

Oil Markets

March 2019

Rafael Herrera, Manager Market Analysis Liquids

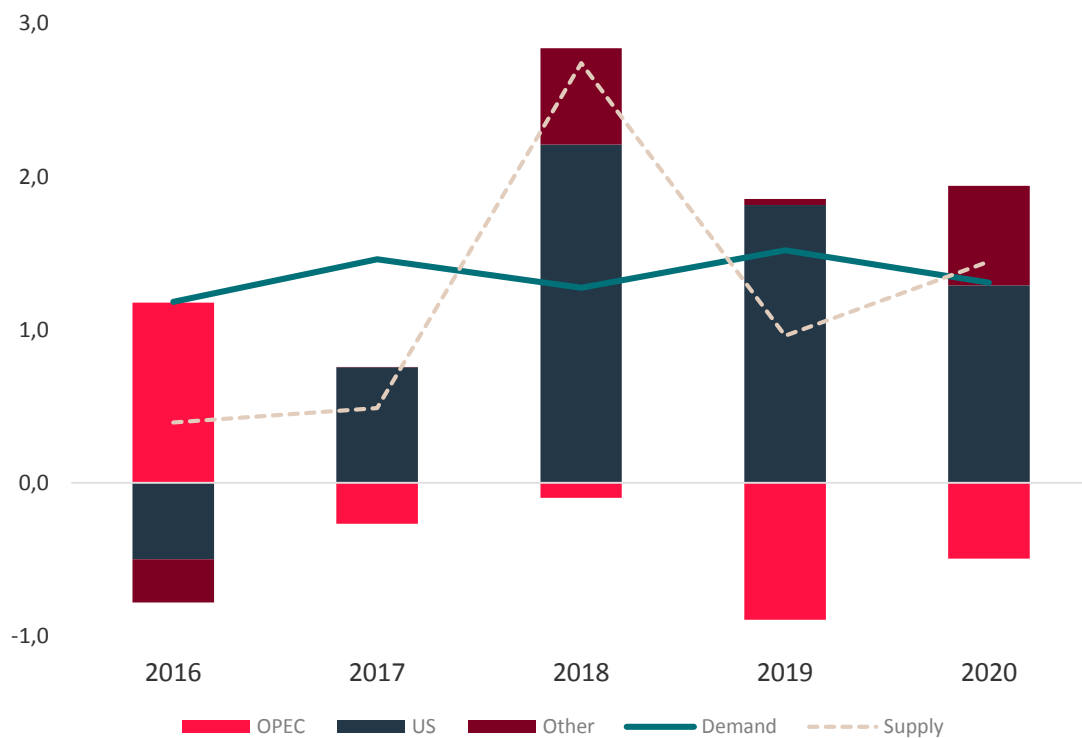
Medium-term oil views

Outline

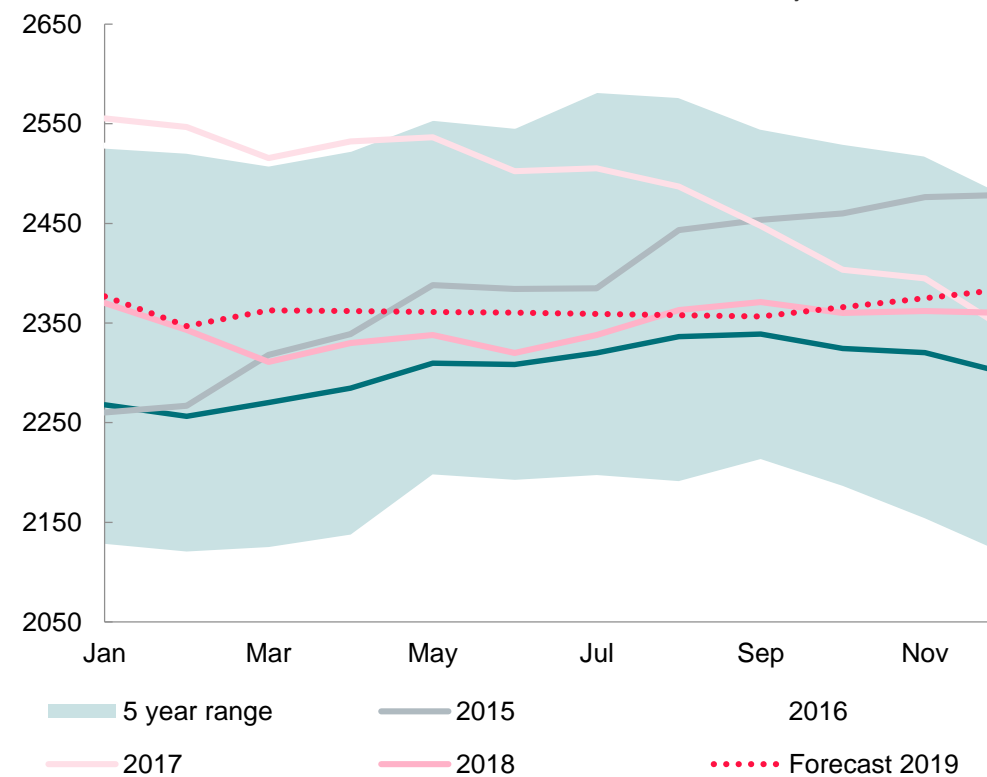
- Where are we?
 - US supply
 - Opec: Management to continue – Venezuela as a wildcard
- After 2020: demand and supply. Flows
- IMO
- What to look at?

