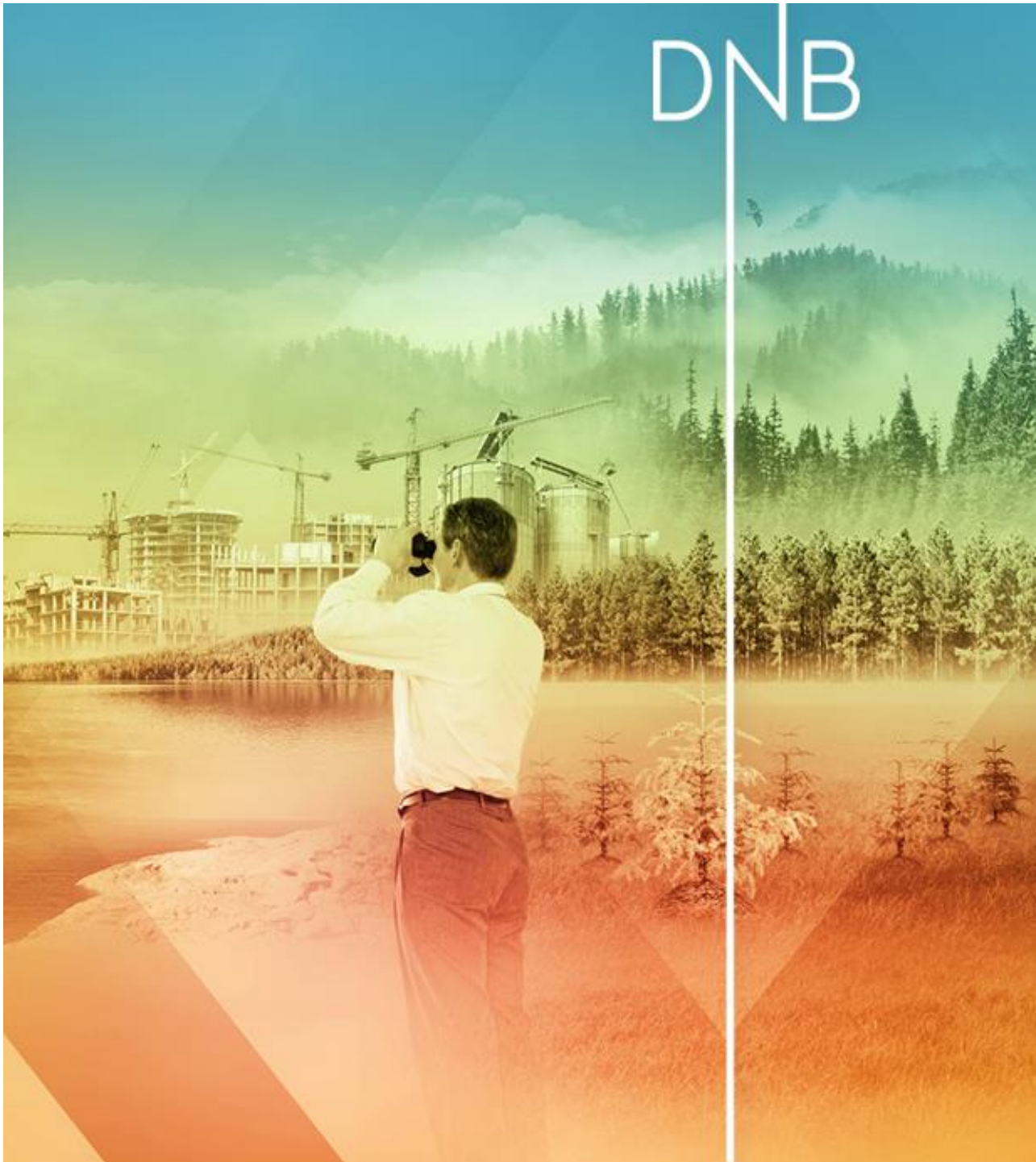


# Short Term Oil Market Outlook

- Bearish next two months – no change in the price deck
- More optimistic longer term, but forget about 100 \$/b oil



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## 1 Overall outlook

We believe the Brent contango will widen in the coming two months as oil stocks continue to build and it should be gradually more expensive to store oil. There should still be room to store more oil onshore and if needed we will also start to see floating storage. The time spreads in the Brent market is however far from justifying floating storage at the moment. One probably need a one-year contango of 13-14 \$/b to justify a buildup of floating storage and currently that one-year contango is only 7 \$/b.

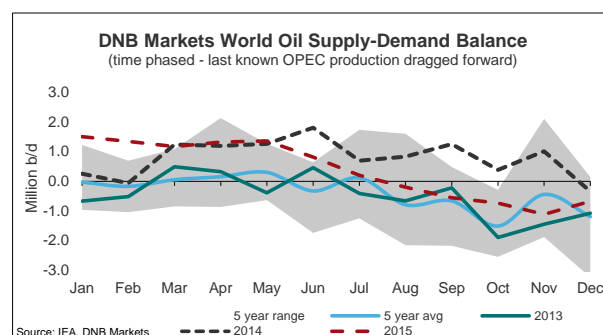
Since it seems the longer end of the 12-month forward Brent curve is anchoring up at around 66-68 \$/b and we see limited upside for that part of the Brent price curve in the coming couple of months, we believe it will have to be mainly the spot Brent price that will have to do the job of creating the expanding contango required to incentivize the traders to continue to buy crude oil. Since global demand for crude oil will probably continue to drop seasonally until May, we believe the turning point for crude buying for crude processing (and not for storage) will be late April or early May. From then on and into late summer we should see more demand for crude oil as global refineries are ramping up their runs.

This will remove the worry of continuous crude stock builds as the market turns to build products instead (where stock levels are much lower). The acid test for the global oil market will then be what happens to global refinery margins when throughput is ramping up after May. Will oil consumption then be strong enough to withstand all the extra supply of products? That question can however be put aside for later reports closer to the summer. Before that, we believe in a bearish couple of months for the Brent price. We do not subscribe to the view that Brent will

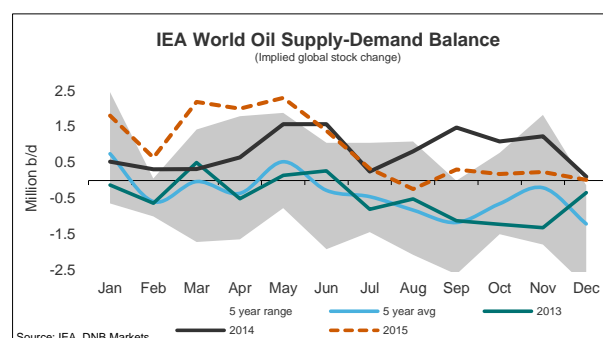
fall into the 30's, which we have seen advocated by several other analysts the past month or so. If the one-year ahead Brent price has an anchor in the 66-68 \$/b range is should not be possible for the front of the market to drop much lower than the low 50's because then it will pay of to store crude on ships and traders will be willing to buy the crude.

## 2 Global oil supply-demand balance

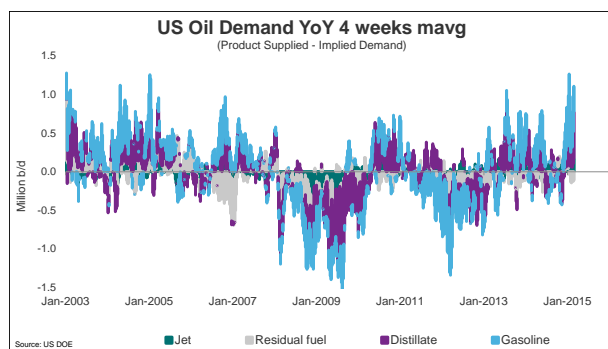
Our global supply-demand balance suggests global oil stocks will build almost 200 million barrels in 1H-2015 (1.1 million b/d) if OPEC maintains crude output at the last known level (30.3 million b/d).



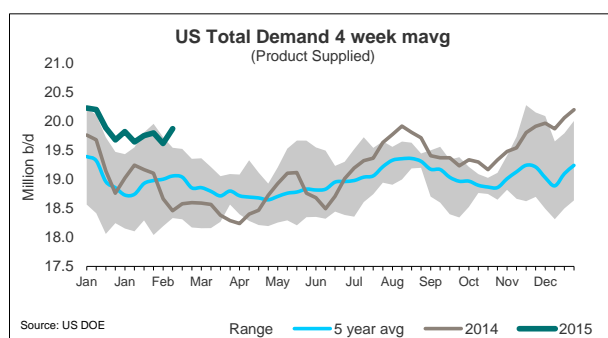
The IEA balance is even more bearish as it suggests a global stock build of 310 million b/d in the first half of 2015 (1.7 million b/d).



We are more optimistic than the IEA on US and Chinese demand growth, particularly on demand growth from the US. IEA predict US oil demand growth of only 153 kbd in 2015 while we have built in 464 kbd in our own balance.

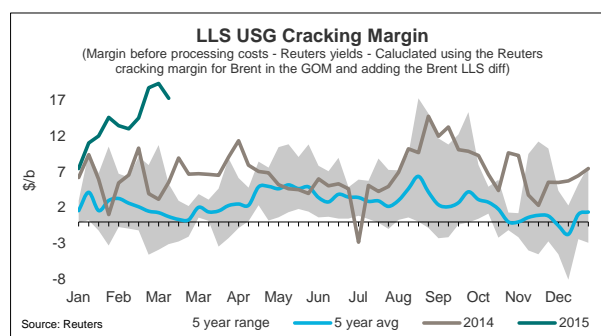
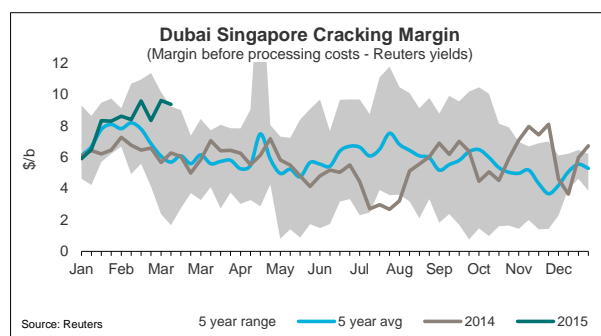
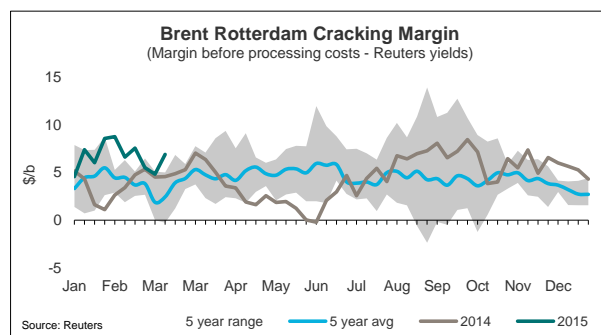


As the graph above shows the weekly data now show that year-on-year growth in US demand for the 4 main oil products is accelerating. We realize that the weekly data for US oil demand is not extremely trustworthy but other data like total driving length and the market share of SUV's in the car sales suggest US gasoline demand is on the rise. Once again it seems Americans are very price responsive to the prices at the gasoline pumps. We believe the IEA will revise their US oil demand growth number meaningfully higher in coming months.

