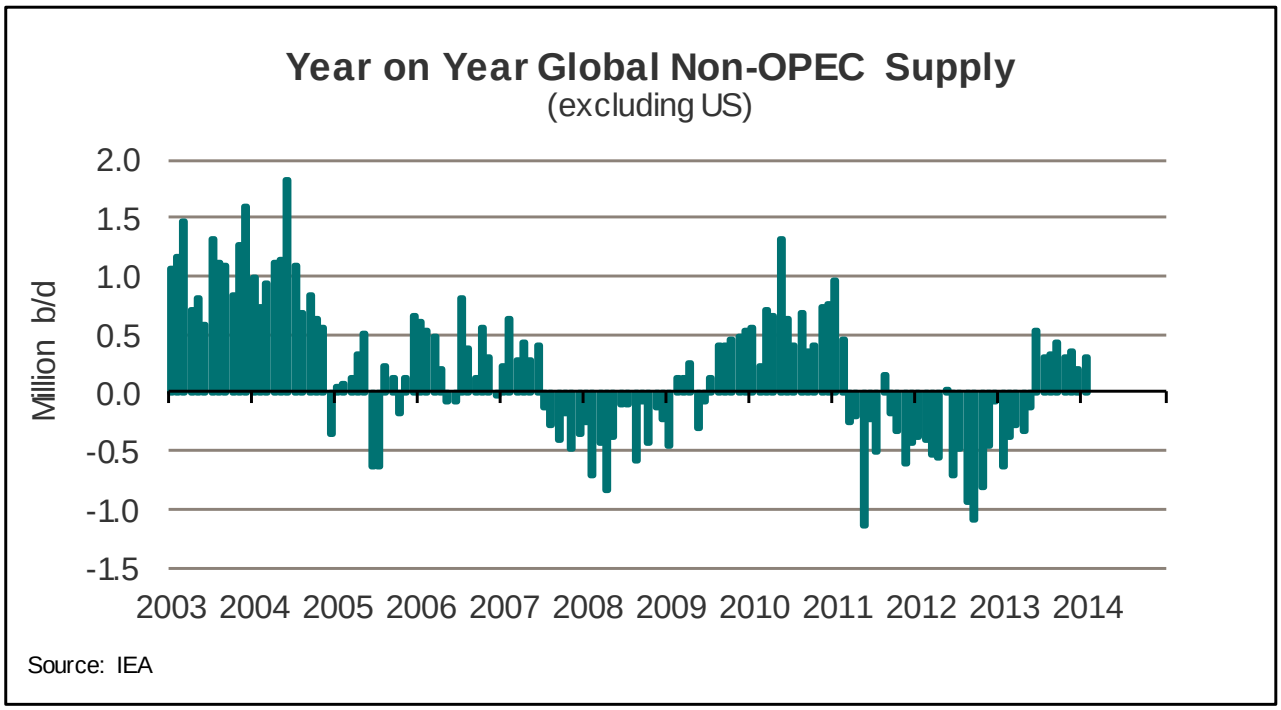
IEA estimated Libyan production in January to have been 500 kbd but on January 23 Reuters reported that Libyan production had fallen to only 230 kbd due to the closure of the Al-Sharara field caused by protesters. Iranian production is estimated by the IEA to have increased by 100 kbd since October to 2.78 million b/d. It could however have increased more than that based on recent reports that both India and China has increased its imports of crude oil from Iran. According to data from China's General Administration of Customs the country increased its imports of crude from Iran by 57 kbd from December to 565 kbd in January. India increased even more and imported 412 kbd from Iran in January, up from 189 kbd in December.



Iraqi oil production was by IEA estimated at 2.99 million b/d in January, which was 140 kbd down from December (but still up slightly vs last year). Based on loading data, oil exports from Iraq's southern terminals have jumped by more than 300 kbd so far in February as shipping delays caused by bad weather in January have been overcome.

