



Drivers of Oil Market Outlook

Demand Risks vs Supply Risks

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Supply Risks vs Demand Risks

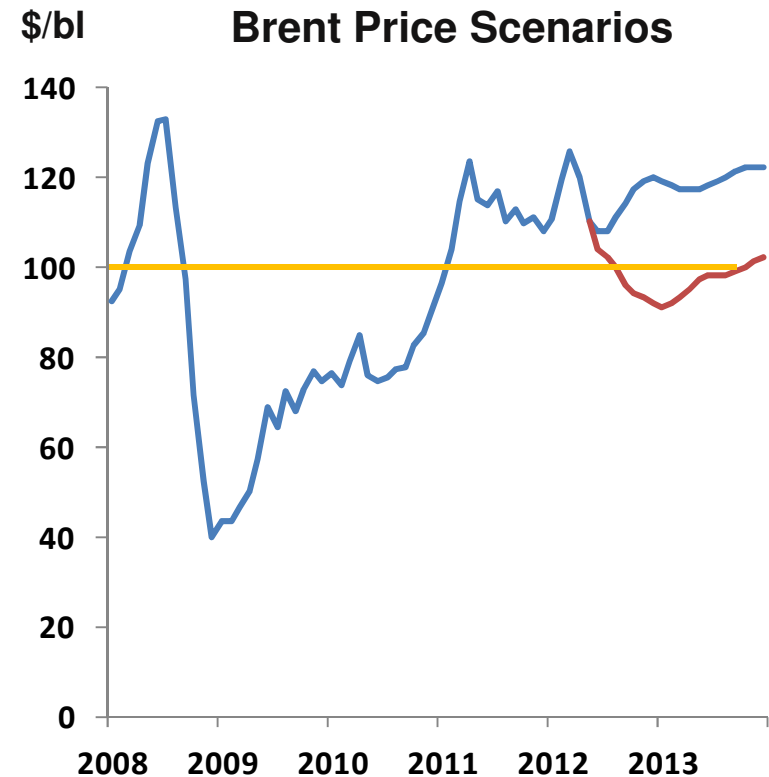
Euro Crisis vs Iran Crisis: Which Will Predominate?

Supporting Prices

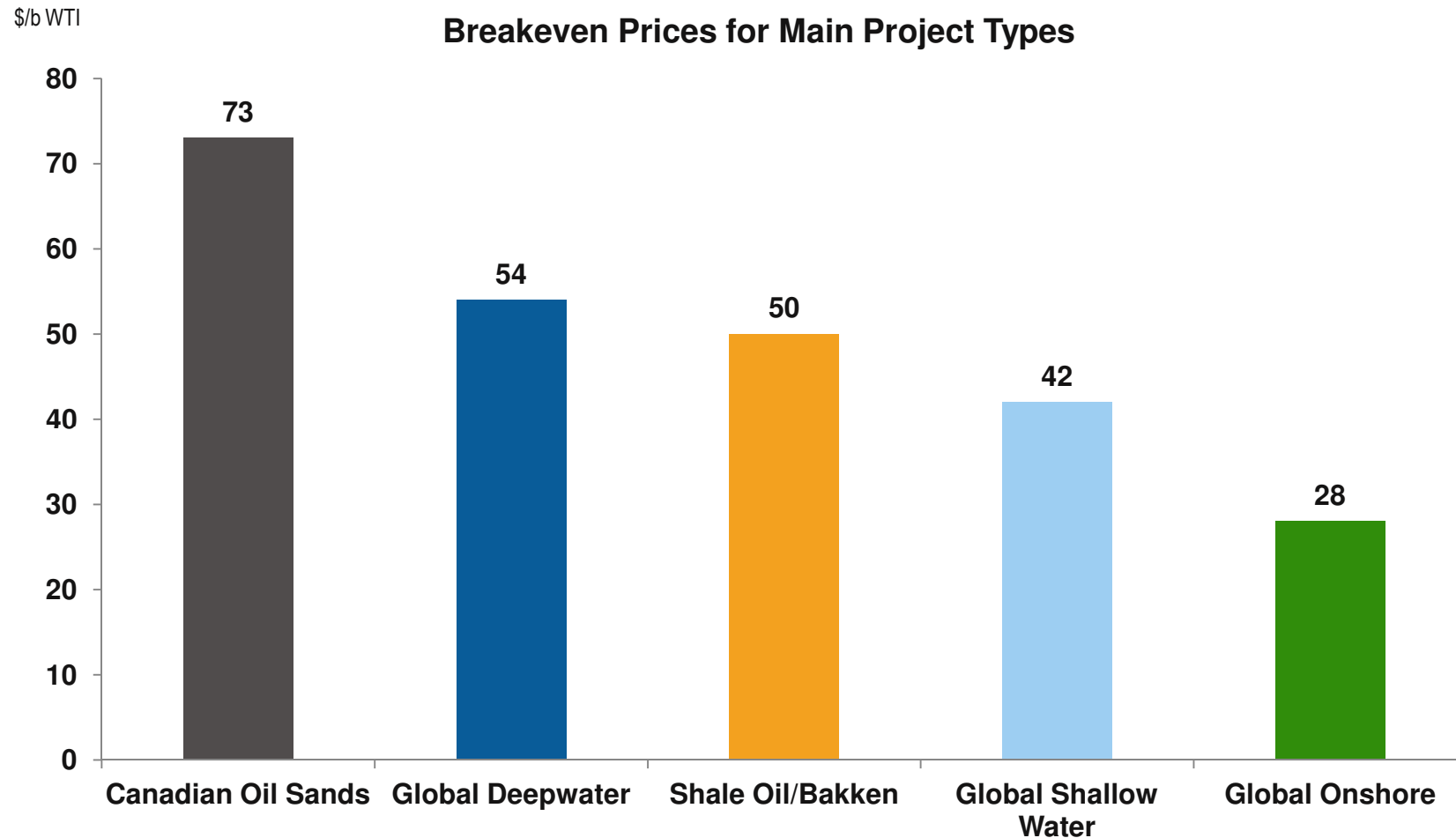
- Sluggish non-OPEC supply growth
- Demand growth in Asia - ME
- ME political risk feeding supply concerns
- Strong Saudi leadership emphasizing market management, not politics

