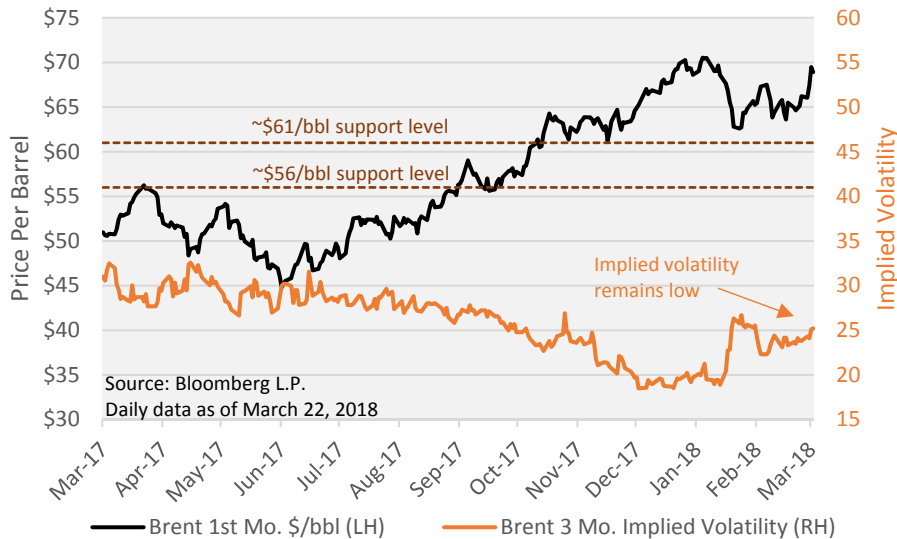




Oil Report – Looking at the Big Picture

Exhibit 1

Brent Daily Prices & Volatility



- **Executive Summary:** Oil prices are firming once again after a pullback in February. Providing support has been global demand and synchronized growth in the world's major economies. Both Iran and Venezuela are faced with potential sanctions that could drive oil prices higher.

- **Exhibit 1:** The Brent 1st month contract has regained its footing after a pull back to the \$62/bbl level. Prices have been trading in the \$60s since October and traders will be watching for a breakout. At play is the potential for sanctions on Iran and Venezuela (both OPEC members) by the U.S. Implied volatility levels derived from option pricing remains low despite the geo-political risks.

- A May 12 deadline has been imposed to re-engineer the Iran nuclear deal between the U.S. and European signatories. There is a risk that the U.S. will seek to reimpose sanctions to limit oil exports from the OPEC member.

- U.S. President, Donald Trump, has assigned Mike Pompeo as his new Secretary of State and John Bolton as his national security adviser. Both men are critics of governments in Iran and Venezuela.

- Should Iran and Venezuela face sanctioning, any increase in oil prices as a result will likely be met with the lowering or removal of the 1.8M bbl/day OPEC/non-OPEC production cuts and a possible ramp up in shale production.

- **Exhibit 2:** The Brent futures curves remains firmly in backwardation (downward sloping). This is reflective of a drawdown in inventories supported by the OPEC production cuts.

- According to Clarksons, in their latest offshore rig report, the count of active floater rigs (Deepwater) increased by 4 units MoM to 141 and the count of active jack-up rigs (Shallow water) increased by 4 units to 319 over the same period. "The relative strength of the Norwegian [offshore rig] market is becoming increasingly clear in recent months."