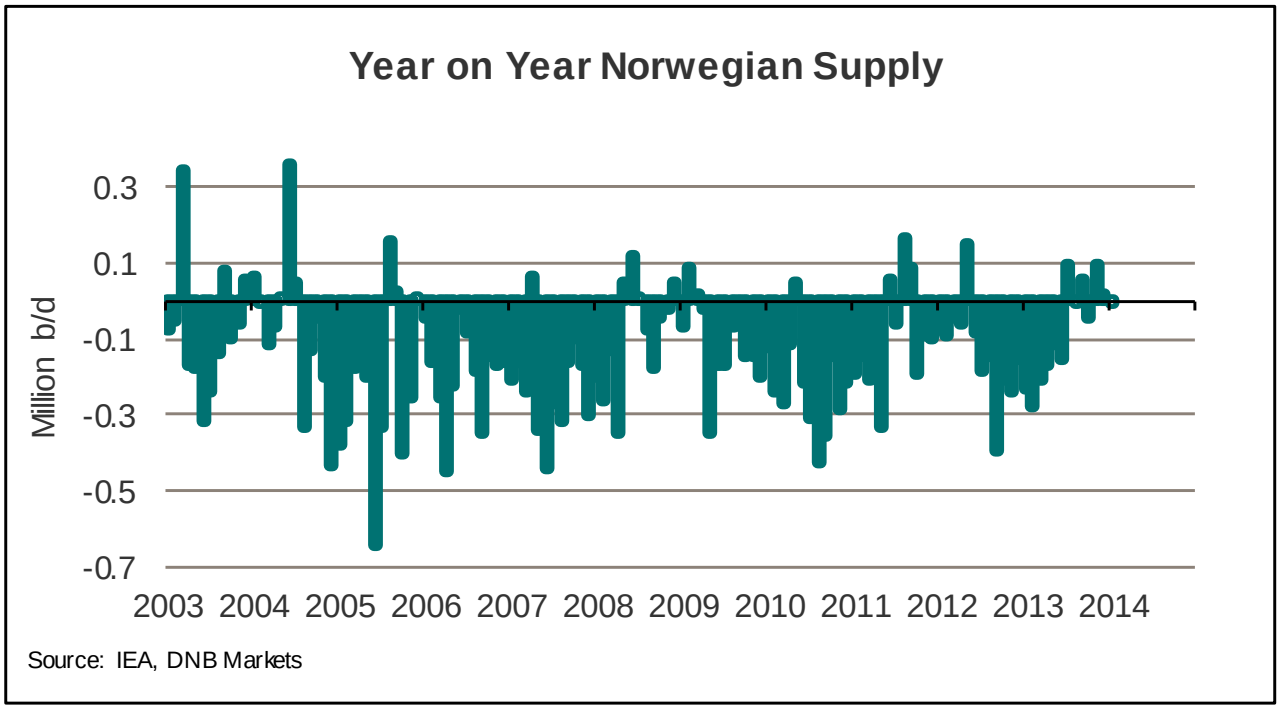
9 Non-OPEC

Non-OPEC supply growth was 1.6 million b/d in January and has in fact averaged at 1.6 million b/d the last 8 months. Most of the growth in non-OPEC is of course coming from the US, but even if we extract the US out of the non-OPEC data we see growth during the last 8 months. On average the growth without the US has been 340 kbd in this period while in the first five months of 2013 the average was negative at minus 360 kbd. It looks like we are about to see a broader growth story since the second half of 2013 than just the US shale oil story. Canada is of curse behind a decent part of the growth as well (240 kbd the last 8 months) but a country like Russia is also posing very strong production growth still. Russian production grew 150 kbd in 2013 and 130 kbd in 2012. In January the year-on-year growth in Russia was 190 kbd. Russian oil production has in fact shown consistent growth ever since 2008 when production fell for the first time since the breakup of the Soviet Union. Then many thought Russian production would continue to decline from there on, but that has so far proved to be wrong. Oil production in Kazakhstan has also been growing consistently since the start of 2013, despite the fact that the startup of the Khasaghan field has again been postponed. Crude production at Kashagan was officially launched in September last year after a decade of delays and huge cost overruns. But output was halted indefinitely in October after gas leaks on the pipeline that brings associated gas to the onshore treatment plant. The key reason for growth in Kazakhstan has been the Tengiz field, operated by Chevron. Investments in the Khasagan field have so far been more than 50 billion USD, making it the words largest oil investment. The field is considered the largest oil discovery the last 30 years together with the Tengiz field, and since sunk costs are now so massive this field is not going to be put on the shelf despite the large cost overruns. When it finally starts up (now estimated to be in the second half of 2014) it should be able to ramp up production to about 350 kbd within12-18 months and the peak production is estimated to reach above 1.6 million b/d.



Source: IEA

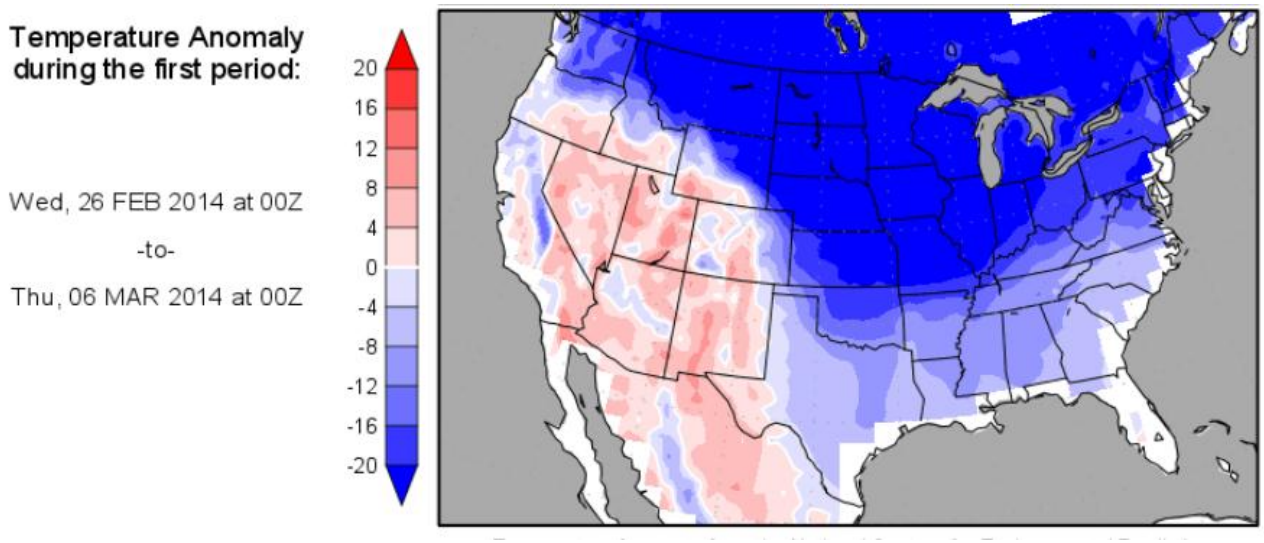
We think one of the most interesting features of non-OPEC production the last half a year has been the increased production from Norway. After having been in decline for more than a decade we suddenly saw production starting to show year-on-year increases last summer and the average performance the last 7 months is up 29 kbd vs the prior year. Not a large number but interesting due to the long history of declines. The key reason for the halt in decline and rising output is probably the increased drilling activity witnessed through 2013. The number of drilled wells on the Norwegian Continental Shelf jumped about 25% in 2013 and it seems some payback is now coming in the form of increased output.