Deflating Prices

- Eurozone Crisis
- Grexit could trigger domino effect across Euro periphery
- Major European crisis would likely hurt economic growth in Emerging Markets
- Continued resilience in non-Opec supply

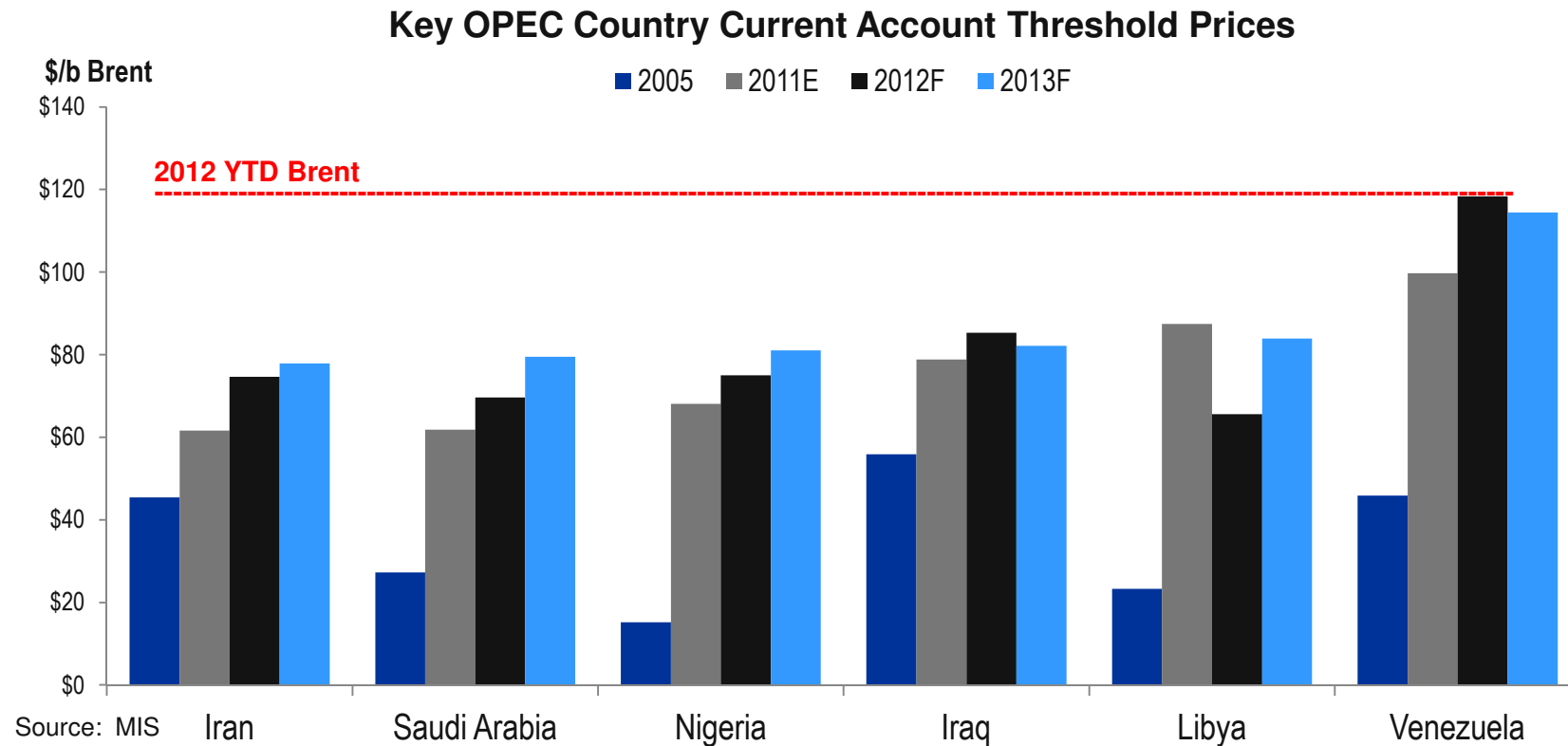


Supply Support: At \$75, Everything Goes Forward