Short term market balance

Global Oil Balance (Y/Y)



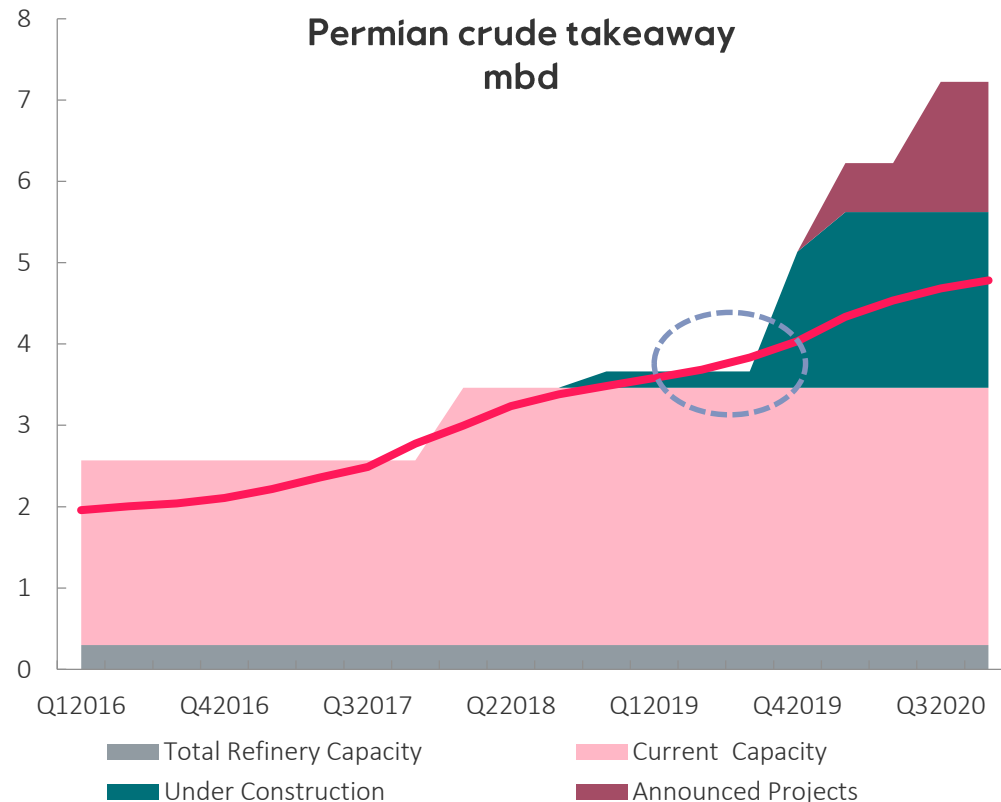
Commercial stocks in main OECD markets, mbbbl