Source: IEA, DNB Markets

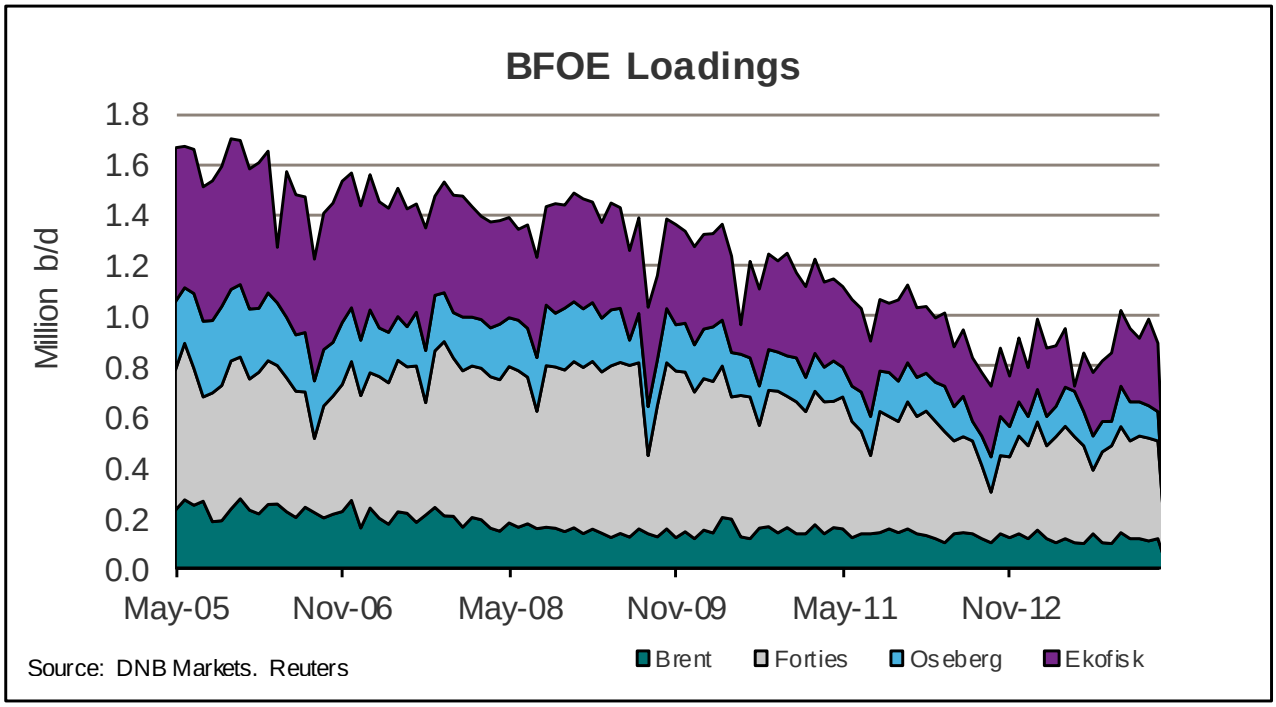
10 Temperatures, Hurricanes and other weather effects

At this time of the year it is the temperature effects that can affect the pricing of oil (and it has certainly affected American oil prices positively this winter so far). The weather forecast for the US still calls for much colder weather than normal in the coming week and this should continue to support especially the heating oil market in the US. In Europe the weather forecast however still calls for much warmer weather than the norm for this part of the year. In Japan/Korea the weather forecast for next week calls for about normal temperatures.



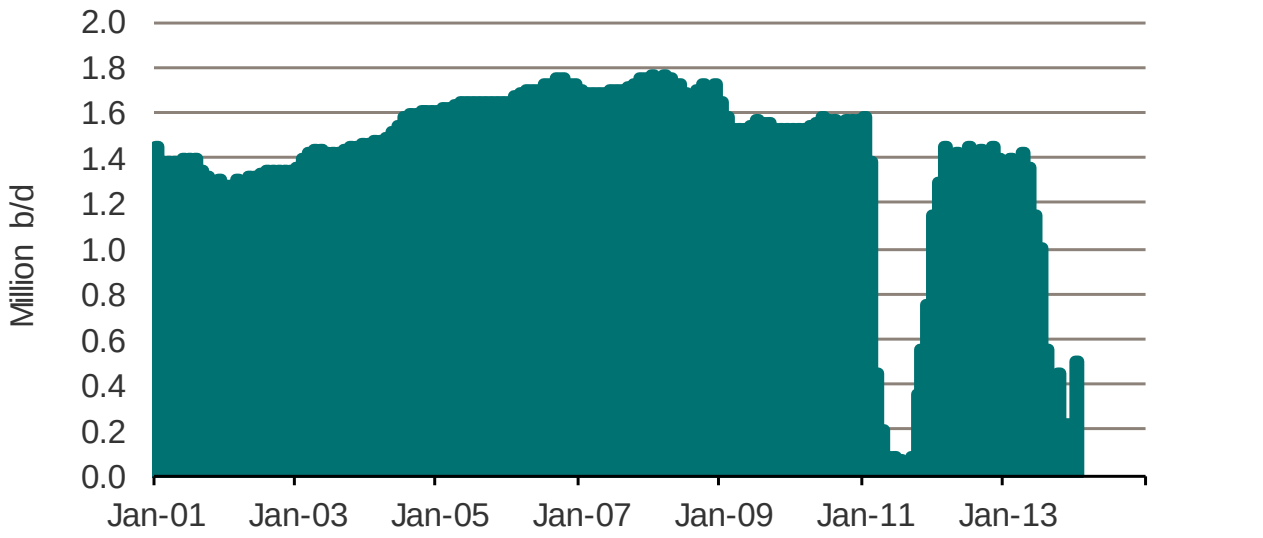
11 North sea output

The loading program for the key North Sea grades fell 130 kbd from February to March, mainly due to lower Ekofisk loadings. The BFOE loading program fell from 990 kbd to 890 kbd. This is however still higher than last year. The North Sea CFD-curve has weakened lately, which probably means demand for crude in North West Europe is weakening. Maybe European refiners are already preparing for maintenance and hence see less interest for crude purchasing right now. The CFD-curve is about flat, but the Brent frontspread is still in a very decent backwardation, suggesting that the jury is still out on this issue.