Sustained high oil prices drive operators to pursue growth from all plays

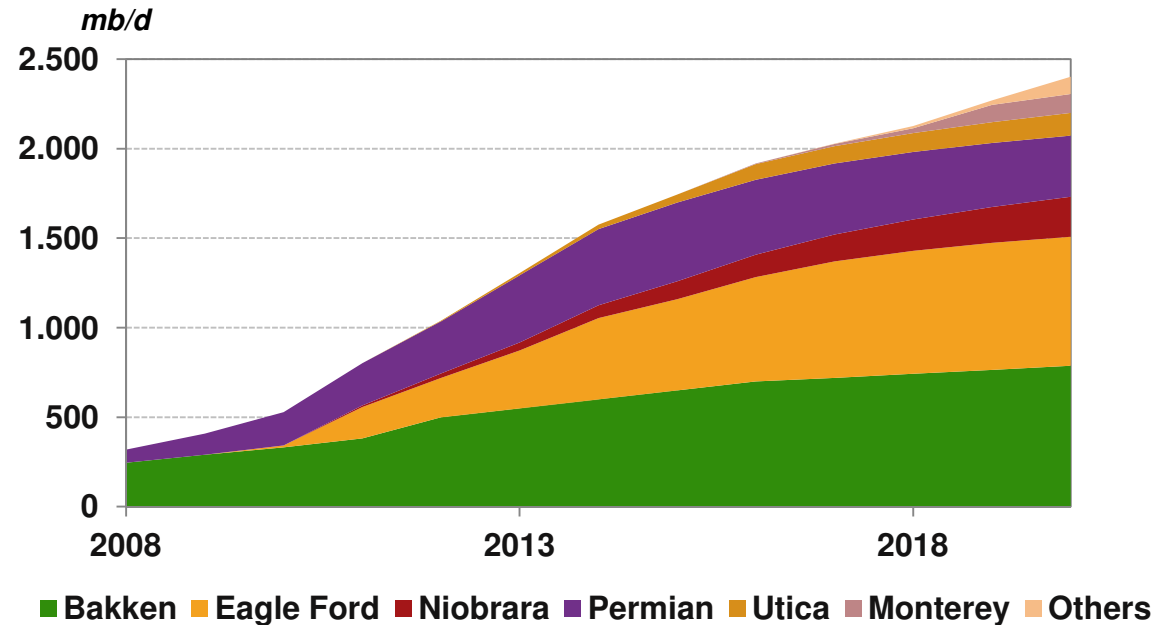
Supply Support: Key Exporters Are In Surplus



- At current price ranges, all OPEC members save Venezuela will be able to record current account surpluses.
- Iran and Saudi Arabia are the two largest OPEC crude oil exporters and their threshold prices have converged.