Source: IEA, Equinor

US shale have kept market well supplied despite supply disruptions

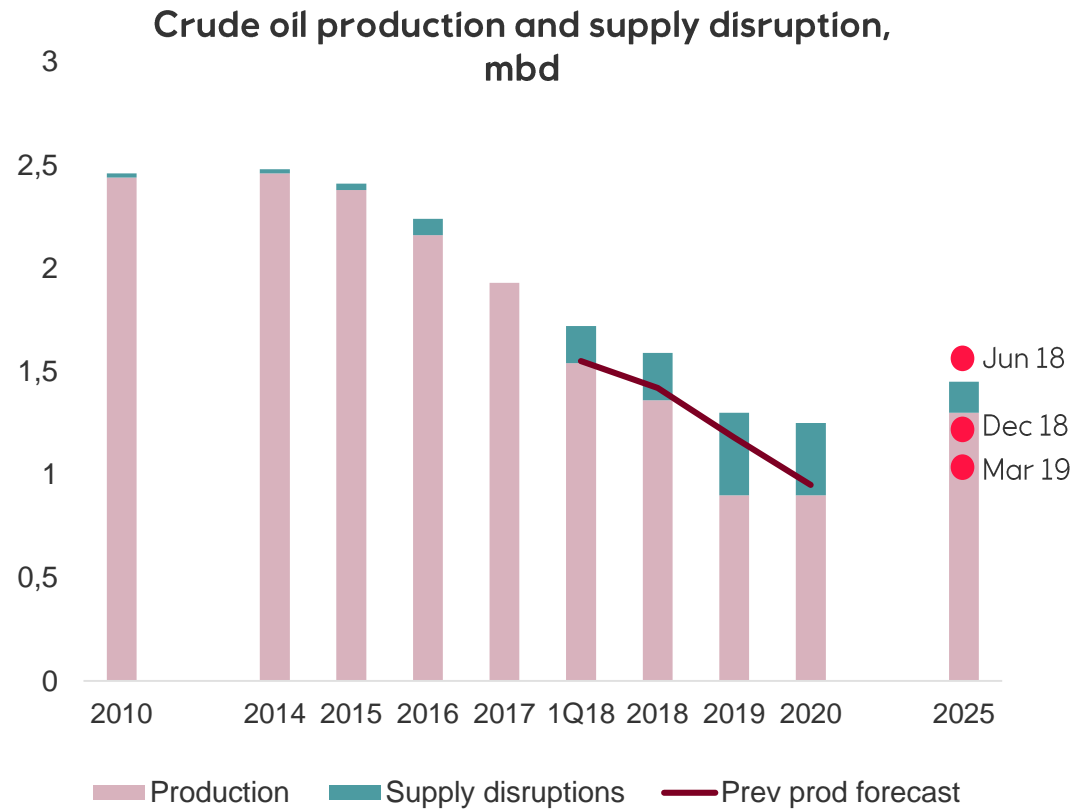
Acute midstream bottlenecks creating discounts in the main US crude benchmark, WTI



- US crude production expected at **10,6 Mbd in 2018**
- US exports surged almost 1 mbd year-over-year to 2 mbd in May, with **China as the no. 1 buyer**
- Permian has provided the lions share of production growth in the US, but now faces bottlenecks in takeaway capacity from the region. **Capacity will increase 2nd half of 2019**
- Shale oil in the Bakken and Eagleford do not face the same price discounts due to an abundance of infrastructure in those basins.

Venezuelan production on a steep decline

Steeper showdown (2018-2020) – more blurry potential recovery



Source: Equinor, IHS, Platts/PIRA

- **O&G sector faces huge challenges**
Non-oil sector has absorbed all available funds
- **Regime increasingly isolated and continued political stalemate**
The stalemate most likely will last for another few years
- **But regime change looks likely – at some point**
 - Refining utilization below 20%. This is fuel for social unrest
 - Speed of recovery?
 - Will China, Russia and IOCs accept and rely on new fiscal terms?

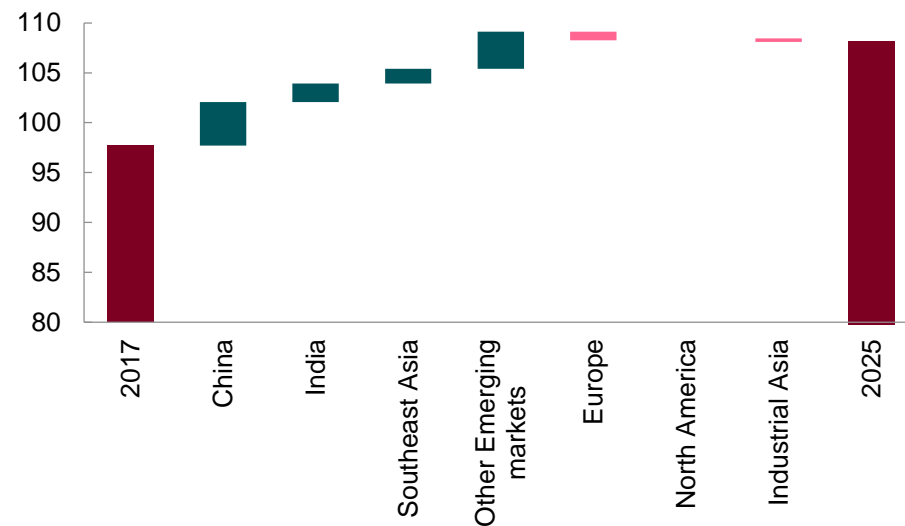
Venezuela: some impacts of the US embargo

Item	Impact
Crude exports	<ul style="list-style-type: none"> • From 2 mbd in 1997 to about 350 kbd in 2019 to US • Only 50 kbd to other markets (Ex China / India) Jan 2019
Waterborne ops	<ul style="list-style-type: none"> • Will prevent tankers and/or insurance companies from transporting or insuring Venezuelan oil • Limited storage available at Venezuelan ports - Temporarily shut in production
Oil products import	<ul style="list-style-type: none"> • Diluent for extra-heavy crude affecting 400 kbd of heavy blends • Lower output from medium crude
JVs and partners	<ul style="list-style-type: none"> • Impact in bottom lines of private investors • Production fall • Redirected markets and discount
Power and domestic transport	<ul style="list-style-type: none"> • Include gasoline and components for the transport sector, and gasoil for power generation. • Social unrest