12 Political risk

Political risk is still the key support for international crude oil prices. We have already mentioned Libya under the OPEC section above. Libyan production is currently estimated to be only 230 kbd after strikes have closed the Al-Sharara oil field.



Source: IEA

In Iraq the violence is still high and particularly in the Anbar province where Sunni militias continue to battle the government. Iraqi elections are scheduled to be held in April and there is a high likelihood that violence will continue to be elevated at least until the elections are over. Exports from south Iraq increased significantly in February as discussed in the OPEC section but northern exports of Kurdish oil through Turkey is not faring that well as the government in Turkey seems to be maintaining its position of not exporting oil from Kurdistan without the approval from the central government in Baghdad.

In Nigeria the leader of Boko Haram, the militant islamist group, last week threatened to attack oil infrastructure in the Niger delta. Nigerian production has increased 50 kbd since November to 1.94 million b/d in January according to IEA data. We estimate that about 400 kbd of production remains shut in from Nigeria. This is slightly more than the average for Nigeria the last four years. Nigeria can still best be described as “stably unstable”…

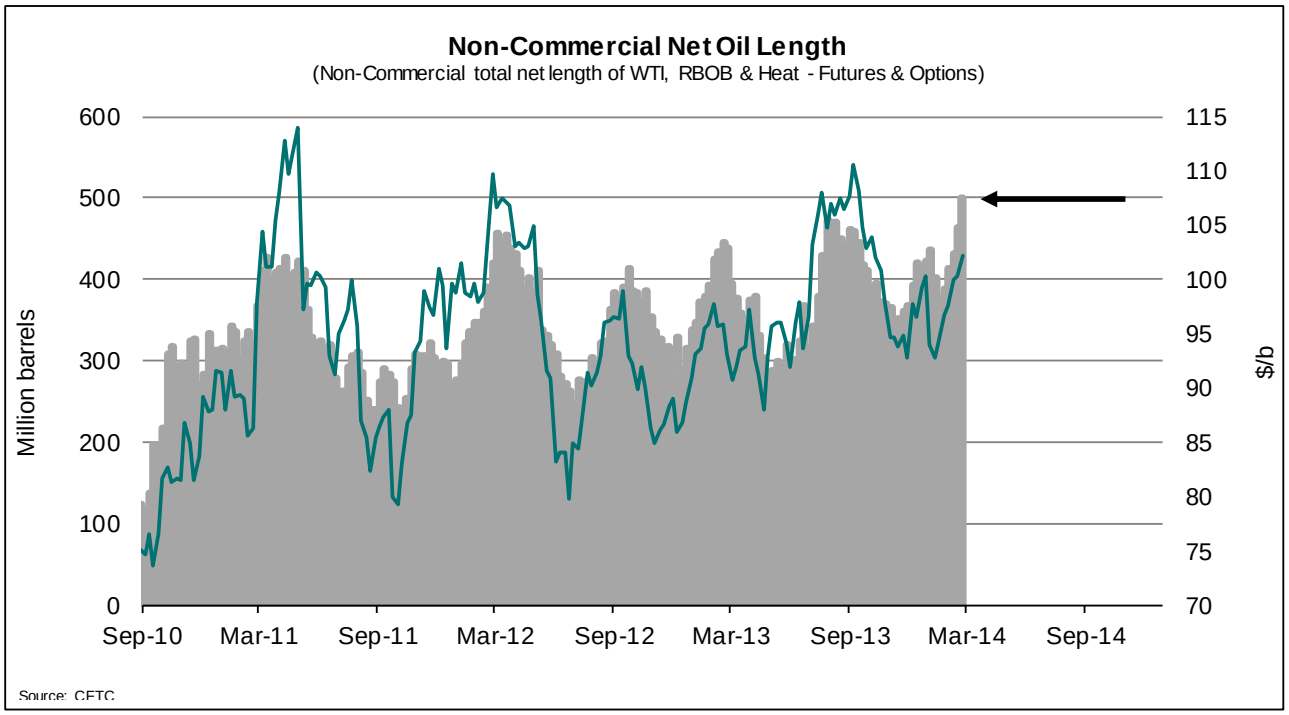
In Venezuela we have seen increasing protests against president Maduro recently. The country’s economy is deteriorating. Inflation is on the rise and so are product shortages. Still political experts see little chance of oil supply disruptions since PDVSA employees are generally supportive of the president and as such a strike like we saw in December 2002 is highly unlikely. After that strike Hugo Chavez sacked half the work force in PDVSA. The key risk to oil supply in Venezuela is probably more related to the possibility that international oil companies and service companies might choose to temporarily reduce their presence in the country.

When it comes to the Iranian nuclear standoff, Iran and six world powers made a "good start" in talks in Vienna on Thursday 20th of February towards reaching a final settlement in the decade-old stand-off over Tehran's nuclear program, but conceded their plan to get a deal in the coming months was very ambitious. By late July, Western governments hope to reach an accord that would end their suspicions that Iran is seeking the capability to make a nuclear bomb. Wide differences remain on how this could be achieved, although the two sides said they agreed during meetings last week on what to discuss and a preliminary timetable for the talks. Senior diplomats from the six nations and Iran’s Foreign Minister Mohammad Javad Zarif, will meet again on March 17 and have a series of further discussions