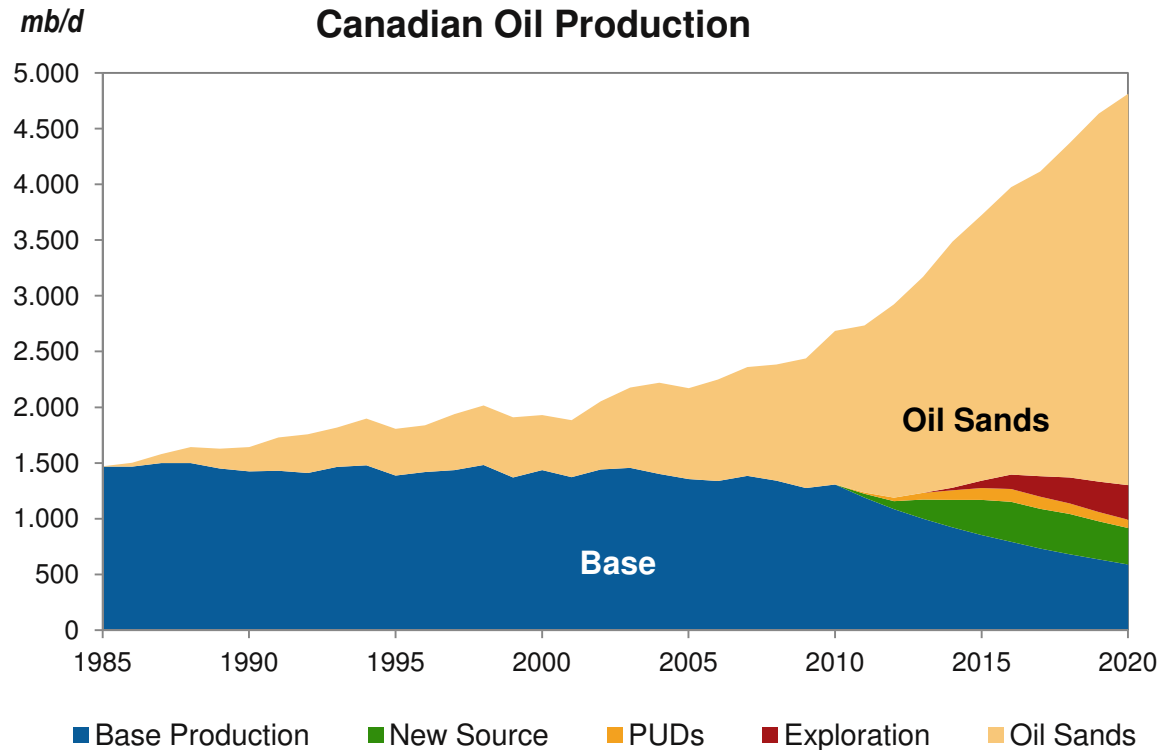
Explosive U.S. Crude Oil Growth

US Onshore Lower 48 By Play



- Best portions of the key shale oil plays offer excellent returns and investment seems assured
- Nearly all WTI quality grades
- Most growth in Eagle Ford and Permian Basin in Texas and easy pipeline distance to the US Gulf Coast refining centers.