The medium term - Demand

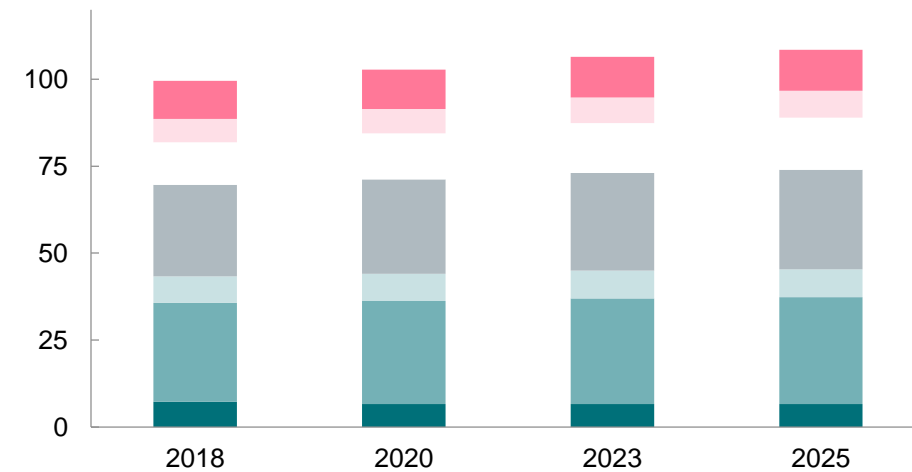
Driven by transportation fuels – and income growth and efficiency

Demand assessment, mbd



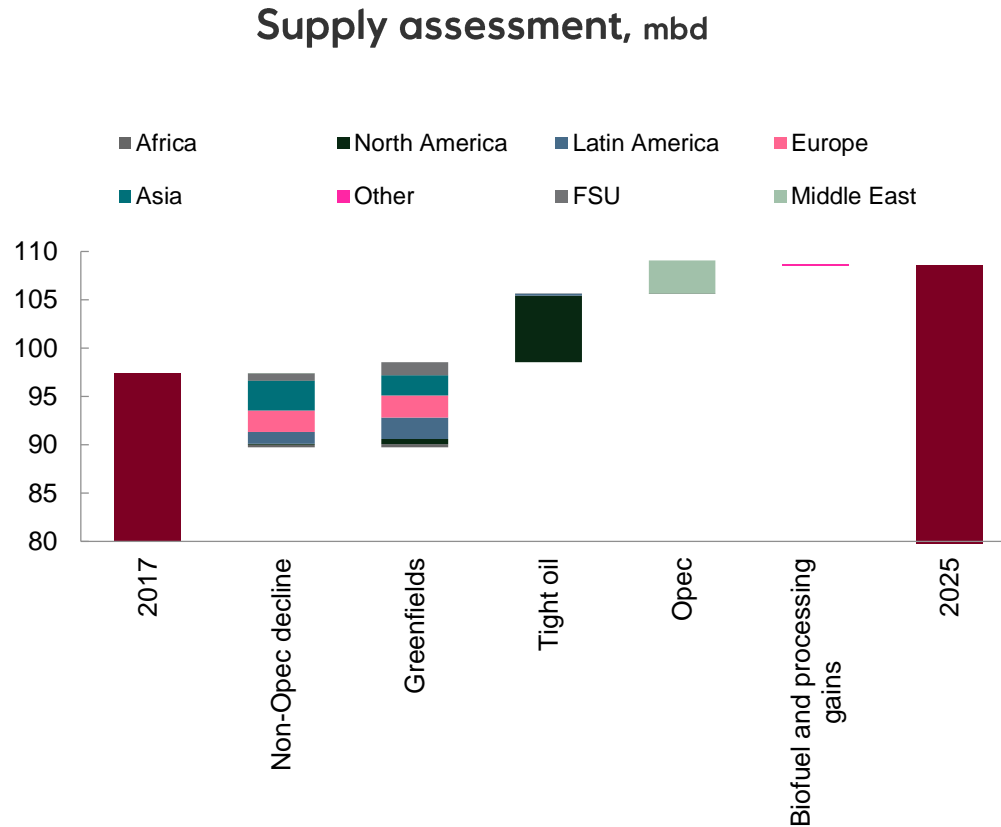
Residual Fuel Oil Gasoil Jet/Kero Gasoline

NGL/LPG Naphtha Other Products



The medium term - Supply













Driven by oil resource, prices, companies' strategies and Opec



- Global oil resources are large and enough
- New investments are steadily required
- Drivers behind supply growth: oil prices, technology, efficiency, regulations, tax regime,...