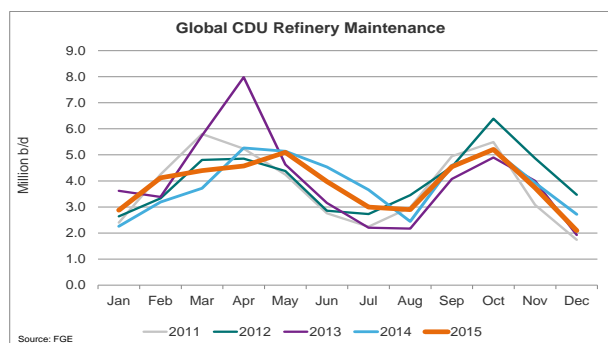


### 3 Refinery activity

Refinery margins are currently good in all regions, and should as such incentivize demand for crude oil.

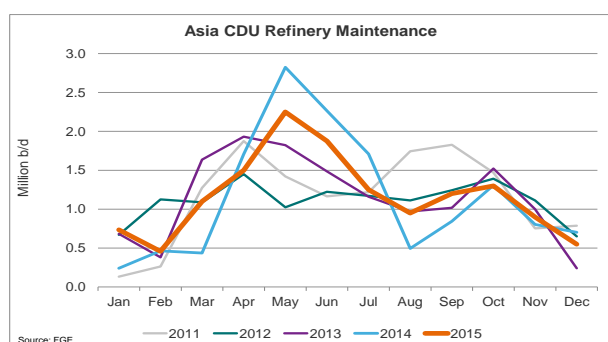


The problem for global crude oil demand is however that refinery maintenance needs to take place during the spring. According to FGE, the global refinery maintenance is set to peak in May this year.



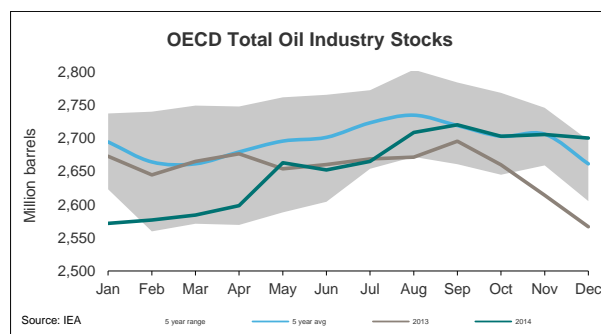
If this is true, it means global crude demand will continue to decrease until into April and maybe early May. Purchases of crude oil for June processing will start in April and into early May and should mark the bottom for the crude oil build cycle as global crude demand is estimated to increase about 2 million b/d from May to June. Normally we find that such seasonal changes that take place every year is not very important to the flat price formation for Brent, but in this environment where players are afraid that crude stock capacity will run totally full, it would be important for the price discovery if we see visible evidence of crude oil stock draws into June.

The key reason why global refinery maintenance peaks in May this year is due to Asian maintenance schedules as can be seen below.

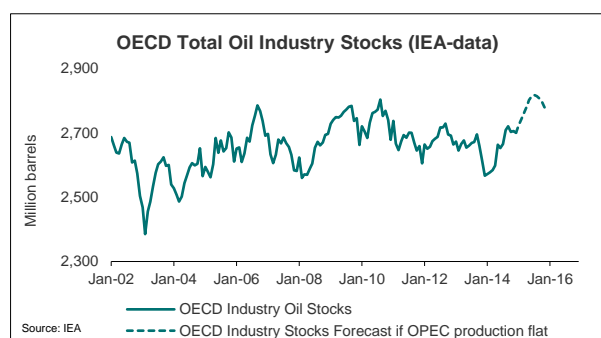


## 4 Oil stocks

Total OECD crude stocks were reported to be 2.700 million barrels in the latest IEA monthly report. The last reported number is now reflecting December stock levels.



In the US alone we have seen stock builds of 43 million barrels since the start of the year and hence the total OECD stocks are now probably above 2.750 million barrels. The highest OECD oil stock level we have seen since 2002 was 2.800 million barrels reported in August 2010. We are quickly approaching that level and if we assume that half of the global stock build will be in the OECD we will see a new record stock level this summer, before stocks start to draw down after August.



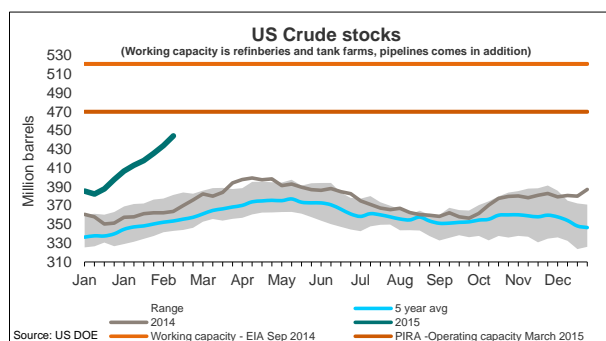


PIRA Energy estimate that the practical maximum crude storage capacity in US/Europe/Japan is 880 million barrels which was about 100 million barrels higher than the end-January reported stock level. PIRA estimate that within the next coming two months we will reach 860 million barrels in crude storage in these three major OECD markets.

## 5 US oil data

The oil data from the US is bearish for the stock levels but bullish for the latest reported demand numbers.

US crude stocks are record high and risks reaching operational capacity by the end of April.

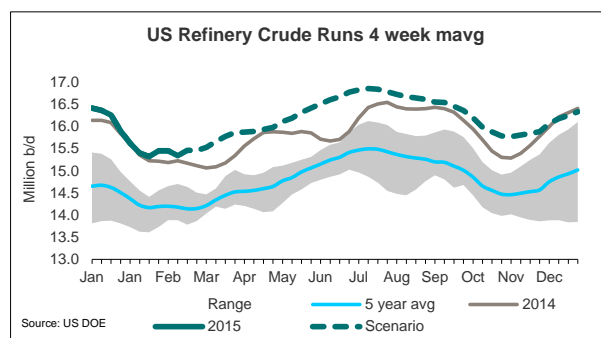


According to EIA's estimates of working capacity we are still far off the limit of 521 million barrels in refineries and tank farms and when adding 120 million barrels that the EIA says is the pipeline capacity it should be possible to build a lot more stocks in the US. Pipeline fill is included in the last reported 444 million barrels crude stock level, so capacity in pipelines should hence be included in the capacity number as well. This would then take total capacity to store crude to 641 million barrels, which is way above the current level of 444 million barrels and suggest that capacity is only 69% utilized.

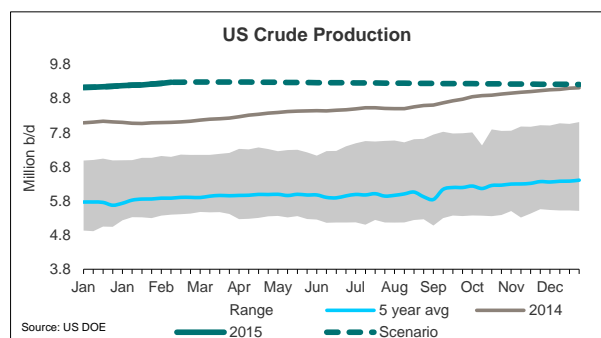
Several players and consultancies do however question this number due to blending and segregation requirements. This means that real operational capacity could be much lower than the 641 million barrels estimated by the EIA.

In fact PIRA Energy estimates that the real maximum effective capacity is way lower at 470 million barrels in a report issued March 2.

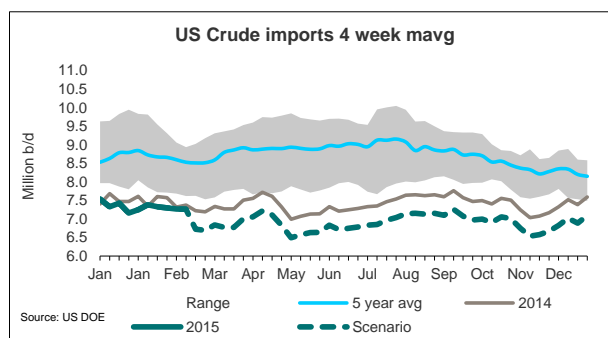
If we assume that refinery throughput (demand for crude oil) increase 1.5 million b/d by the summer,



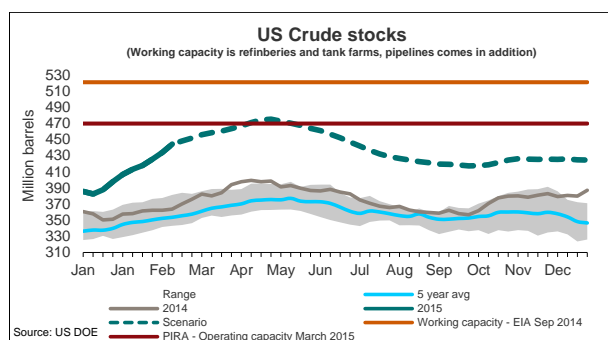
and that crude production peaks in March at 9.3 million b/d



and that crude imports drops by 800 kbd into May,

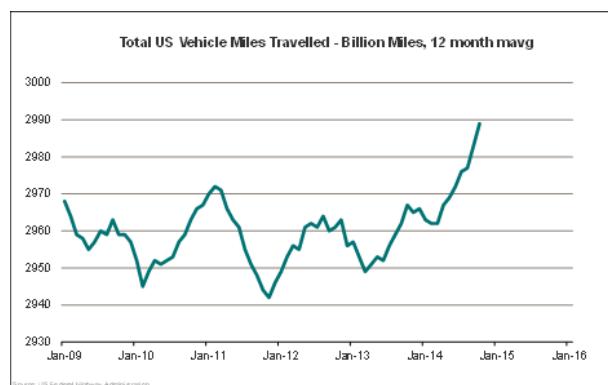


the US will still build to above 470 million in crude stocks before it peaks.