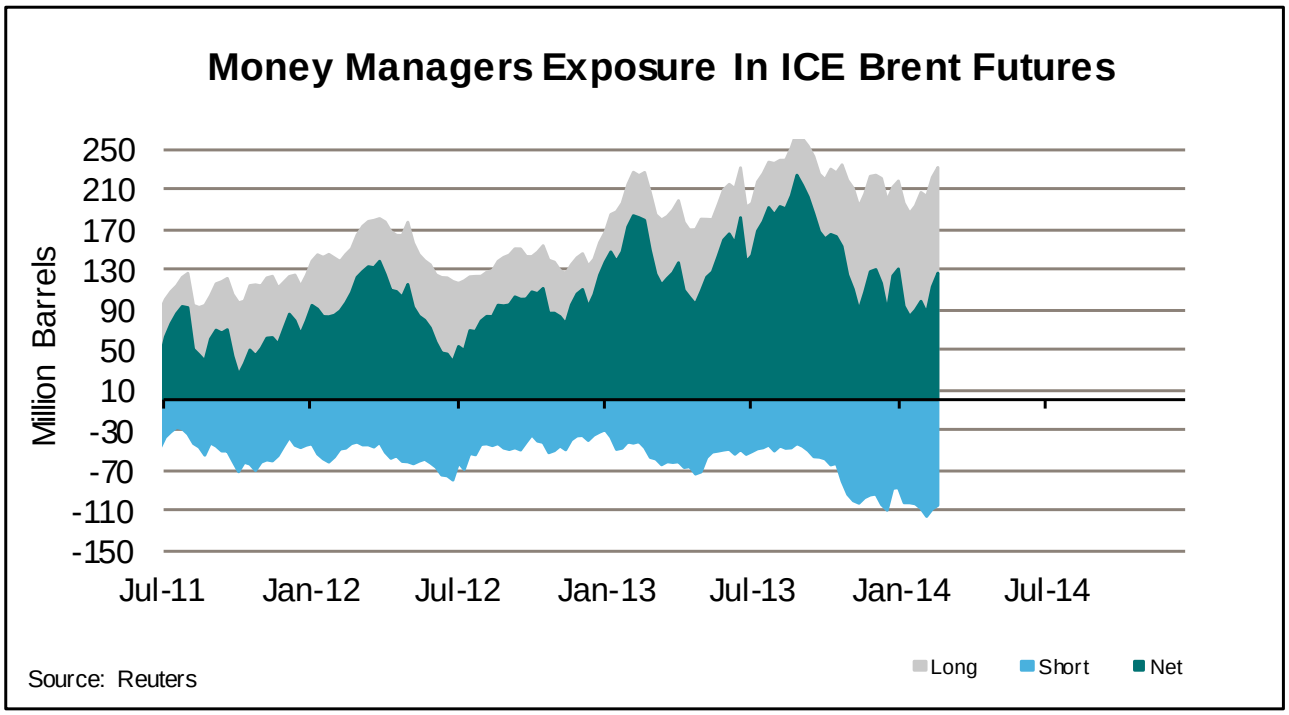
ahead of the July deadline. Our base case is that there is not enough time to reach a final deal before the deadline in July and that the current interim deal will be extended, possibly into 2015.

13 Hot money – net speculative positions

Speculative positions (Non-Commercials) in WTI at NYMEX are record high in the latest set of available statistics from the CFTC. The same goes for all oil contracts (WTI, RBOB, Heating oil) combined. This is always a large bearish score in our score card. History has proven that record net long positions are not maintained for many weeks at a time and when these players are taking profit the short term sales pressure becomes too large for flat price to keep up. This happened in March 2011, February 2011, September 2012, January 2013 and July 2013. Every time we reached a new mountain top of record speculative positions, a fairly large downward price correction for WTI prices followed within weeks.



Net money managers long positions in the Brent market is at more normal levels but long positions have increased by 46 million barrels since the middle of January, while short positions have remained broadly flattish in the same period. The danger of a sell-off in the Brent market hence seems lower than for the WTI-market, but if WTI loses 10 $/b, we doubt Brent will be holding up at the current price level…



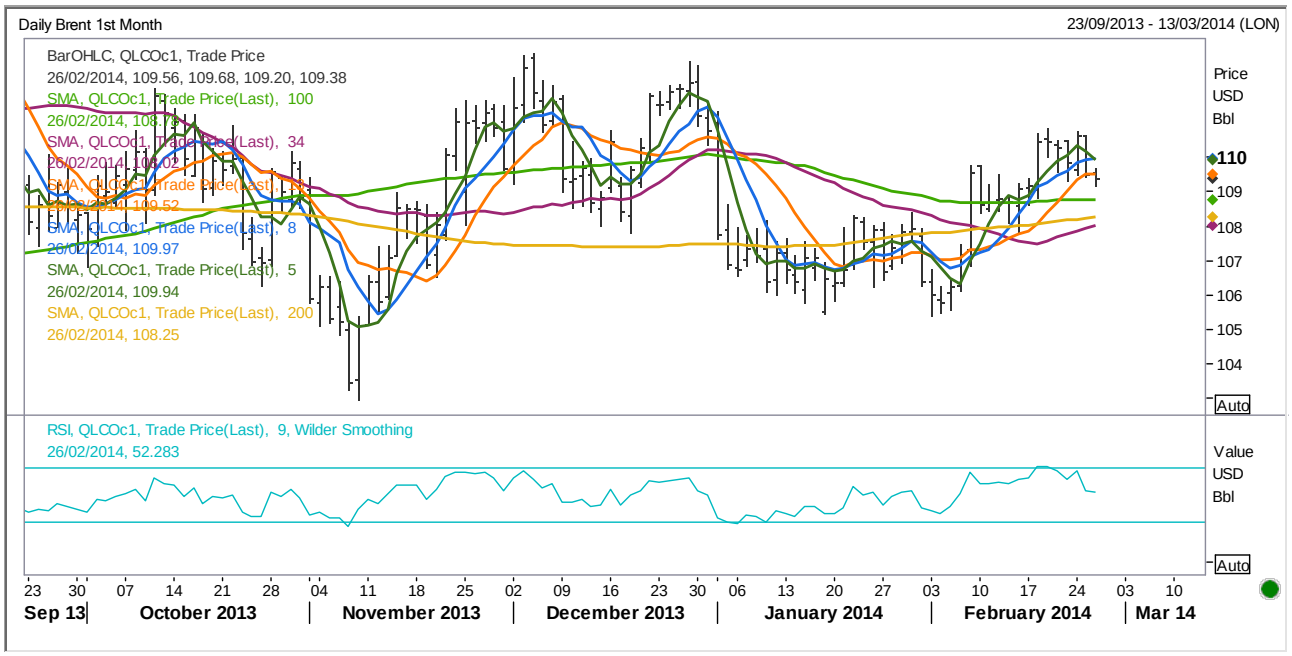
14 Market psychology – sentiment- macro economics