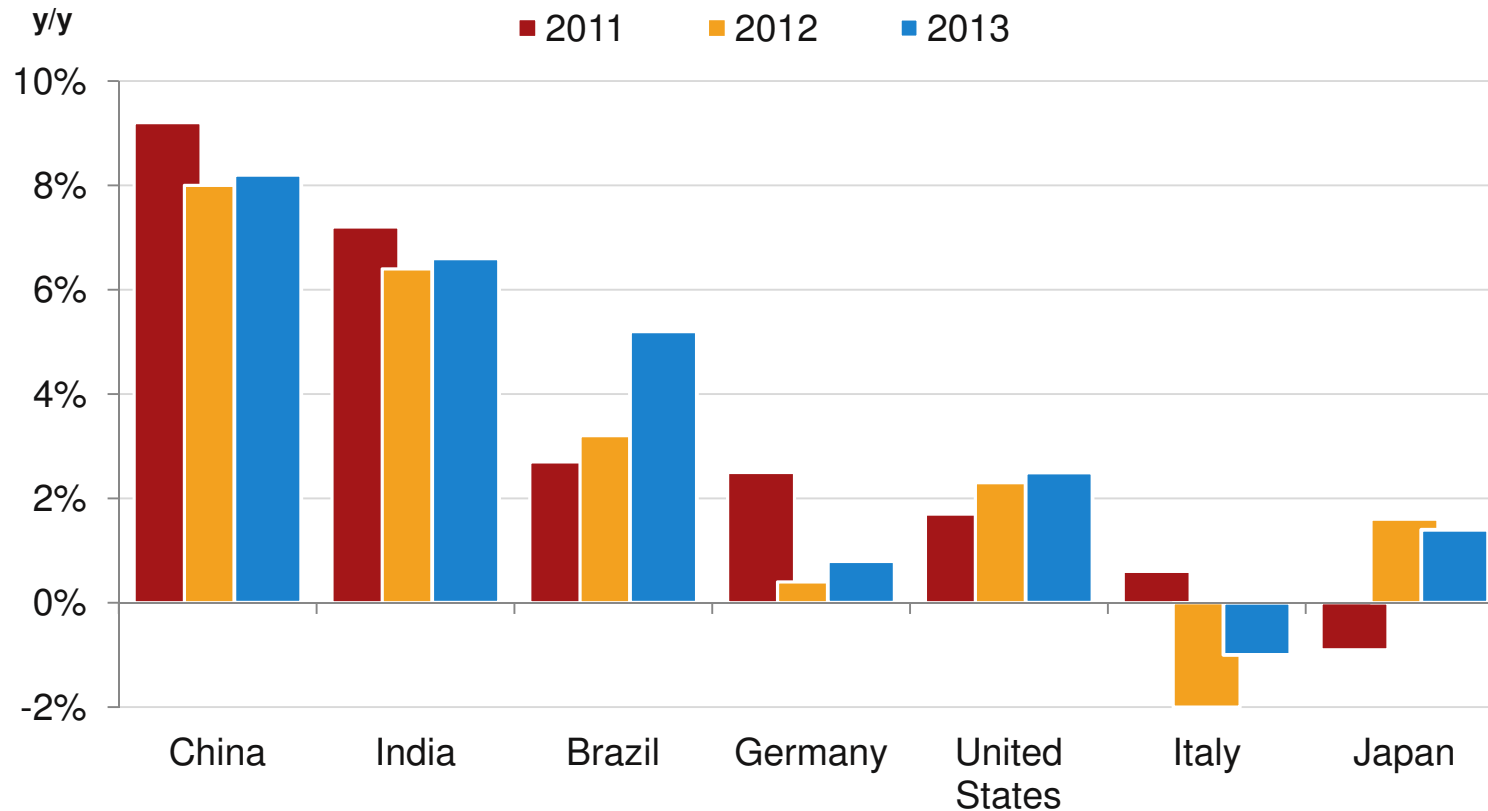
Canadian Oil Sands Growing Too



- Canadian oil sands production will almost double by decade's end from 1.6 mmb/d in 2011
- Rising costs have recent some concern, but projects already in operation and under construction should produce over 2.2 mmb/d by 2015
- Most of this crude will come south until a high volume outlet to Asia is constructed