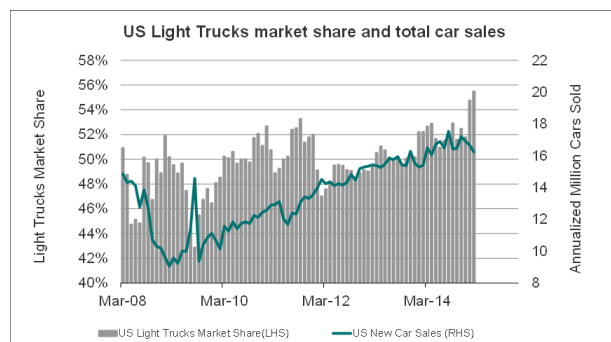


When it comes to the US demand numbers it is looking much more bullish as already described above under the discussion of the global supply/demand balance.

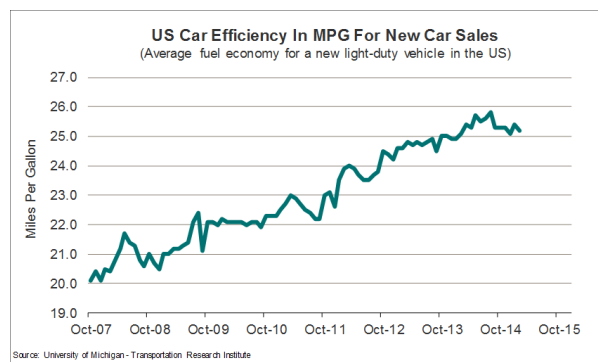
The Americans are driving more as evidenced by the Total Vehicle Miles driven.



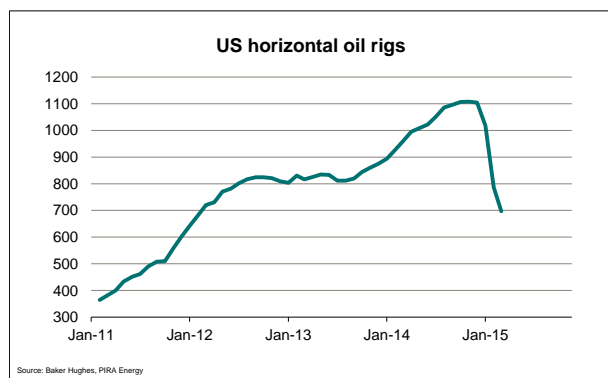
Statistics also show that the SUV-share of the US car sales is increasing to record high levels. In February the Light Trucks market share of the car sales was as high as 55.5%. This is a large 5% higher than just half a year ago.



Statistics collected by the University of Michigan – Transportation Research Institute also points in the same direction. The University tracks the window-sticker Miles Per Gallon (MPG) of cars sold in the US. Strikingly the MPG peaked in August at 25.9 and was reported at 25.2 in February.



Now if we move over to the production side we have seen a very interesting development in the US oil rig count the last couple of months. In February Baker Hughes reported a massive drop of 310 oil rigs and horizontal oil rigs which are used in the shale industry has fallen from more than 1.100 rigs in November to about 700 rigs now.

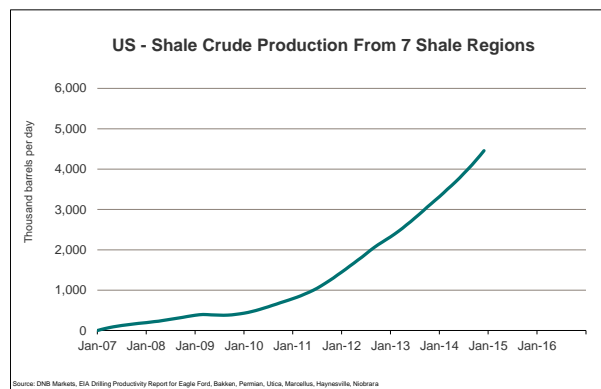


The problem with relating the rig count to production is that the latest monthly oil production numbers now reported from the US is from December (reported last week). The weekly data are calculated model numbers by the EIA and in the environment we are in today we probably cannot trust these models.

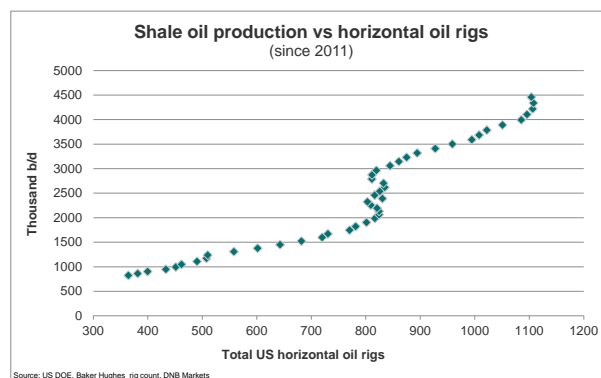
What has for example the EIA assumed will be postponed completion of already drilled wells? We know that several players are now postponing completion of already drilled wells because the completion cost is more than 50% of the costs related to a well. And since costs are on its way down and the oil price can already be locked in more than 6 \$/b higher if you wait six months with the completion, it really makes more sense to keep the oil in the ground for now (a sort of cheap contango storage).

We can however make some interesting observations based on the data already reported for production and rig counts.

Based on data in the monthly EIA Drilling Productivity Report dating back to 2007 we estimate that in December the US shale crude production had reached almost 4.5 million b/d.

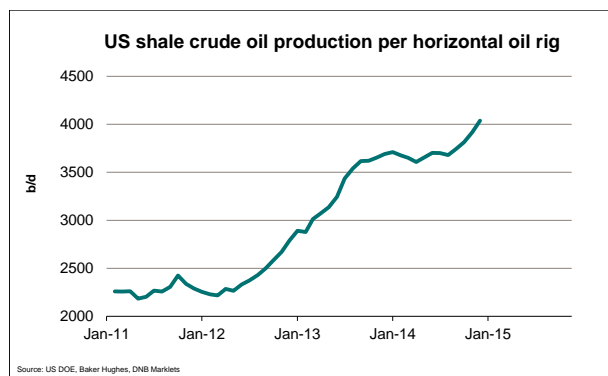


If we look at the horizontal oil rig count since 2011 vs the calculated shale oil production we note that during 2012 and 2014 the number of horizontal rigs stayed around 800 and still production of shale crude increased 1 million b/d at the flat rig count in that period.





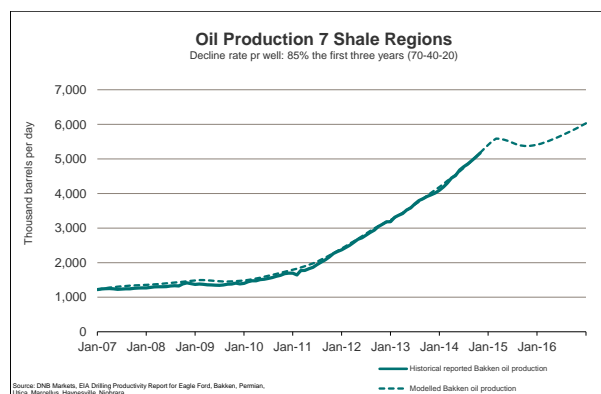
In our interpretation this was probably the key period for the expansion of pad-drilling which of course led to an incredible efficiency in output per oil rig working as can be seen below.



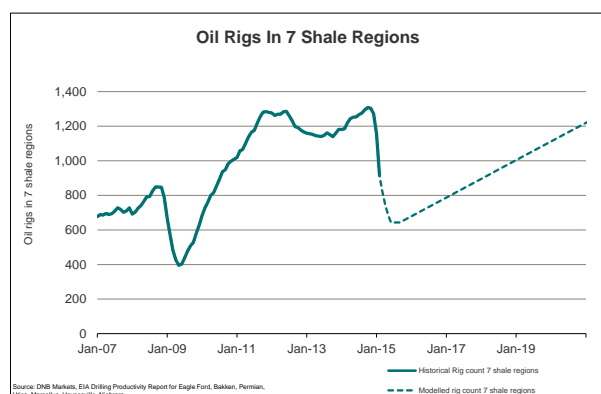
In December we reached a contribution per horizontal oil rig of 4,000 b/d. We do believe this efficiency will now improve significantly during 2015 as operators will high grade their portfolios and soon start to move the best rigs to the most prospective acreage.

We would however caution the following: At the latest rig count of about 700 horizontal rigs one would need the contribution per rig to climb to about 6,400 b/d, which would imply an efficiency improvement of 60%, just to maintain shale crude production at 4.5 million b/d. Even though we believe we will see big improvements we think such a large improvement seems farfetched.

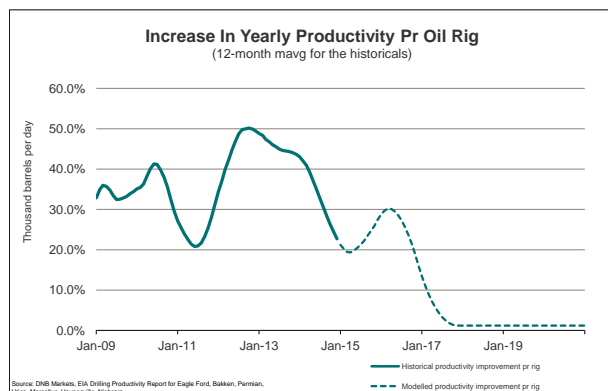
Our shale crude production model based on the data from the EIA Drilling Productivity Report suggest we should see US shale crude production peaking in March at 4.75 million b/d and then drop to 4.6 million b/d by December.



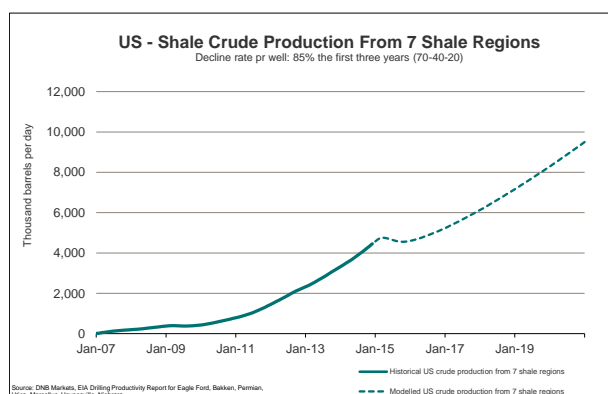
This would be based on a rig count that we modeled to drop 241 rigs in February in these 7 shale fields (total US oil rig count fell 310 in February). Then we model a further 88 rigs drop in March, 80 more in April, 59 in May and 45 in June for these 7 shale plays. We have assumed a drop in the total US oil rig count from the current 924 rigs reported on Friday to 715 rigs by June. We do in other words assume that the drop rate in the rig count during the next four months will decelerating compared with the February drop.