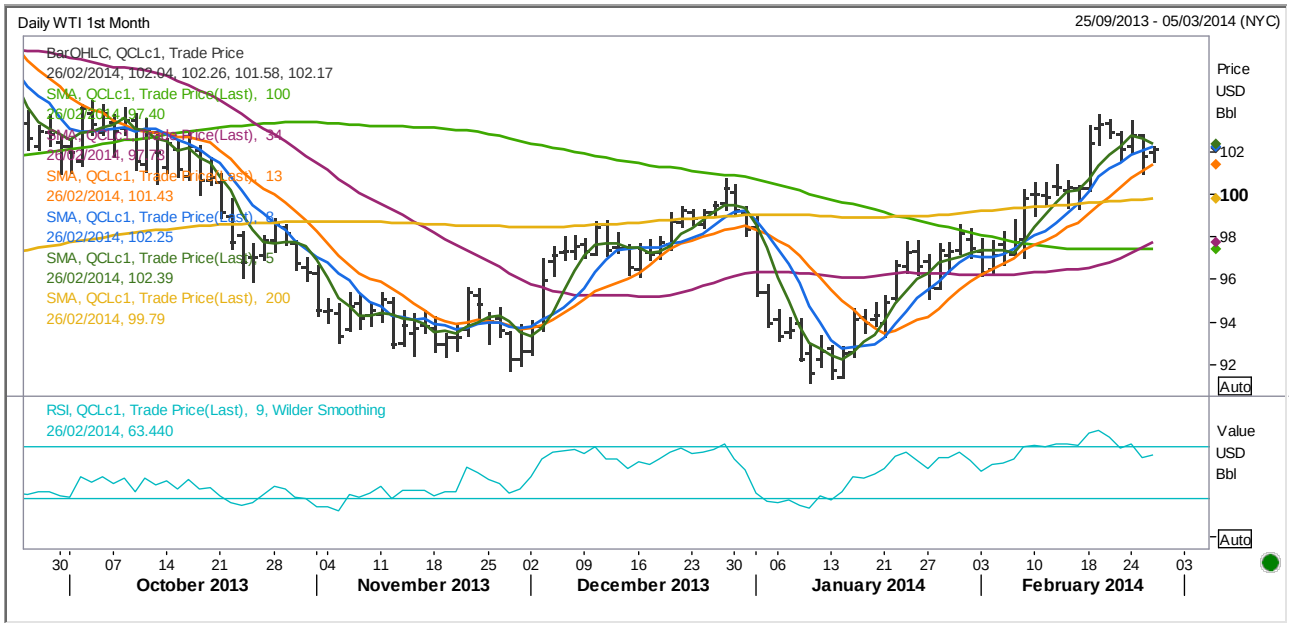
US equity markets had a dip in the beginning of February and at the same time the VIX went to 21.4, but the market has since recovered. Macroeconomic indicators have been a bit mixed during the last couple of weeks but still look ok for the OECD despite disappointing payroll figures and ISM manufacturing numbers from the US. The market still seems to interpret that the weaker numbers from the US was caused by the freezing weather and that these data will recover once the weather effects are fading away.

The worrying figures for the oil market is more related to China where the HSBC purchasing managers index dropped to 49.6 in January after having averaged 50.6 during the fourth quarter. The flash index for February at 48.3 suggests even more weakness from the Chinese economy. So far however many commentators seem to blame the weaker Chinese numbers on the Lunar New Year celebration that came earlier this year than last year. Overall we feel the current market sentiment is fairly neutral to maybe slightly bearish.

15 Technicals

Both the Brent market and the WTI market look overbought with negative stochastics. Both contracts are testing support at the 13-day moving average at the moment (109.5 $/b for Brent and 101.4 $/b for WTI). Any breaks below these levels will be technically negative for these contracts.


Daily Brent 1st Month
23/09/2013 - 13/03/2014 (LON)
BarOHLC, QLCOc1, Trade Price
26/02/2014, 109.56, 109.68, 109.20, 109.38
SMA, QLCOc1, Trade Price(Last), 100
26/02/2014, 108.79
SMA, QLCOc1, Trade Price(Last), 34
26/02/2014, 109.02
SMA, QLCOc1, Trade Price(Last), 13
26/02/2014, 109.52
SMA, QLCOc1, Trade Price(Last), 8
26/02/2014, 109.97
SMA, QLCOc1, Trade Price(Last), 5
26/02/2014, 109.94
SMA, QLCOc1, Trade Price(Last), 200
26/02/2014, 108.25
Price
USD
Bbl
110
109
108
107
106
105
104
Auto
RSI, QLCOc1, Trade Price(Last), 9, Wilder Smoothing
26/02/2014, 52.283
Value
USD
Bbl
Auto
23 30 07 14 21 28 04 11 18 25 02 09 16 23 30 06 13 20 27 03 10 17 24 03 10
Sep 13
October 2013
November 2013
December 2013
January 2014
February 2014
Mar 14


Daily WTI 1st Month
25/09/2013 - 05/03/2014 (NYC)
BarOHLC, QCLc1, Trade Price
26/02/2014, 102.04, 102.26, 101.58, 102.17
SMA, QCLc1, Trade Price(Last), 100
26/02/2014, 97.40
SMA, QCLc1, Trade Price(Last), 34
26/02/2014, 99.79
SMA, QCLc1, Trade Price(Last), 13
26/02/2014, 101.43
SMA, QCLc1, Trade Price(Last), 8
26/02/2014, 102.25
SMA, QCLc1, Trade Price(Last), 5
26/02/2014, 102.39
SMA, QCLc1, Trade Price(Last), 200
26/02/2014, 99.79
Price
USD
Bbl
102
100
98
96
94
92
Auto
RSI, QCLc1, Trade Price(Last), 9, Wilder Smoothing
26/02/2014, 63.440
Value
USD
Bbl
Auto
30 07 14 21 28 04 11 18 25 02 09 16 23 30 06 13 21 27 03 10 18 24 03
October 2013
November 2013
December 2013
January 2014
February 2014