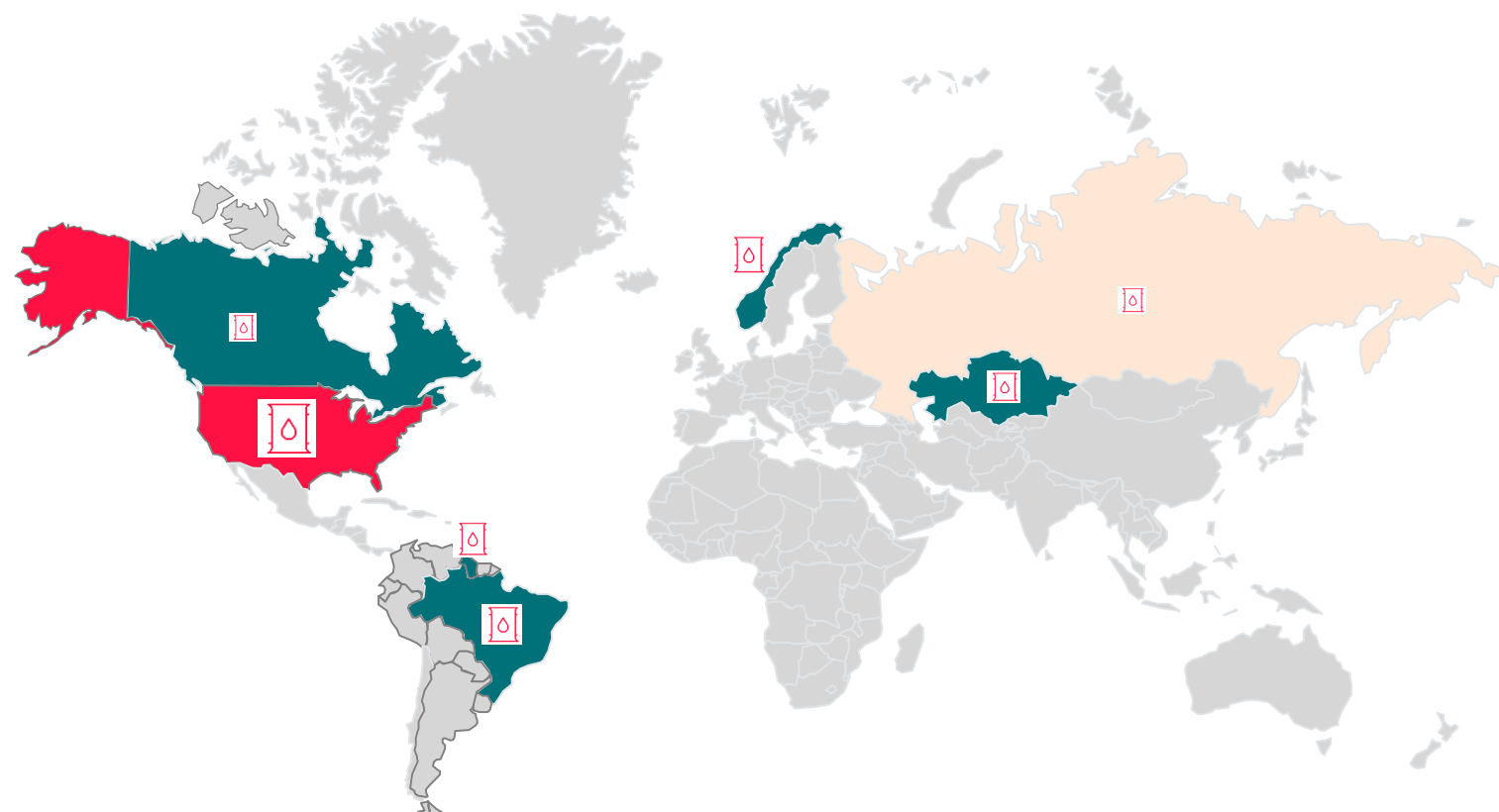
Current strength in global oil market due to supply tightness

Weaker medium term prices due to looser balance

Key drivers	Q1 2019	Medium term
	Impact on price	
Global oil demand		
Global shale production		
Non-OPEC production		
OPEC interventions		
Supply disruptions		
Commercial inventories		