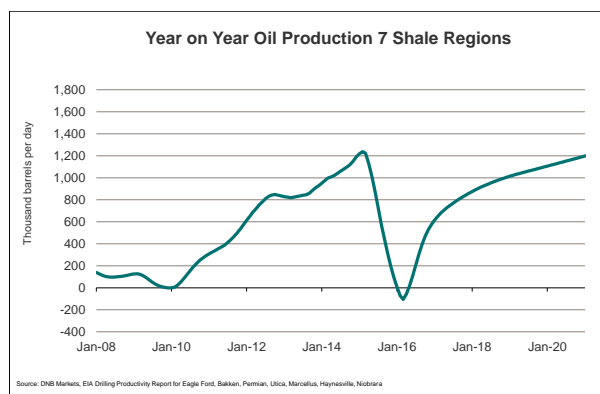
We also assume that the yearly increase in productivity per oil rig in these plays will increase back up to 30% during the coming 12 months, up from 22% in December.



With the above assumptions and even assuming only a 1% yearly improvement pr rig-contribution from 2017, our model suggest that if we do not run out of resources the next 5 years, US shale crude production will increase to an average of 8.8 million b/d by 2020.



We do in other words not believe the US shale revolution is over yet, despite a break in the growth rate in 2016 and an expected short period of negative year-on-year growth in Q1-2016.



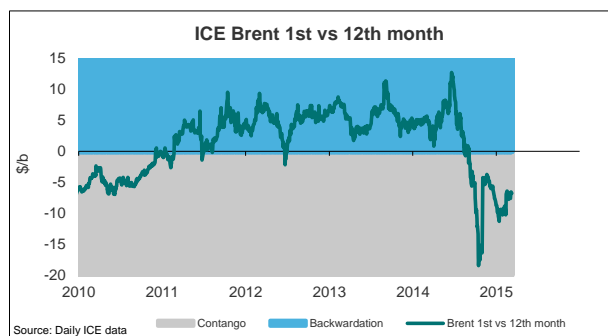
## 6 Contango storage required

Global refinery throughput (demand for crude oil) is still not strong enough to consume all the crude oil that is being produced. There is hence a need to store the oil until it can be processed. This means traders need an incentive to buy the crude for storage and that incentive is the contango structure that can pay for the storage.

We wrote in December that we believed the contango would have to widen into 2015. See quote from the report we published December 9<sup>th</sup>:

*“Global supply continue to be higher than global demand in the first half of 2015 and the large stock builds we have seen in 2014 is set to continue in the first half of 2015. This will require a widening contango structure in the Brent market in order to accommodate trader’s willingness to buy oil.”*

Indeed the contango widened and reached 11 \$/b for a one-year storage play in the middle of January, but has since fallen back to only around 7 \$/b.



We argued in the report we published on January 9<sup>th</sup> which we named "Turning bullish to oil" that the large cuts in CAPEX spending that had started to be reported would be a catalyst for lifting longer term prices and hence also the flat price of Brent. This would happen despite a supply-demand balance that would be over supplied through the first half of 2015. Quote from the January 9<sup>th</sup> report:

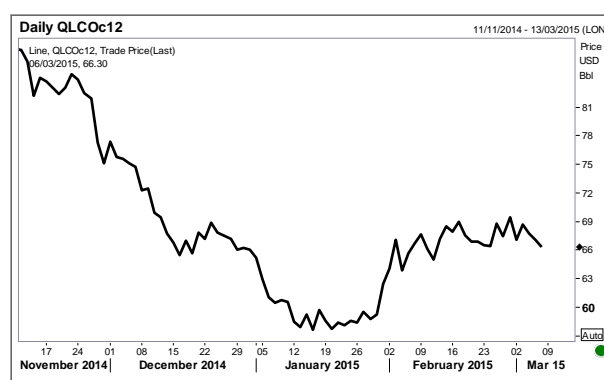
*"We believe the current level of oil prices will slash E&P CAPEX budgets for oil companies around the world. We believe by 20%-30% in 2015 and we will likely see further cuts in 2016."*

Recently WoodMac reported communicated weighted CAPEX cuts of 22% so the 20-30% we assumed on January 9<sup>th</sup> does not look to be far off. The contango could be maintained by a higher forward strip, not only by a drop in spot prices and that was one of our key arguments for why the flat price could increase despite weak fundamentals.

Indeed the forward curve has risen since the middle of January. The 12-month rolling forward price for Brent has in fact increased by 10 \$/b, but is now showing signs of stabilizing around 66-68 \$/b. The catalyst was probably the large cuts in E&P spending that has been communicated and the large drop in the rig count that is a consequence of the spending cuts. That effect now seems to be fading out on the longer end of the market.

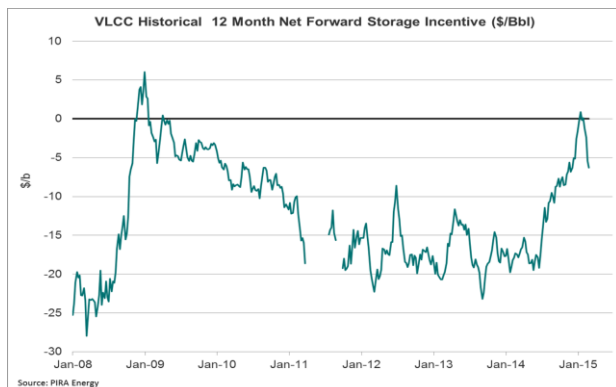
Large CAPEX cuts and large drops in the rig count has been priced in and we cannot expect the same boost to the 12-month out Brent curve anymore. The drop in the rig count has decelerated into March and would need to reaccelerate in order to boost the longer end further up.

We hence assume that the 12-month rolling forward will be quite stable the coming couple of months.



If indeed the longer end of the curve is anchoring up we would need the spot price to drop in order to see a wider contango. We do believe it will be gradually more expensive to store oil as inventories are filling up and as such the contango should increase in the coming two months. If we run full on onshore storage we would need to see storage also on ships, just like we saw in 2009, where about 100 million barrels of oil was contango-stored on ships.

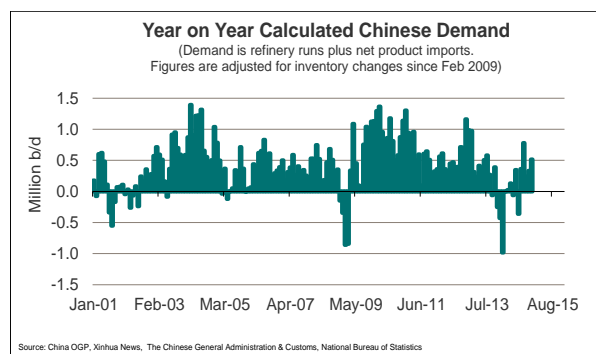
The problem is that in order to pay for floating storage we would need a one-year contango on 13 \$/b or more, based on calculations from PIRA Energy:



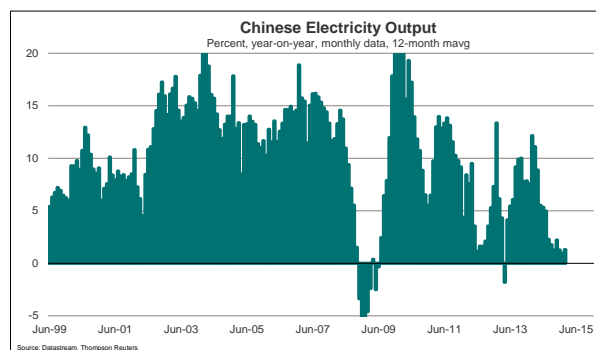
As mentioned above the current one-year contango is only 7 \$/b. If the anchor holds at 66-68 \$/b we would hence need a spot Brent price in the low 50's in order to justify floating storage economics. We hence believe the Brent spot price will have to drop 5-10 \$/b during the coming couple of months.

## 7 Chinese oil data

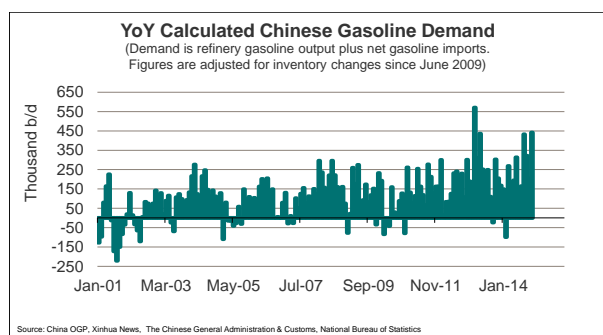
The Chinese calculated demand growth was very strong in December. We calculate that year-on-year demand growth for December came in at a very decent 510 kbd (including adjustment for the inventory change in refined products). This must be characterized as very strong, particularly since demand growth in the first 7 months of 2014 was about zero. It is interesting to note that the average demand growth in China seems to have improved quite significantly since oil prices started decreasing.



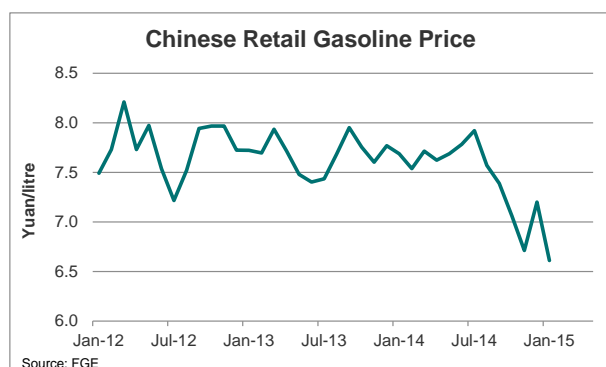
The average demand growth for the last 5 months of 2014 (Aug-Dec) came in at 440 kbd in our calculations. This does not seem to have been driven by any improved economic sentiment. The GDP-growth was reported at 7.3% for the second half of 2014 vs 7.45% for the first half of 2014. It is also worth mentioning that the growth in electricity output has continued to drop during the second half of 2014. First half average growth in electricity output was 7.6% vs only 1.5% in the second half. So why is oil demand increasing?