16 Short term oil price score card

Monthly Scorecard	Comments	Oil Price	Weight
Overall Outlook	We think a weaker global supply-demand balance will trumph other effects in the coming two months. Global refinery maintenance is set to peak in April which should reduce crude oil demand in the coming 4-6 weeks. The current record high speculative net length in oil contracts on the NYMEX pose a danger for a sell-off. Note however that geopolitical risk is alway present in the oil market and key wild cards for the coming two months are Venezuela, Nigeria, Iraq and Iran.	**BEARISH**	
Fundamentals			
Global Fundamental Balance	Weakening global supply-demand balance in coming months	**BEARISH**	**HIGH**
Refinery Margins (Crack Spreads)	Good margins in the US, ok margins in Europe, on the weak side in Asia	NEUTRAL	MEDIUM
OECD Oil Stock Levels	Low products stocks in the OECD, but not that bullish when including non-OECD	BULLISH	LOW
US Oil Statistics - Fundamentals	Supply keeps on growing quicker than demand	BEARISH	MEDIUM
Other Important Energy News	Japan moving closer to reopen nuclear	BEARISH	LOW
Chinese Oil Statistics & News	Negative oil demand growth 2 months in a row - diesel demand growth has disappeared in 2013	BEARISH	MEDIUM
OPEC	OPEC producing close to its 30 million b/d target - Saudi will cut if Libya returns in 2014	BULLISH	MEDIUM
Non-OPEC	Non-OPEC supply growth is larger than global oil demand growth	BEARISH	MEDIUM
Seasonals			
Temperature Outlook	Still colder than normal in the US - Normal in Japan/Korea - Warmer than normal in Europe	BULLISH	MEDIUM
Hurricanes & Other Weather	Hurricane season is not a factor at this time of year	NEUTRAL	NA()
North Sea Fundamentals	Loading program down in March, but so is demand for crude from NWE refineries?	NEUTRAL	MEDIUM
Political Risk			
Iraq, Iran, Nigeria, Venezuela, US, Russia, Israel, China, etc	Many barrels still shut out in Libya/Iran/Nigeria/Syria/Yemen - What about Iraq and Venezuela?	BULLISH	MEDIUM
Other factors			
Hot Money Net Exposure (Speculators)	Record high speculative positions on the NYMEX	**BEARISH**	**HIGH**
Market Psychology/Sentiment/Macroeconomics	Equity markets in OECD have improved in February, but China is a key worry	NEUTRAL	MEDIUM
Technicals/Price Trends	Both Brent and WTI looks over bought with negative stochastics	BEARISH	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	Change	2015
OECD Demand	48.1	-2.0	46.1	0.6	46.7	-0.6	46.1	-0.5	45.6	0.1	45.8	0.2	45.9	0.3	46.2
Non-OECD Demand	37.7	1.2	38.9	2.2	41.1	1.3	42.4	1.4	43.8	1.1	44.9	1.0	45.9	1.1	47.0
Total Demand	**85.8**	**-0.8**	**85.0**	**2.9**	**87.9**	**0.6**	**88.5**	**0.9**	**89.5**	**1.2**	**90.7**	**1.2**	**91.8**	**1.3**	**93.2**
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	1.6	54.3	1.4	55.7
OPEC NGL's and non-conventional oil	4.5	0.6	5.1	0.5	5.6	0.4	5.9	0.4	6.3	0.1	6.4	0.2	6.6	0.3	6.9
Global Biofuels	1.4	0.2	1.6	0.2	1.8	0.0	1.9	0.0	1.9	0.1	2.0	0.1	2.1	0.1	2.2
Total Non-OPEC supply	**55.1**	**1.4**	**56.5**	**1.7**	**58.2**	**0.5**	**58.7**	**0.9**	**59.6**	**1.5**	**61.1**	**1.9**	**62.9**	**1.8**	**64.7**
Call on OPEC crude (and stocks)	**30.7**	**-2.2**	**28.5**	**1.2**	**29.7**	**0.1**	**29.8**	**0.1**	**29.9**	**-0.2**	**29.6**	**-0.7**	**28.9**	**-0.4**	**28.5**
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	-0.5	30.0	0.0	30.0
Implied World Oil Stock Change	**0.9**		**0.6**		**-0.5**		**0.1**		**1.4**		**0.8**		**1.1**		**1.5**