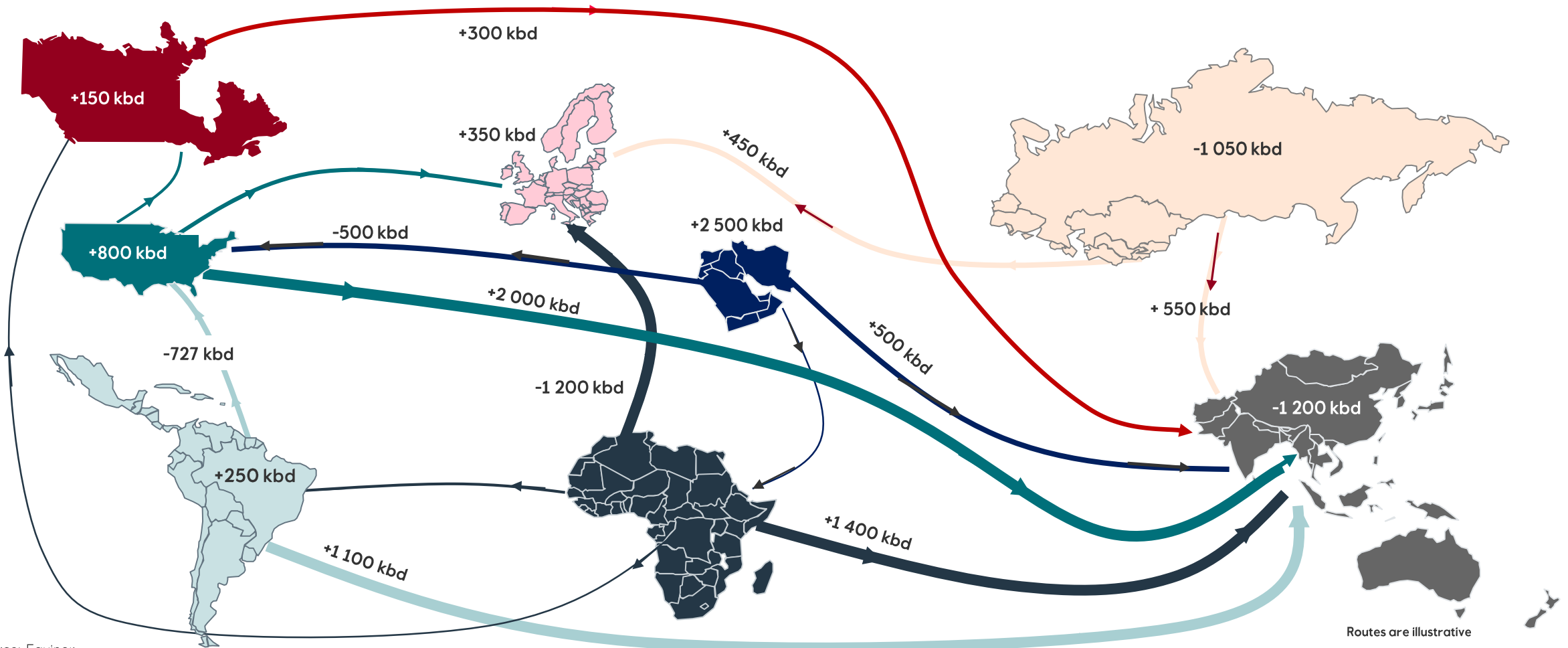
Non-OPEC supply growth

Additional gains from US, Brazil, Canada, Kazakhstan and Russia



Medium term outlook

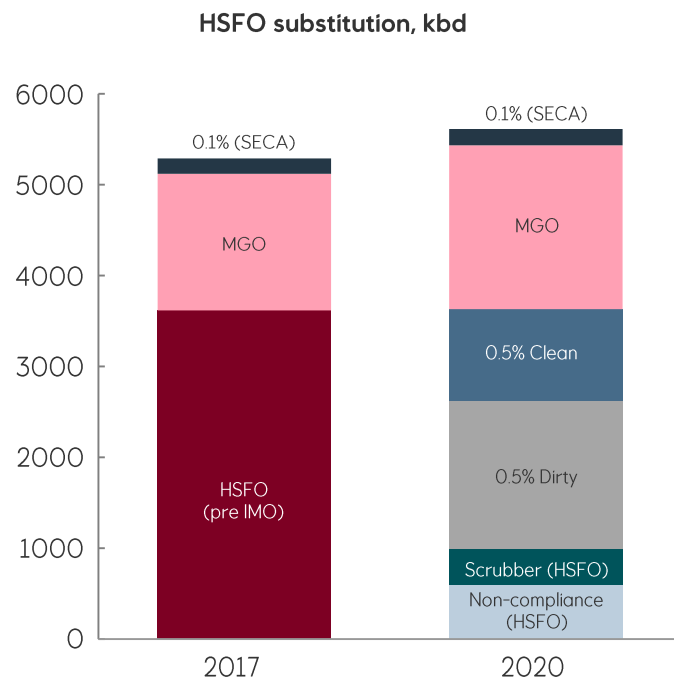
Indicative trade flows crudes 2025-2017



IMO bunker

Major share of the heavy fuel oil will loose its natural "home"