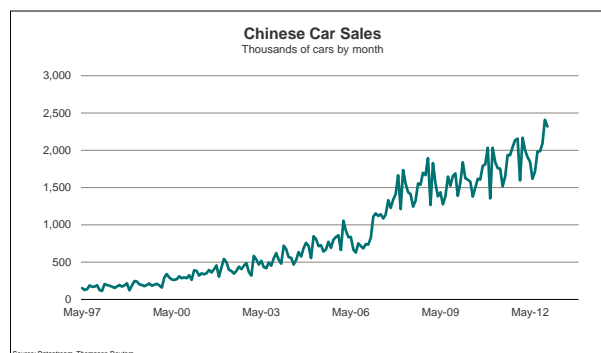
The better demand numbers look to be relating to gasoline consumption while the rest of the barrel is not strong at all. Diesel, which used to be the star product, is still lagging in demand and has increased only 29 kbd in 2014, even though the second half of the year looked better. A large stock build in diesel stocks were reported in December and this drags down calculated diesel demand for that month. Xinhua News Agency reported diesel stocks to have built a very large 13.6% and this is reducing the calculated diesel demand in December by 210 kbd. Gasoline demand was however calculated to have increased a very strong 440 kbd in December and we calculate that the second half 2014 demand growth for gasoline came in at 273 kbd vs 150 kbd in the first half of the year.



The end user price for gasoline in China has been lowered many times since the global oil price started dropping in July. Maybe we are now seeing some price sensitivity in China for the first time.



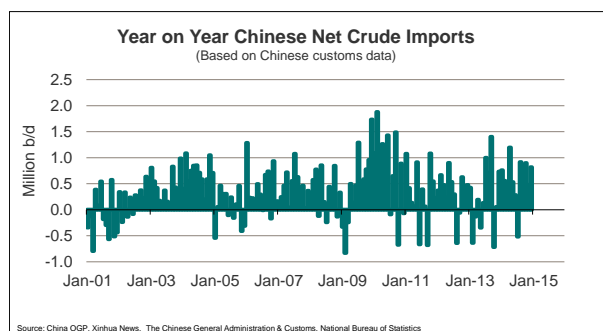
Car sales have in fact increased from 1.7 million in August to 2.4 million vehicles in December (new record with a solid margin, the old record was 2.15 million vehicles) and as written above it is really gasoline demand that is performing in the second half of 2014.



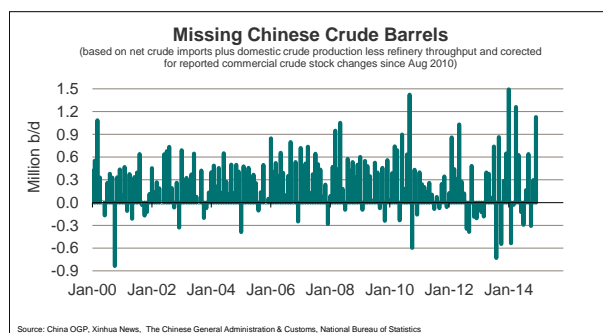
We are in our global supply-demand balance assuming 400 kbd demand growth in China for 2015 and as such that a lower oil price will support demand growth. For comparison we can mention that IEA currently assume 264 kbd demand growth for China in 2015 which is weaker than the 283 kbd demand growth the agency reports for 2014. If GDP-growth is the only thing that matter for oil demand growth in China that growth number might make sense.

However, based on what happened through 2014, and noting that economic growth was weaker in second half than first half 2014 while oil demand was stronger in second half than first half, we do believe the IEA numbers for oil demand growth in China for 2015 will have to be revised higher in coming months.

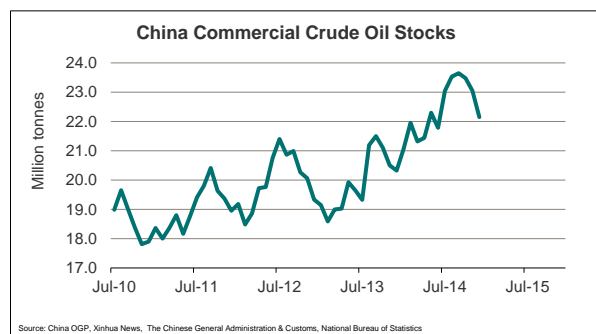
Chinese crude imports increased a large 546 kbd in 2014 on the back of inventory stock builds.



A large part of this was due to strategic stock builds. If all the missing crude barrels are dedicated to strategic stock builds this amounts to 131 million barrels for 2014. With low oil prices the Chinese will probably use the opportunity to continue to build both commercial and strategic stocks in 2015.



It was recently reported that storage companies in China are set to boost commercial oil storage capacity by about 42 million barrels in 2015. And in an annual research report published in February CNPC says total commercial storage capacity is 307 million barrels and in addition the strategic storage tanks can take 141 million barrels. It was not said how much is currently in storage however, but based on reported data from Reuters/Xinhua News Agency we calculate that commercial crude stocks were about 165 million barrels at end December.



We believe there is a very grey distinction between the commercial and strategic oil inventories in China since it is the same traders who buy the crude for both usages. If we add the 141 million barrels that the CNPC says is the strategic storage capacity with our calculated commercial storage of 165 million barrels we come remarkably close to the 307 million barrels the CNPC estimate is the total commercial storage capacity in China right now.

If another 42 million barrels of storage is ready to be filled in 2015 it would require imports of 115 kbd which would come in addition to the imports required to satisfy the oil consumption.



## 8 OPEC

As probably everybody now knows, OPEC (read Saudi Arabia) decided in November to let the oil price itself do the job of balancing supply vs demand going forward. Saudi Arabia is not set to change this strategy, particularly after the new king Salman recently put the inheritance of the throne in place for a long time forward, as now for the first time a grandson of Ibn Saud has been appointed Deputy Crown prince (bin Nayef, the son of the late Crown Prince Nayef). In addition Al-Naimi was kept as the oil minister.



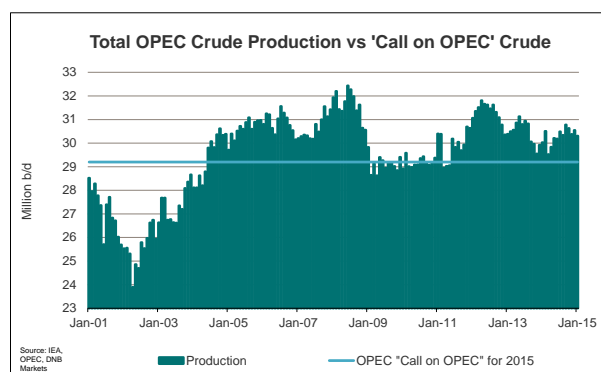
Below are some statements from a recent interview with Al-Naimi:

- *“Saudi won’t cut supply unless customers refuse our oil”*
- *“History will prove OPEC’s November decision was correct”*
- *“Lowest cost oil producers have edge during over supply”*
- *“Non-OPEC oil producers must help balance the oil market”*
- *“Saudi’s role isn’t to subsidize high cost oil producers” (we Norwegians should maybe worry about this statement...)*

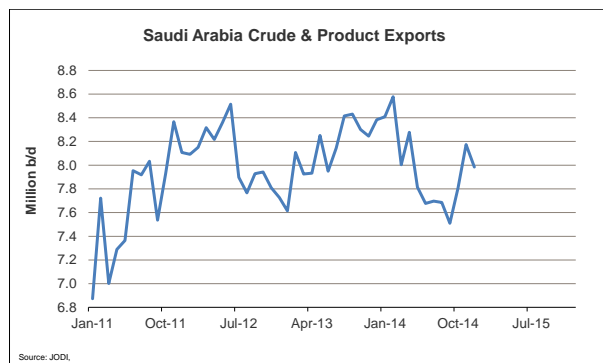
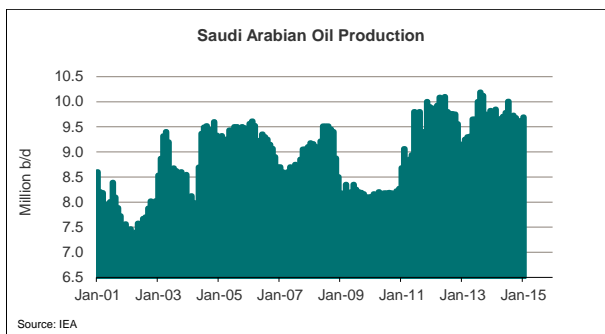
We do not expect any extraordinary meeting for OPEC despite statements from Nigeria and Ecuador. And we do not expect there is any chance for an OPEC production cut in the June meeting unless Brent prices are trading in the 40’s. Then there would be a chance of a cut if Saudi could get away with only cutting let’s say 0.5 million b/d and the rest of the cartel cuts the same and also Russia contributes with some barrels.

We do however believe it will not be necessary with an OPEC cut in June as we believe the Brent price will be somewhere in the 60-70 \$/b range by then.

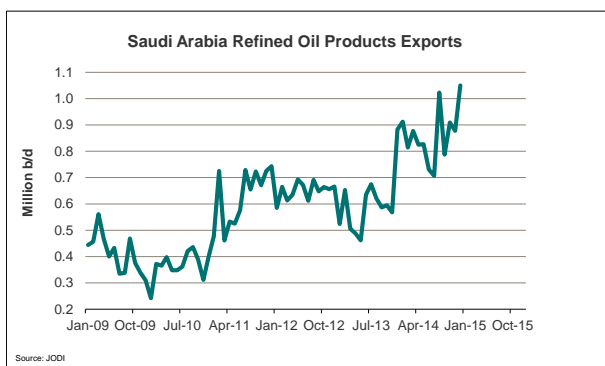
In the latest IEA-assessment OPEC produced 30.3 million b/d, while OPEC’s own assessment of the “Call on OPEC” for 2015 is 29.2 million b/d.



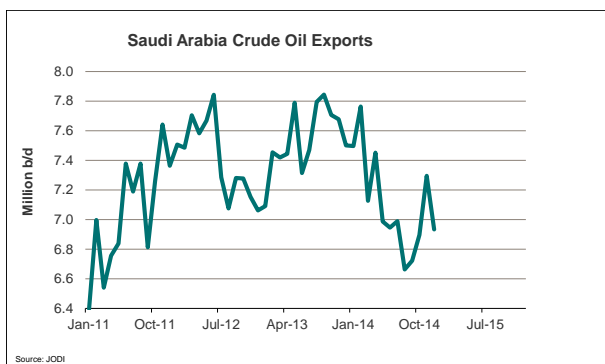
Saudi Arabia produced 9.7 million b/d in January according to IEA and there are no signs that the Saudi’s are cutting back on their output. It is in fact probable that Saudi crude oil production will rise further as the country starts up its brand new 400 kbd YASREF refinery in March.



The expansion of the country's refining capacity will lead to even more refined product exports.