Exhibit 2

Brent Futures Curves

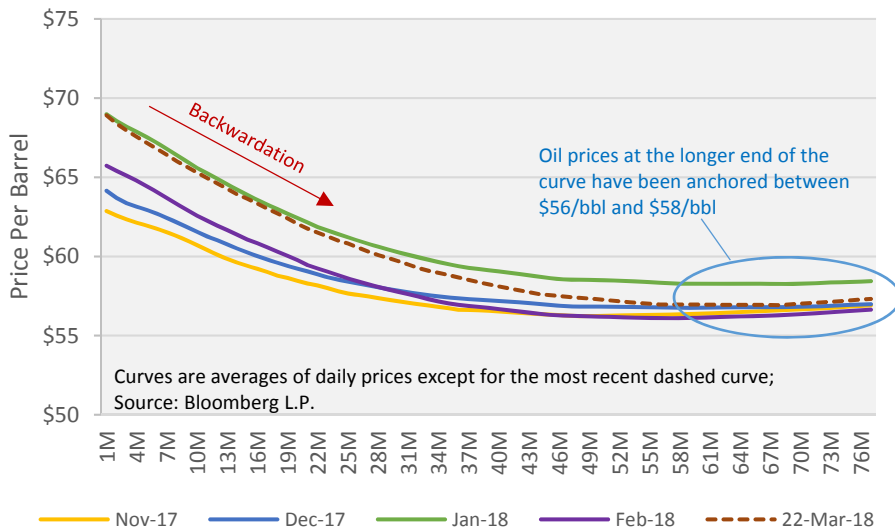


Exhibit 3 **Real GDP by Country/Region (YoY % Change)**

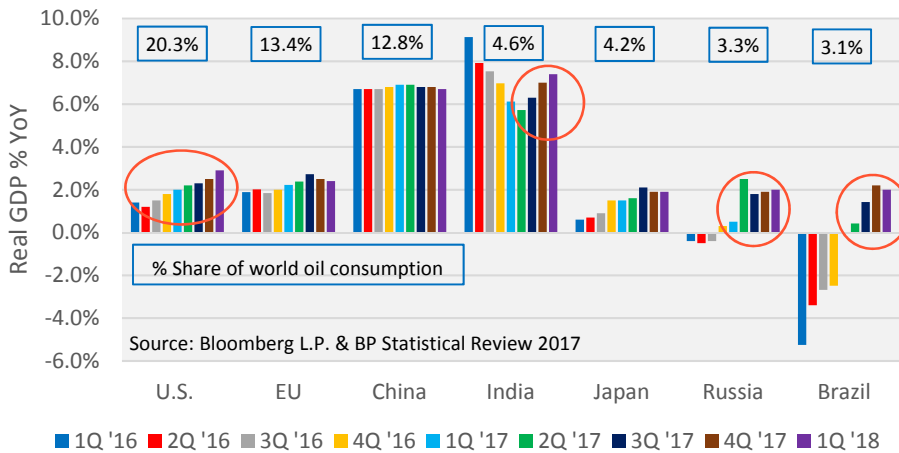


Exhibit 4 **Unemployment Rate by Country/Region**