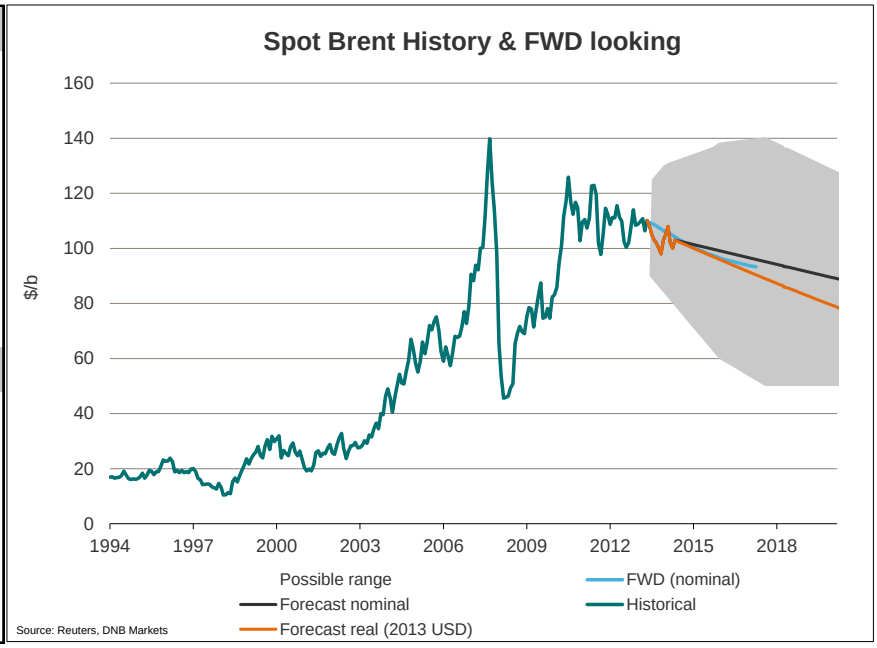
IEA World Oil Supply-Demand Balance (Feb 2013):	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	Change	2015
OECD Demand	48.4	-2.0	46.4	0.6	47.0	-0.5	46.5	-0.5	46.0	0.1	46.1	0.0	46.0		
Non-OECD Demand	37.9	1.2	39.1	2.3	41.4	1.1	42.5	1.6	44.1	1.2	45.2	1.4	46.6		
Total Demand	**86.3**	**-0.8**	**85.5**	**2.9**	**88.4**	**0.6**	**89.0**	**1.1**	**90.0**	**1.2**	**91.3**	**1.3**	**92.6**		
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	1.7	54.4		
OPEC NGL's and non-conventional oil	4.5	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	1.9	0.0	1.9	0.1	2.0	0.0	2.0		
Total Non-OPEC supply	**55.1**	**1.4**	**56.5**	**1.7**	**58.2**	**0.5**	**58.7**	**0.9**	**59.6**	**1.5**	**61.1**	**2.0**	**63.0**		
Call on OPEC crude (and stocks)	**31.2**	**-2.2**	**28.9**	**1.2**	**30.2**	**0.0**	**30.2**	**0.2**	**30.4**	**-0.2**	**30.2**	**-0.7**	**29.6**		
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	-0.5	30.0		
Implied World Oil Stock Change	**0.5**		**0.2**		**-1.0**		**-0.3**		**0.9**		**0.2**		**0.4**		

OPEC World Oil Supply-Demand Balance (Feb 2013):	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	Change	2015
OECD Demand	48.4	-2.0	46.4	0.6	47.0	-0.5	46.5	-0.5	46.0	-0.2	45.8	-0.1	45.7		
Non-OECD Demand	37.7	0.7	38.4	1.9	40.3	1.3	41.6	1.3	42.9	1.2	44.1	1.2	45.3		
Total Demand	**86.1**	**-1.3**	**84.8**	**2.5**	**87.3**	**0.8**	**88.1**	**0.8**	**88.9**	**1.0**	**89.9**	**1.1**	**91.0**		
Non-OPEC Supply (Incl all Biofuel)	50.4	0.7	51.1	1.2	52.3	0.1	52.4	0.5	52.9	1.2	54.1	1.3	55.4		
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**	**0.7**	**58.5**	**1.4**	**59.9**	**1.4**	**61.3**		
Call on OPEC crude (and stocks)	**31.6**	**-2.2**	**29.4**	**0.6**	**30.0**	**0.3**	**30.3**	**0.1**	**30.4**	**-0.4**	**30.0**	**-0.3**	**29.7**		
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	-0.5	30.0		
Implied World Oil Stock Change	**-0.4**		**-0.7**		**-0.8**		**-0.4**		**0.9**		**0.5**		**0.3**		

EIA World Oil Supply-Demand balance (Feb 2014):	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014	Change	2015
OECD Demand	47.6	-2.2	45.4	0.7	46.1	-0.3	45.8	0.1	45.9	0.1	46.0	0.0	46.0	0.0	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	44.3	1.3	45.6	1.4	47.0
Total Demand	**85.8**	**-1.5**	**84.3**	**2.7**	**87.1**	**1.2**	**88.3**	**0.9**	**89.2**	**1.2**	**90.4**	**1.3**	**91.6**	**1.4**	**93.0**
Non-OPEC Supply (Incl all Biofuel)	49.7	0.8	50.5	1.3	51.8	0.2	52.0	0.7	52.7	1.4	54.1	1.9	56.0	1.5	57.5
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	0.1	5.9	0.3	6.1	0.1	6.3
Total Non-OPEC supply	**54.1**	**1.1**	**55.2**	**2.1**	**57.3**	**-0.1**	**57.2**	**1.2**	**58.4**	**1.5**	**59.9**	**2.2**	**62.1**	**1.6**	**63.7**
Call on OPEC crude (and stocks)	**31.7**	**-2.6**	**29.1**	**0.7**	**29.8**	**1.3**	**31.1**	**-0.3**	**30.8**	**-0.3**	**30.4**	**-0.9**	**29.5**	**-0.3**	**29.3**
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	-0.5	30.0	0.0	30.0
Implied World Oil Stock Change	**-0.4**		**0.0**		**-0.6**		**-1.1**		**0.6**		**0.0**		**0.5**		**0.7**

18 Brent forecast

	Historical Nominal $/b	Historical Real (2012) $/b
2001	24.4	31.7
2002	25.0	31.9
2003	28.8	36.0
2004	38.3	46.5
2005	54.5	64.1
2006	65.1	74.2
2007	72.4	80.2
2008	97.3	103.7
2009	61.7	66.0
2010	79.5	83.7
2011	111.3	113.6
2012	111.7	111.7
2013	108.7	108.7
	Forecast Nominal $/b	**Forecast Real (2014) $/b**
Q1-14	105	105
Q2-14	100	100
Q3-14	104	104
Q4-14	102	102
2014	102	102
2015	100	99
2016	98	95
2017	96	91
2018	94	87
2019	92	84
2020	90	80



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