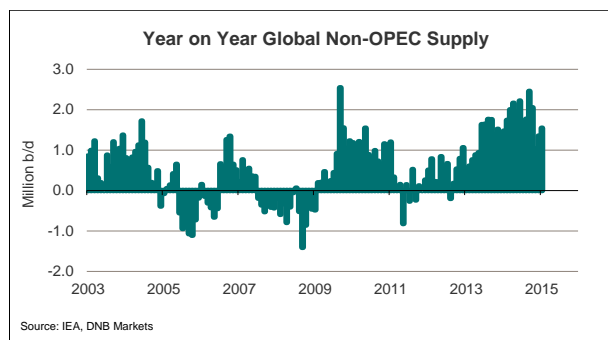
Crude exports will probably stay around 7 million b/d.



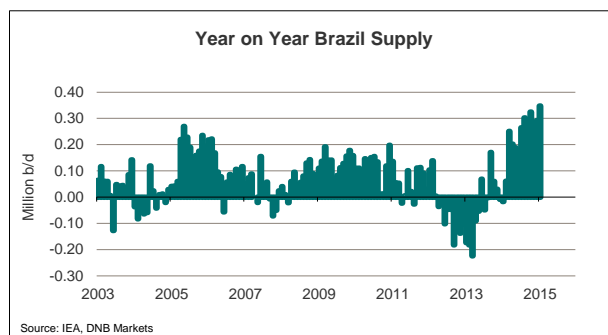
The above means total Saudi Arabian exports of crude and products will probably come upward a bit from the recent 8 million b/d.

## 9 Non-OPEC

In the latest data from the IEA, non-OPEC production continues to increase massively.



The key contributor is of course the US, as already described in detail above. Countries like Brazil and Canada are however also contributing very meaningfully to the current production growth.



Russian production growth has however started to suffer and Lukoil's CEO recently stated that under investments in the Russian oil industry will lead to an 8% decline in Russian production in 2016.

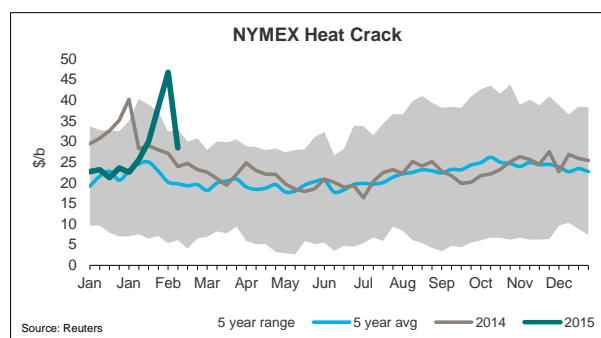


In our global supply/demand balance for 2015 we have assumed the non-OPEC production growth (including OPEC NGL's and global biofuel) will drop from last year's record 2.1 million b/d down to 0.8 million b/d. This drop is due to mainly the large reduction in US growth but also a change from growth to decline in Russian output.

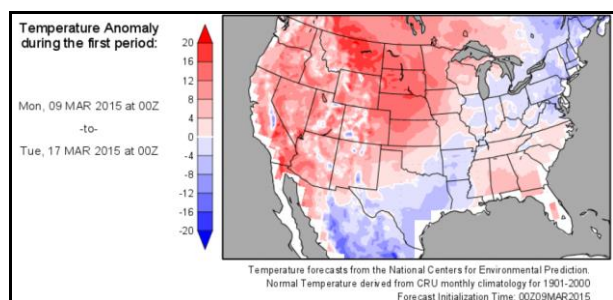
DNB Markets World Oil Supply-Demand Balance:					
	2013	Change	2014	Change	2015
OECD Demand	46.1	-0.5	45.6	0.3	45.9
Non-OECD Demand	45.7	1.1	46.8	1.0	47.8
<b>Total Demand</b>	<b>91.8</b>	<b>0.6</b>	<b>92.5</b>	<b>1.3</b>	<b>93.7</b>
Non-OPEC Supply	52.6	1.8	54.4	0.6	55.0
OPEC NGL's and non-conventional oil	6.3	0.1	6.4	0.2	6.6
Global Biofuels	2.0	0.2	2.2	0.1	2.2
<b>Total Non-OPEC supply</b>	<b>60.9</b>	<b>2.1</b>	<b>63.0</b>	<b>0.8</b>	<b>63.8</b>
<b>Call on OPEC crude (and stocks)</b>	<b>30.9</b>	<b>-1.5</b>	<b>29.5</b>	<b>0.5</b>	<b>29.9</b>
OPEC Crude Oil Supply	30.5	-0.2	30.3	0.0	30.3
<b>Implied World Oil Stock Change</b>	<b>-0.5</b>		<b>0.8</b>		<b>0.4</b>

## 10 Temperatures and other weather effects

The current winter has so far been much colder than normal in the key heating oil regions, but particularly cold in the US North East. In fact, based on the number of heating degree days February came out above the 10-year norm by 18% for the key heating markets. In the US North East the calculated oil demand based on temperatures was a large 457 kbd higher than last year.

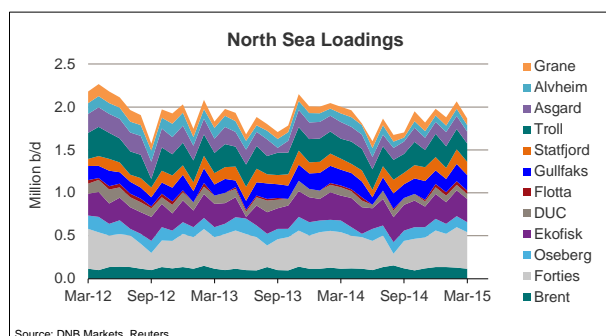


The US North East is still forecasted to be somewhat colder than normal and hence be supportive to refining margins through the still strong heating oil crack spread.

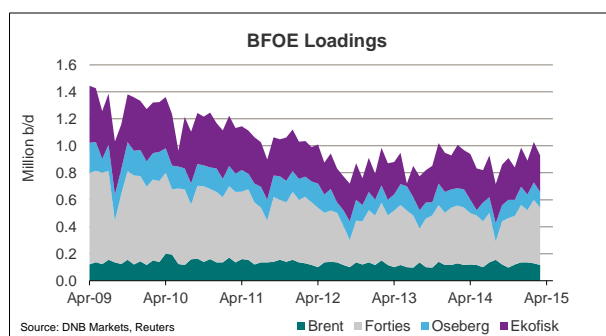


## 11 North sea output

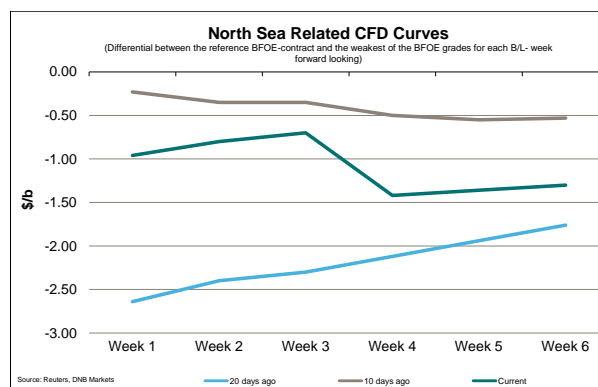
North Sea loading programs for Brent, Forties, Oseberg, Ekofisk, DUC, Flotta, Statfjord, Troll, Åsgard, Alvheim and Grane are down 200 kbd from February to March.



For the key four grades that make up the Brent quote (BFOE) the loading program for March is down 100 kbd from February.



These lower programs seem to be reflected in the CFD-curves. The CFD-curve 20 days ago was much more bearish than the current one, but still we are seeing a somewhat bearish development in the curve the past ten days.

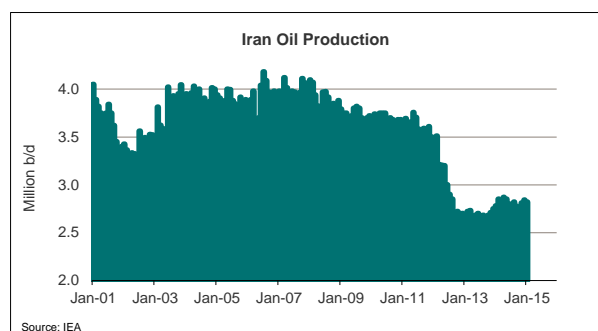


The weakening CFD-curve the past ten days suggest refinery demand for crude oil has weakened in Europe recently.

## 12 Political risk

There are two potential bearish wild cards when it comes to geopolitical developments in the short term. They relate to Iran and Libya. The nuclear negotiations related to Iran's nuclear program resumed on March 5. Both sides are describing progress to reach a framework agreement by the end of the month.

In 2011 Iran produced an average of 3.6 million b/d of crude oil, but then in January 2012 EU agreed on an oil embargo vs Iran and at the same time the US pushed for tougher financial sanctions vs the country. After that the crude oil output from Iran fell to a low point of below 2.7 million b/d. In the latest available data, the IEA estimated that Iran is producing about 2.8 million b/d.

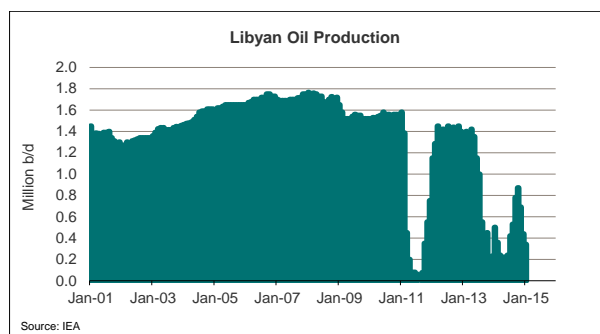


Iran has large oil resources but years and years of under investments have not been beneficial for the Iranian oil industry. We do however believe that Iran will be able to produce about 3.5 million b/d within six months if the EU oil embargo is lifted and also the US oil sanctions are loosened.

Longer term we see no reason why Iran should not be able to produce above 4 million b/d if investments can be attracted to the country's oil industry. History has proven that global oil majors are always willing to return if the potential upside is large enough. If Iran comes through with its promises to open up its oil industry and even allow booking of reserves, many oil companies are set to return to the country in our opinion. An immediate response from Iran would also probably be to sell oil from storage that has been building up. A potential nuclear deal would hence probably be a solid blow to the oil price.

