

IBIA Convention – Hamburg

November 5, 2014

2015: Price Implications for US & Europe

Steve T. Leonard

Director Global Sales



Overall Price Outlook

Overall Forecast:

- Major banks have cut 2014 and 2015 crude oil price forecasts citing global growth concerns, a strengthening dollar and ample supplies.
- Standard & Poor revised its oil outlook to \$85, \$80, \$3.75 down from \$105, \$95, \$4 Henry Hub.
- Many banks see Brent around \$92 by next year which would put MOPS 380 ~\$50 higher than the current levels (upside bias as ignores geopolitical risk).
- Benefit for the global economy but it might have some consequences. Recent price drop will present some challenges for those producers who base budget assumptions on oil prices above \$100 per barrel.

Bullish scenario:

- Substantial OPEC/Saudi Arabia cut in production.
- Conflicts threatening oil production in ME/NA.

Bearish scenario:

- Higher US shale production – Wood McKenzie: “too robust to bust”?
- Saudis more concerned about market share than price at the moment.
- Further downgrades of world demand, industrial slowdown and a strong \$.

Tight Oil - Too Robust to Bust?

Rotary Rig Count 10/31/2014



Location	Week	+/-	Week Ago	+/-	Year Ago
Land	1862	3	1859	196	1666
Inland Waters	14	1	13	-3	17
Offshore	53	-2	55	-6	59
United States Total	1929	2	1927	187	1742
Gulf Of Mexico	51	-2	53	-6	57
Canada	429	3	426	35	394
North America	2358	5	2353	222	2136

Fuel Availability & Price Levels 2015 > ECAs: Europe

- MGO is a fungible product that is readily available in almost all ports without any of the issues associated with fuel oil.
- OWB analysis indicates that MGO should be available in sufficient quantity for use in ECAs (0.1% S)
- Oil companies are working on developing alternative 0.1% fuel similar to HFO
 - ExxonMobil, HDME50, limited quantities available in ARA region
 - Lukoil, CEPSA, BP and other equivalents
 - Pricing and Availability Issues
- In ARA, Germany and Nordic waters OW will be ready to meet demand for Gasoil 0.1% and ULS FO 0.1% (ISO 8217 RMD80) from December onwards.

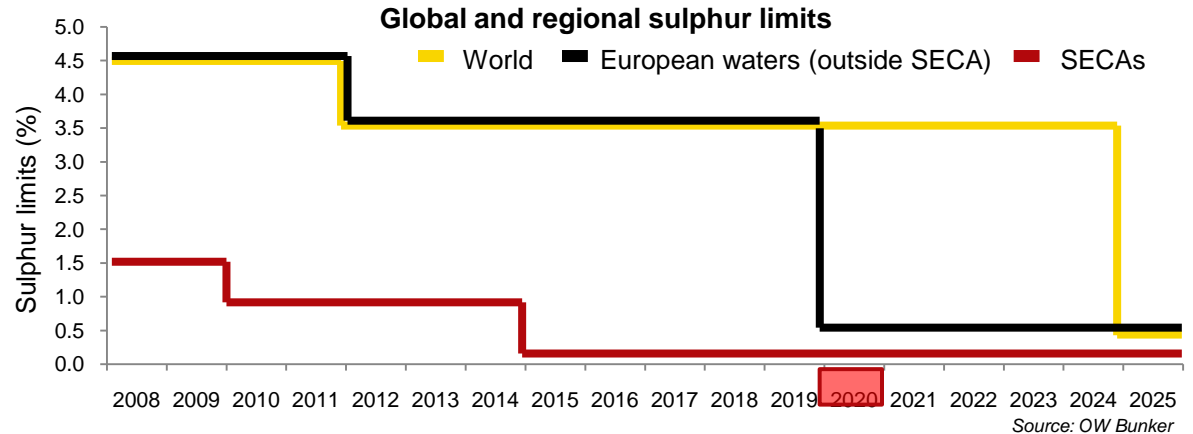
Fuel Availability & Price Levels 2015 > ECAs: USA

- MGO will initially dominate the supply in the Americas. Fuel oil 0.1% will be available/supplied on a limited basis initially and increase or decrease as ship owners decide on their best option.
- MGO will become very competitive with margins driven down to LSFO levels and below.
- Overall: Ultra Low Sulfur Heavy Fuel Oil is not available
 - NYH: expect an abundance of MGO available. Larger sized inquires for LSMGO from containers in NYH already (600-800mt) - could be due to market levels, but also due to changeover.
 - USGC: No supply issues; 2015 ECA should be a great opportunity for some hubs to increase (or recover) demand.
 - USWC: Refiners blending a 0.1 DMA product with a 30 API. CARB requires only distillate product be used in-port and within 24nm limits. This contradicts ECA regulations. LSFO 0.1% / Scrubbers will not be usable until CARB says so.
- Barge operators struggling to reconfigure barges that currently have 1.0% LSFO tanks. Do operators clean these tanks for MGO or just thoroughly strip out 1.0% LSFO to load 0.1% LSFO?

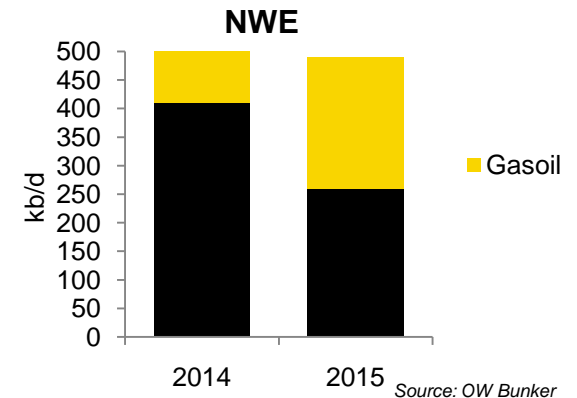
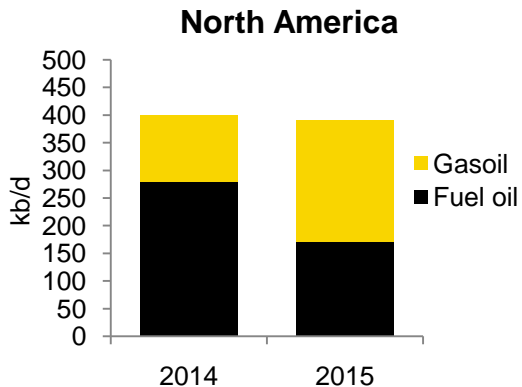
Sulphur Emission Control Area

Development in Regulations

- '06 First SECA zone in Baltic with max 1.5% Sulphur
- '07 SECA Zone expanded to North Sea
- '10 Change from 1.5% to 1.0% Sulphur limit
- '15 Introduction of 0.1% Sulphur limit



Demand shifts from fuel oil to gasoil is 260 kb/d





Thank you!