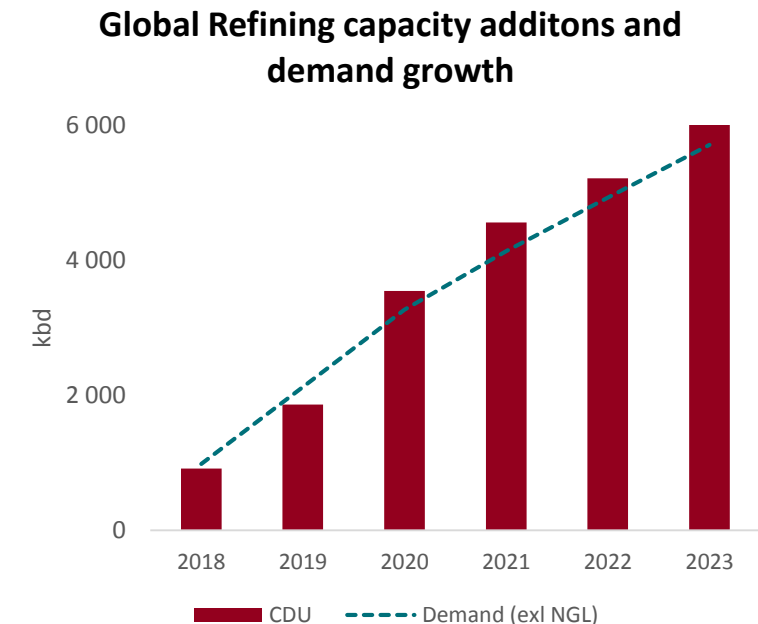
Shipping



Source: Equinor

- Switch to low sulphur fuel oil, diesel (also LNG, LPG)
- Invest in scrubbers (exhaust gas cleaning system)
- Exemptions
- Non-compliance (enforcement and sanctioning bodies still uncertain)

Refining

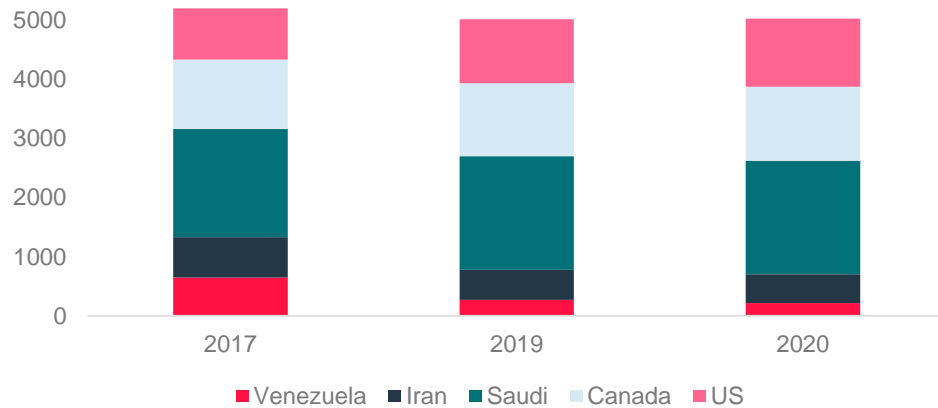


Source: Equinor

Impact of Venezuelan collapse and Iranian sanctions + US shale

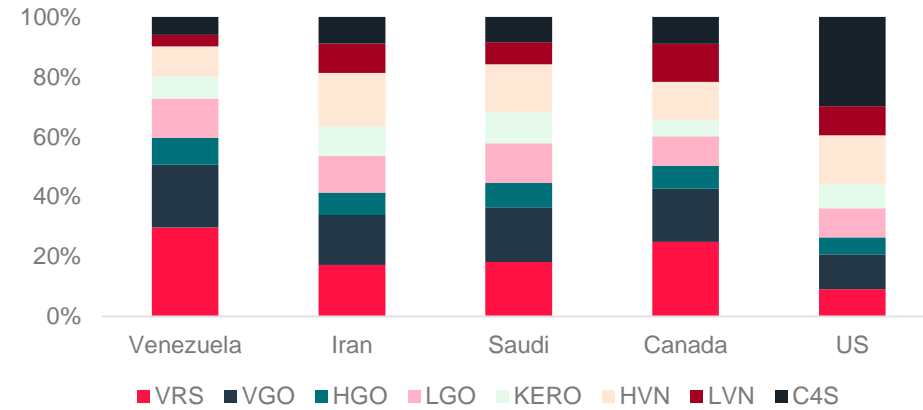
The lightning of the barrel becomes more evident

VRS selected producers (KBD)