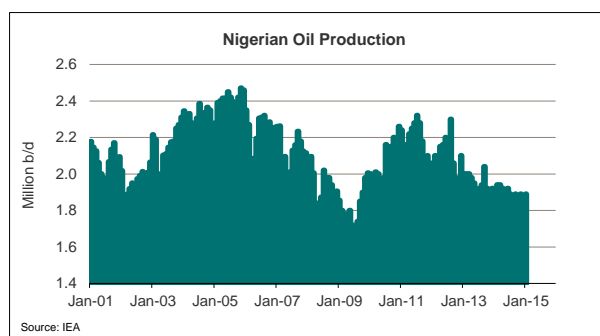
In Libya there is now almost no oil exports at all. All remaining exports seem to be coming from four offshore terminals which are reportedly operating far below capacity. This means the risk to the supply side from the current state of affairs is bearish. You can't lose what you don't have, to put it that way.

When that is said we are not positive to any return of Libyan oil production any time soon. The Libyan NOC has declared force majeure on 11 oil fields, many of which have been attacked recently. As recently as Friday militant gunmen attacked the al-Ghani oil field and killed 11 guards. The NOC stated that the attack caused "massive damage".



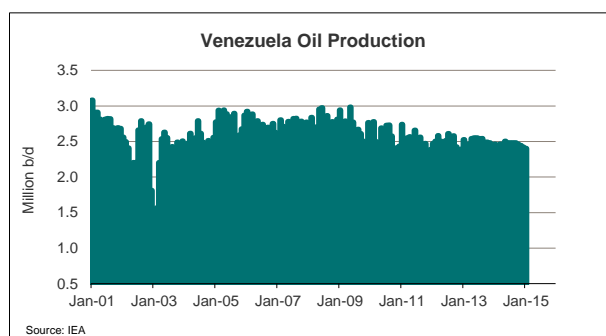
There is a growing instability in Libya where two rival governments battle for control. The country's internationally recognized government operates out of the eastern city of Tobruk after a rival armed fraction took control of Tripoli last summer and set up its own administration.

A potential bullish geopolitical effect for the oil market in the short term could come from Nigeria that will hold presidential elections on March 28. If the ruling president Jonathan wins there is a large risk for growing violence in the north, while if the opponent Buhari wins there is a risk for escalating attacks on oil infrastructure in the south (the Niger delta).



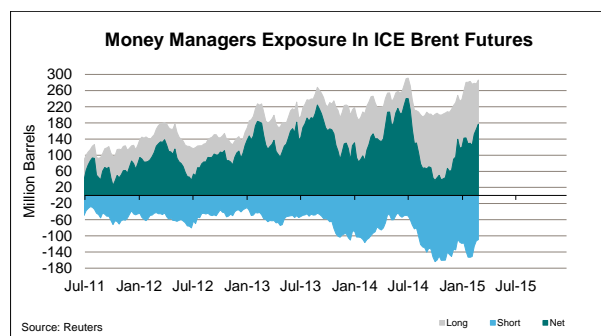
The low oil prices are hurting many oil exporting countries and in the countries with the weakest economy this should increase the political risk and hence the risk for oil outages. The most exposed country for the low oil price is probably Venezuela. The weakening economy is likely to feed into growing social and political unrest going forward.

High inflation and product shortages have fueled violent protests in Venezuela the past year and the situation is not set to improve. Venezuela has enormous oil resources but the mismanaged oil industry has led to a gradual drop in production during the past ten years. Venezuela has at times produced close to 3 million b/d but in January only produced 2.4 million b/d according to the latest IEA data.



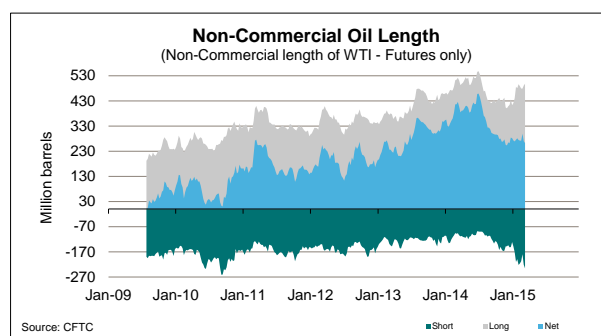
## 13 Hot money – net speculative positions

Money Managers have increased their net long Brent exposure by more than 50 million barrels during the past 4-5 weeks and have hence contributed to the buying pressure that has seen Brent rise from 45 \$/b (intraday) to above 60 \$/b. Most of this net increase (44 million barrels) has been short covering.



The total short position in Brent held by Money Managers is hence reduced significantly and this removes some of the bullish short term potential for the Brent price.

When it comes to the NYMEX positions held by non-Commercials we have seen a slight reduction in net length the past couple of weeks, but no large changes.



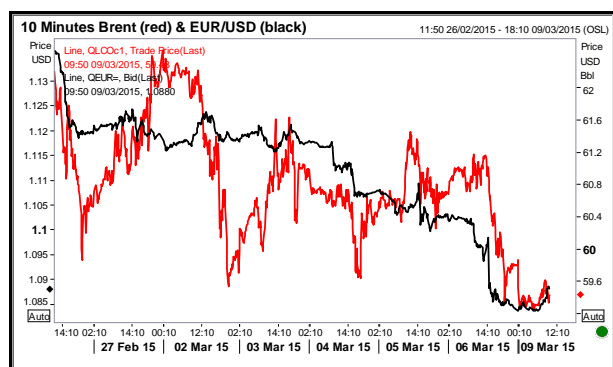
The small net change does however mask larger changes in gross positions as can be seen above. The long positions have increased by 107 million barrels since December while the short positions have increased 103 million barrels in the same period.

We would classify the current speculative positioning as fairly neutral for WTI but to the bearish side for Brent.

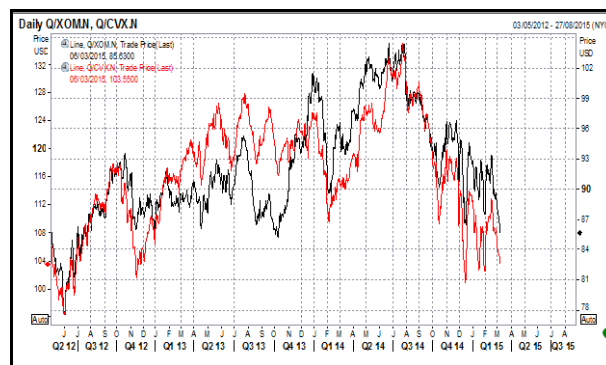


## 14 Market psychology – sentiment- currencies

The market psychology seems fairly neutral right now. The oil price has recently been negatively affected by the stronger USD (see graph below).

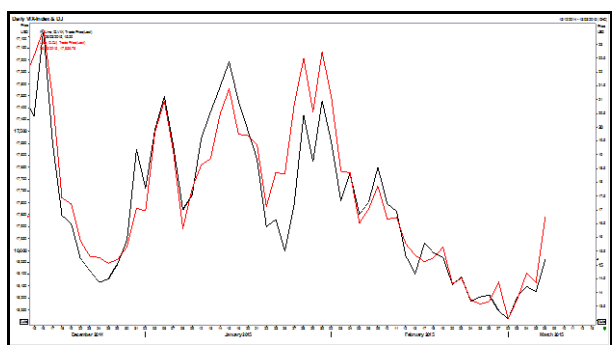


The value of Exxon, Chevron and Shell continue to drop. Exxon is now pricing at the lowest since October 2013 and Chevron the lowest since December 2012. (Exxon is the black line in the graph below, Chevron is the red).



One could of course argue that the stronger the dollar, the weaker the oil price in dollars, all else equal.

In the equity market the VIX is on the rise recently, and the Dow Jones index has dropped 2.4% since March 2.



## 15 Technicals

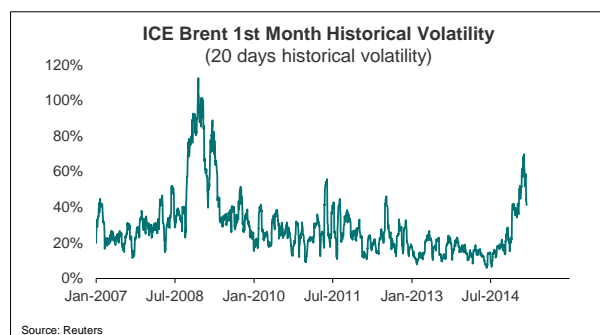
The Brent market has traded in a narrow range around 60 \$/b the latest month and this has resulted in the 5, 8 and 13 days mavg centering at about 60 \$/b as well. There is downside support at the 34 day mavg at 57 \$/b. We believe that level will be tested on the downside. On the upside there should be strong technical resistance at the 100 day mavg at 65 \$/b.



For WTI the situation is quite similar when it comes to price stability. We have seen WTI trade in a narrow band around 50 \$/b since the start of February.

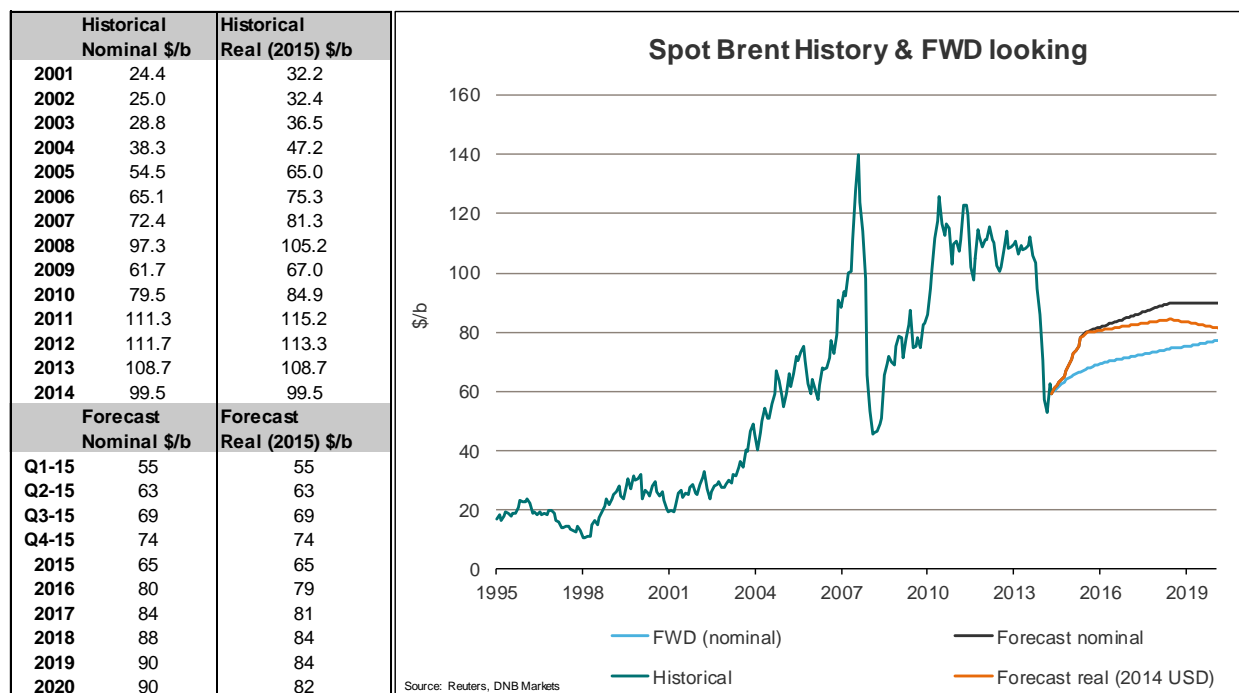


Brent volatility exploded to the upside last summer but is now falling back a bit.