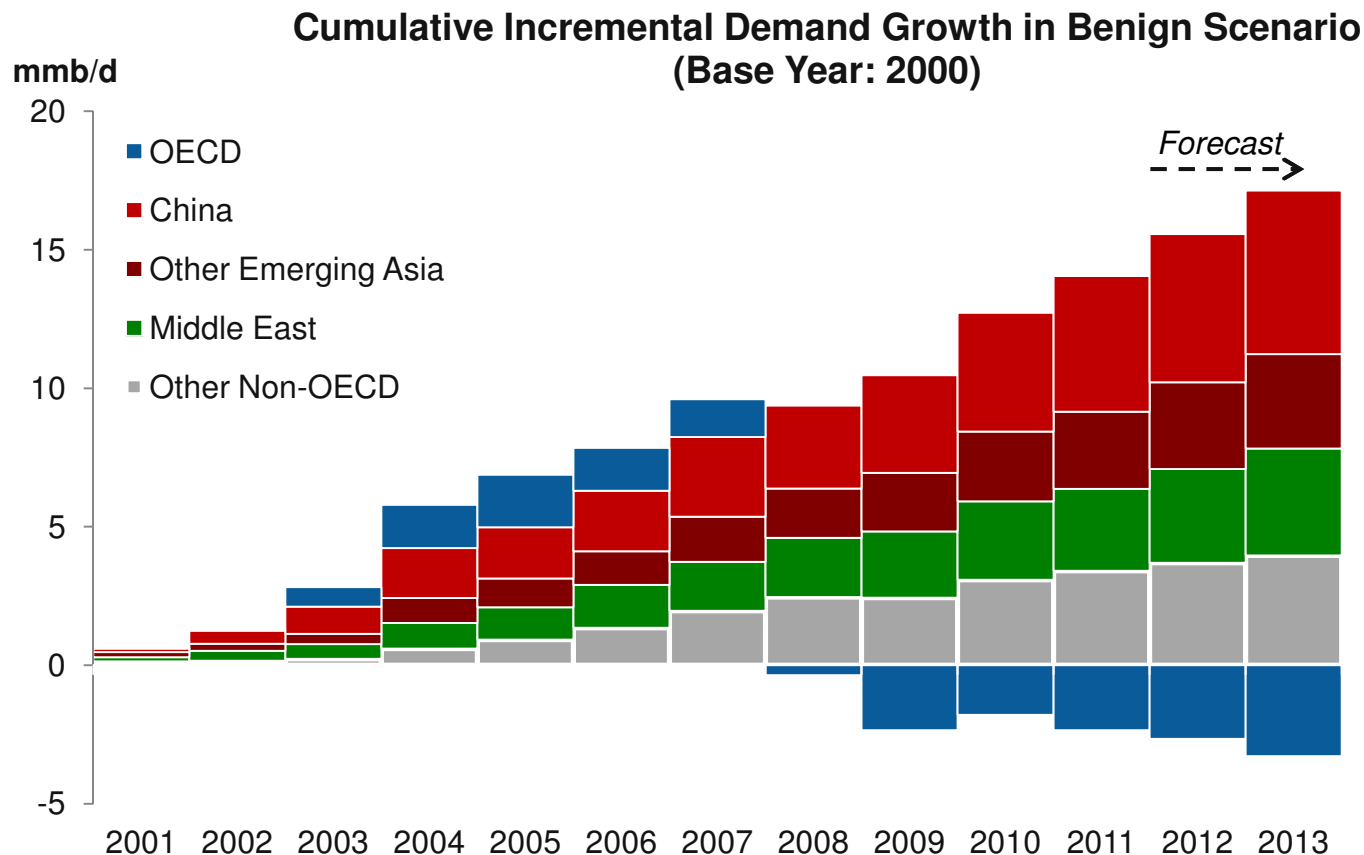
Demand Risk:

Modest growth expected in major economies outside of Europe



Aside from recession-hit Europe, much of the world is set for modest growth through 2013 – a decline in price would help in buoying economic activity

The OECD/non-OECD Dichotomy



- **Global demand buttressed by high economic growth rates in Non-OECD**
- **OECD oil demand sliding – high prices will encourage that trend**
- **Subsidies artificially sustaining demand in Asia, other emerging markets**