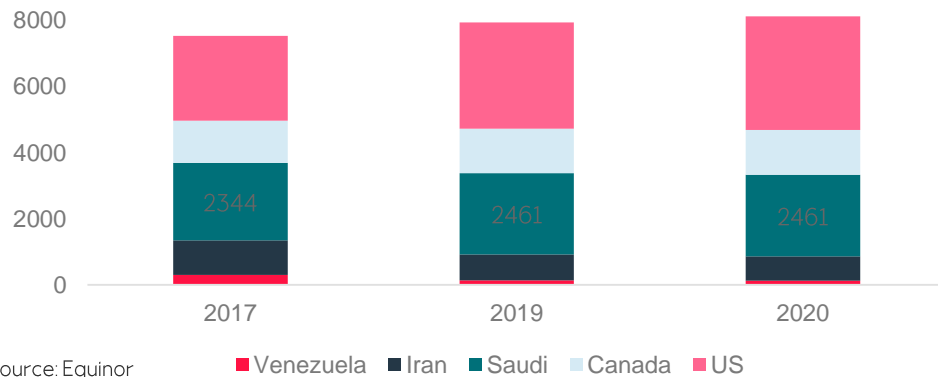
Source: Equinor

Average crude cuts



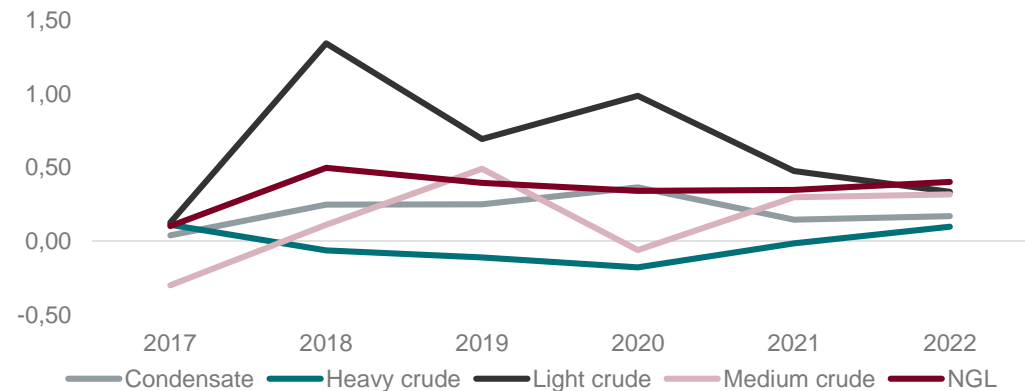
Source: Equinor

LVN+HVN selected producers (KBD)



Source: Equinor

y-o-y supply growth, mbd



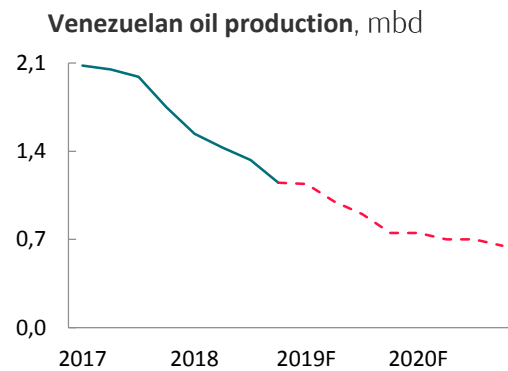
Source: Equinor

What to look at in the medium term?

Geopolitics



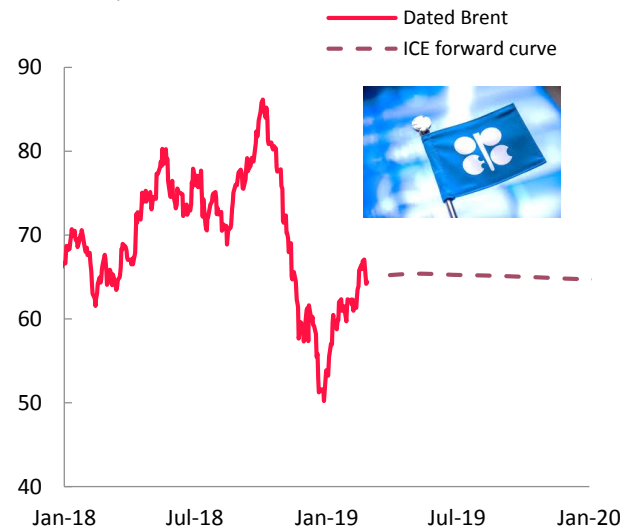
Source: mintpressnews.com



Source: IEA (history), Equinor (projections)

Oil prices and Opec budgets

Brent historical and forward price
USD/bbl



Source: Platts (history), ICE (projections)

The state of the economy



Oil markets update – March 2019

Rafael Herrera, Manager Market Analysis Liquids

© Equinor ASA

This presentation, including the contents and arrangement of the contents of each individual page or the collection of the pages, is owned by Equinor. Copyright to all material including, but not limited to, written material, photographs, drawings, images, tables and data remains the property of Equinor. All rights reserved. Any other use, reproduction, translation, adaption, arrangement, alteration, distribution or storage of this presentation, in whole or in part, without the prior written permission of Equinor is prohibited. The information contained in this presentation may not be accurate, up to date or applicable to the circumstances of any particular case, despite our efforts. Equinor cannot accept any liability for any inaccuracies or omissions.