Source: Reuters

## 16 Brent forecast



## 17 Short term oil price score card

Short Term Scorecard	Comments	Oil Price	Weight
<b>Overall Outlook</b>	Global oil stocks are building rapidly to unprecedented levels and it should hence be gradually more expensive to store crude the next two months. To store on ships would require a 13-14 \$/b one-year contango and this contango is currently only 7 \$/b. The current contango needs to be wider and since the 1-year deferred price seems to anchor up around 66-68 \$/b the contango probably needs to widen through a weaker spot market the coming two months. Iran is a big bearish potential wild-card in the short term as the US administration wants to strike a nuclear deal.	<b>BEARISH</b>	
<b>Fundamentals</b>			
Global Fundamental Balance	With OPEC producing at the latest known level, the fundamental balance is bearish for 1H-2015.	<b>BEARISH</b>	<b>HIGH</b>
Refinery Activity	Refinery margins are currently good, but global refinery maintenance is on the rise until May.	<b>BEARISH</b>	MEDIUM
OECD Oil Stock Levels	Very high oil stocks. The highest OECD oil stocks in Feb since 2008 was 2.740 mb, we are now higher.	<b>BEARISH</b>	<b>HIGH</b>
US Oil Statistics - Fundamentals	US crude stocks are record high and continue to build. Imports needs to come down to stop this build.	<b>BEARISH</b>	<b>HIGH</b>
Other Important Energy News/Issues	We probably need a wider contango to incentivize traders to buy crude next two months.	<b>BEARISH</b>	<b>HIGH</b>
Chinese Oil Statistics & News	Much better oil demand calculated for China the past 5 months. Is it due to lower end-user prices?	<b>BULLISH</b>	MEDIUM
OPEC	Saudi Arabia not set to change its strategy. No extraordinary meeting will happen before June.	<b>BEARISH</b>	<b>HIGH</b>
Non-OPEC	Non-OPEC production growth is still high but will be much lower during 2015	<b>BEARISH</b>	MEDIUM
<b>Seasonals</b>			
Temperature Outlook	Much colder than normal in US North East this winter. The forecast still call for colder than normal.	<b>BULLISH</b>	LOW
Hurricanes & Other Weather	Not a factor at this time of year	NEUTRAL	NA
North Sea Fundamentals	BFOE loading program down 100 kbd in March. Loading from the top North Sea fields down 200 kbd.	<b>BULLISH</b>	MEDIUM
<b>Political Risk</b>			
Iraq, Iran, Nigeria, Venezuela, US, Russia, Israel, China, etc	Almost no exports from Libya, cannot loose anymore. Iran deal possible in March. Nigeria elections create oil loss risk.	<b>BEARISH</b>	MEDIUM
<b>Other factors</b>			
Hot Money Net Exposure (Speculators)	Brent short positions reduced by 44 mbd last 4 weeks. NYMEX net positions unchanged for a while. Not the same bullish potential anymore from Brent short covering.	NEUTRAL	MEDIUM
Market Psychology/Sentiment/Macroeconomics	Dow Jones is down and the VIX is up, but most forecaster predict better economic growth.	NEUTRAL	MEDIUM
Technical/Price Trends	Range bound around 60 \$/b Brent for a month. We believe the 34 day mavg (57 \$/b) will be tested.	NEUTRAL	MEDIUM

## 18 Global supply vs demand – DNB, IEA, OPEC &amp; EIA

<b>DNB Markets World Oil Supply-Demand Balance:</b>													
OECD Demand	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014
Non-OECD Demand	48.4	-2.0	46.3	0.6	47.0	-0.5	46.4	-0.5	45.9	0.2	46.1	-0.5	45.6
<b>Total Demand</b>	38.1	1.2	39.3	2.5	41.7	1.3	43.1	1.5	44.6	1.1	45.7	1.1	46.8
	86.5	-0.9	85.6	3.1	88.7	0.8	89.5	1.0	90.6	1.3	91.8	0.6	92.5
Non-OPEC Supply	49.2	0.7	49.9	1.0	50.8	0.1	51.0	0.5	51.4	1.2	52.6	1.8	54.4
OPEC NGL's and non-conventional oil	4.5	0.6	5.1	0.4	5.5	0.4	5.9	0.3	6.2	0.1	6.3	0.1	6.4
Global Biofuels	1.4	0.2	1.6	0.2	1.8	0.0	1.8	0.0	1.9	0.2	2.0	0.2	2.2
<b>Total Non-OPEC supply</b>	55.0	1.5	56.5	1.6	58.1	0.5	58.7	0.8	59.5	1.4	60.9	2.1	63.0
<b>Call on OPEC crude (and stocks)</b>	31.4	-2.3	29.1	1.5	30.6	0.3	30.8	0.2	31.1	-0.1	30.9	-1.5	29.5
OPEC Crude Oil Supply	31.6	-2.5	29.1	0.1	29.2	0.7	29.9	1.4	31.3	-0.8	30.5	-0.2	30.3
<b>Implied World Oil Stock Change</b>	0.2		0.0		-1.4		-0.9		0.2		-0.5		0.8
<b>IEA World Oil Supply-Demand Balance (Feb 2015):</b>													
OECD Demand	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014
Non-OECD Demand	48.4	-2.0	46.3	0.6	47.0	-0.5	46.4	-0.5	45.9	0.2	46.1	-0.5	45.6
<b>Total Demand</b>	38.1	1.2	39.3	2.5	41.7	1.3	43.1	1.5	44.6	1.1	45.7	1.1	46.8
	86.5	-0.9	85.6	3.1	88.7	0.8	89.5	1.0	90.6	1.3	91.8	0.6	92.5
Non-OPEC Supply	49.2	0.7	49.9	1.0	50.8	0.1	51.0	0.5	51.4	1.2	52.6	1.8	54.4
OPEC NGL's and non-conventional oil	4.5	0.6	5.1	0.4	5.5	0.4	5.9	0.3	6.2	0.1	6.3	0.1	6.4
Global Biofuels	1.4	0.2	1.6	0.2	1.8	0.0	1.8	0.0	1.9	0.2	2.0	0.2	2.2
<b>Total Non-OPEC supply</b>	55.0	1.5	56.5	1.6	58.1	0.5	58.7	0.8	59.5	1.4	60.9	2.1	63.0
<b>Call on OPEC crude (and stocks)</b>	31.4	-2.3	29.1	1.5	30.6	0.3	30.8	0.2	31.1	-0.1	30.9	-1.5	29.5
OPEC Crude Oil Supply	31.6	-2.5	29.1	0.1	29.2	0.7	29.9	1.4	31.3	-0.8	30.5	-0.2	30.3
<b>Implied World Oil Stock Change</b>	0.2		0.0		-1.4		-0.9		0.2		-0.5		0.8
<b>OPEC World Oil Supply-Demand Balance (Feb 2015):</b>													
OECD Demand	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014
Non-OECD Demand	48.4	-2.0	46.4	0.6	47.0	-0.6	46.4	-0.5	45.9	0.1	46.0	-0.3	45.7
<b>Total Demand</b>	37.7	0.7	38.4	1.9	40.3	1.4	41.7	1.4	43.1	1.1	44.2	1.3	45.5
	86.1	-1.3	84.8	2.5	87.3	0.8	88.1	0.9	89.0	1.2	90.2	1.0	91.2
Non-OPEC Supply (Incl all Biofuel)	50.4	0.7	51.1	1.3	52.4	0.0	52.4	0.5	52.9	1.3	54.2	2.0	56.2
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	0.0	5.6	0.2	5.8
<b>Total Non-OPEC supply</b>	54.5	0.9	55.4	2.0	57.4	0.4	57.8	0.7	58.5	1.3	59.8	2.2	62.0
<b>Call on OPEC crude (and stocks)</b>	31.6	-2.2	29.4	0.5	29.9	0.4	30.3	0.2	30.5	-0.1	30.4	-1.2	29.2
OPEC Crude Oil Supply	31.2	-2.5	28.7	0.5	29.2	0.7	29.9	1.4	31.3	-0.8	30.5	-0.2	30.3
<b>Implied World Oil Stock Change</b>	-0.4		-0.7		-0.7		-0.4		0.8		0.1		1.1
<b>EIA World Oil Supply-Demand balance (Feb 2015):</b>													
OECD Demand	2008	Change	2009	Change	2010	Change	2011	Change	2012	Change	2013	Change	2014
Non-OECD Demand	47.6	-2.2	45.4	0.7	46.1	-0.3	45.8	0.1	45.9	0.2	46.1	-0.3	45.8
<b>Total Demand</b>	38.2	0.7	38.9	2.1	41.0	1.5	42.5	0.8	43.3	1.2	44.4	2.0	46.4
	85.8	-1.5	84.3	2.7	87.1	1.2	88.3	0.9	89.2	1.3	90.5	1.7	92.1
Non-OPEC Supply (Incl all Biofuel)	49.7	0.8	50.5	1.3	51.8	0.2	52.0	0.7	52.7	1.5	54.1	2.3	56.5
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	0.4	6.1	0.3	6.4
<b>Total Non-OPEC supply</b>	54.1	1.1	55.2	2.1	57.3	-0.1	57.2	1.2	58.4	1.8	60.2	2.6	62.8
<b>Call on OPEC crude (and stocks)</b>	31.7	-2.6	29.1	0.7	29.8	1.3	31.1	-0.3	30.8	-0.5	30.2	-0.9	29.3
OPEC Crude Oil Supply	31.3	-2.2	29.1	0.1	29.2	0.7	29.9	1.4	31.3	-0.8	30.5	-0.2	30.3
<b>Implied World Oil Stock Change</b>	-0.4		0.0		-0.6		-1.1		0.6		0.2		1.0

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