Supply Risk: Sentiment Is An Unstable Prop For Prices

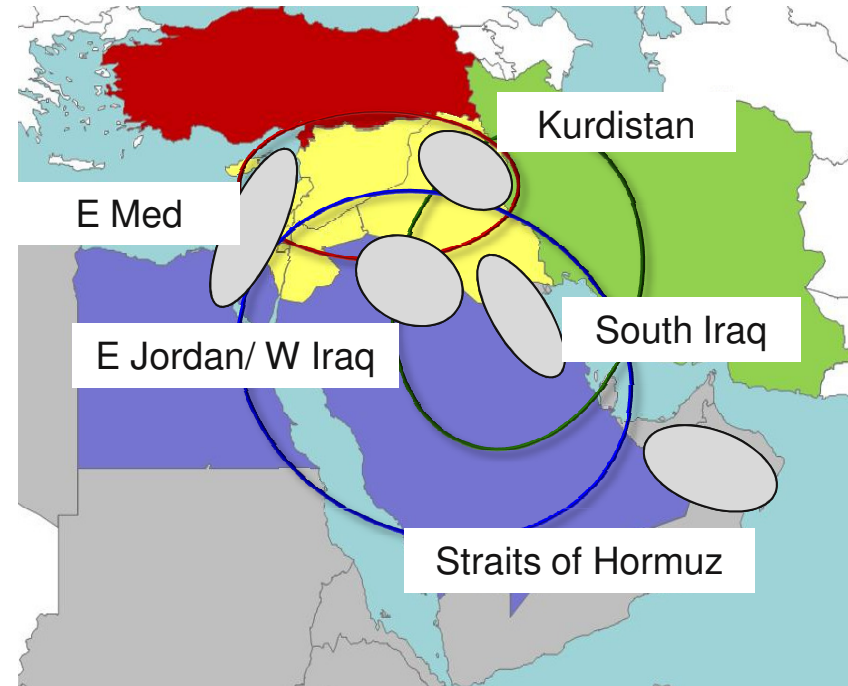
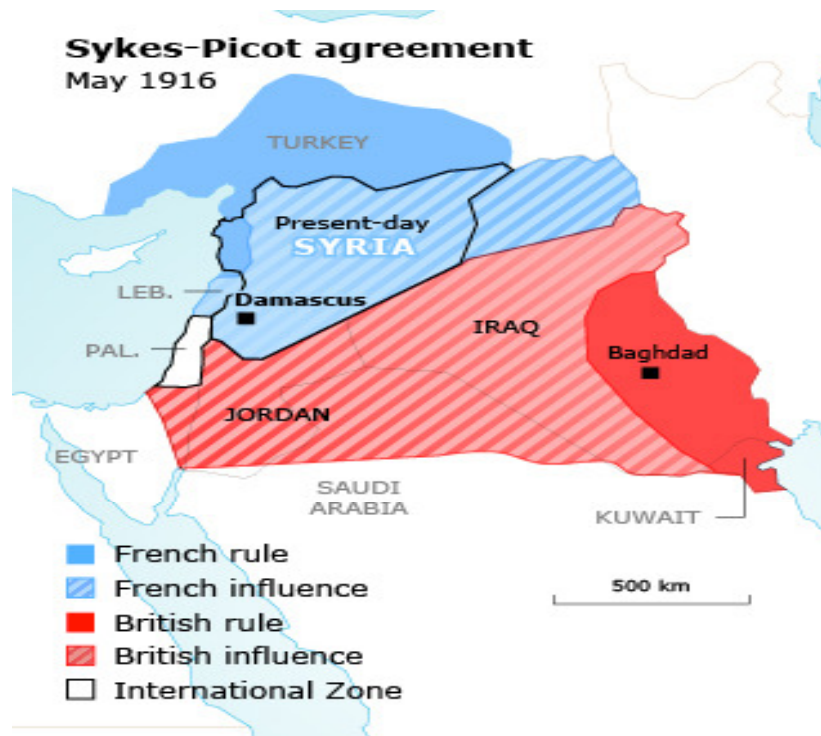
Rising Tension With Iran, But Uncertain End-game



- **US/EU policy gives Iran little incentive to compromise**
- **Gaps in perception are still huge**
- **Sanctions are starting to bite**
- **Regionally, Iran's allies continue to dwindle in number and influence**
- **“Headline risk” will keep Iran premium elevated – but actual conflict still unlikely, except as the result of accident**

War of choice against Iran is not anticipated in 2012; thereafter the risks will rise

Regional Political Risk: End of the Old Order?



Key new basins will be directly affected

- **Political reorganization based on parochial identities (sect, tribe, ethnicity).**
- **A gradual process – geographical borders will be slower to change than political ones.**
- **Will likely be violent and involve population transfers.**

In the Short Run: European Contagion Risks vs Iran Conflict Risks Will Predominate

- In the last few weeks sentiment has moved towards European collapse risk is higher than potential disruption from conflict with Iran
- Risk of contagion to Emerging Markets, which have driven oil & gas demand growth in last 5 years, will only happen if Europe undergoes major collapse
- If Europe manages to avoid the break-up of the Euro, supply risks will likely quickly become the major driver of prices again

In Longer Run: Supply Upsides and Risks Will Predominate

- In the longer run, there are some major new sources of growth...
 - US shale oil and gas
 - Canadian oil sands
 - Equatorial margin
 - East Med gas
 - East African gas (and oil?)
 - Angolan pre-salt (?)
 - What's next? Arctic?
- ...but also some high disruption risks
 - Middle East is undergoing some potentially highly disruptive political changes

Non Opec supply upsides expected, but beware of geopolitical surprises

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