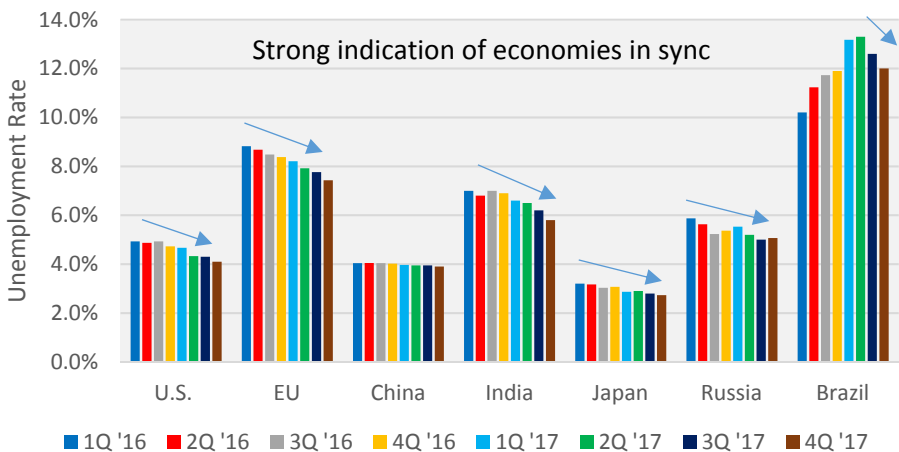
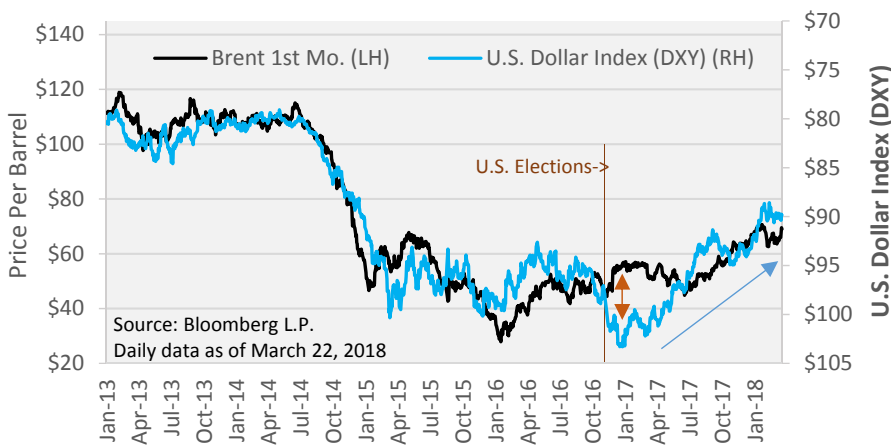
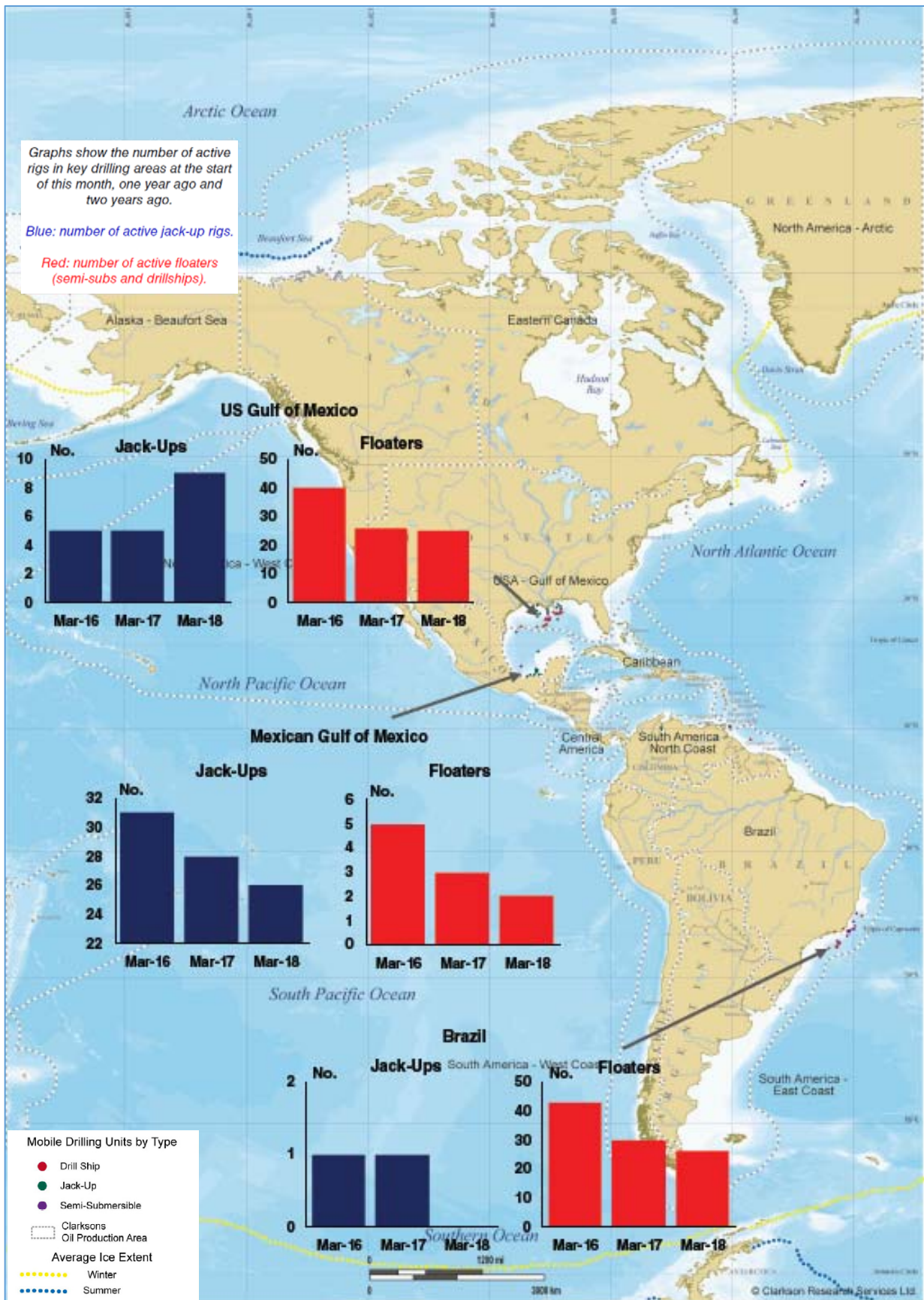


Exhibit 5 **Brent 1st Mo. vs. U.S. Dollar Index (Inverted)**

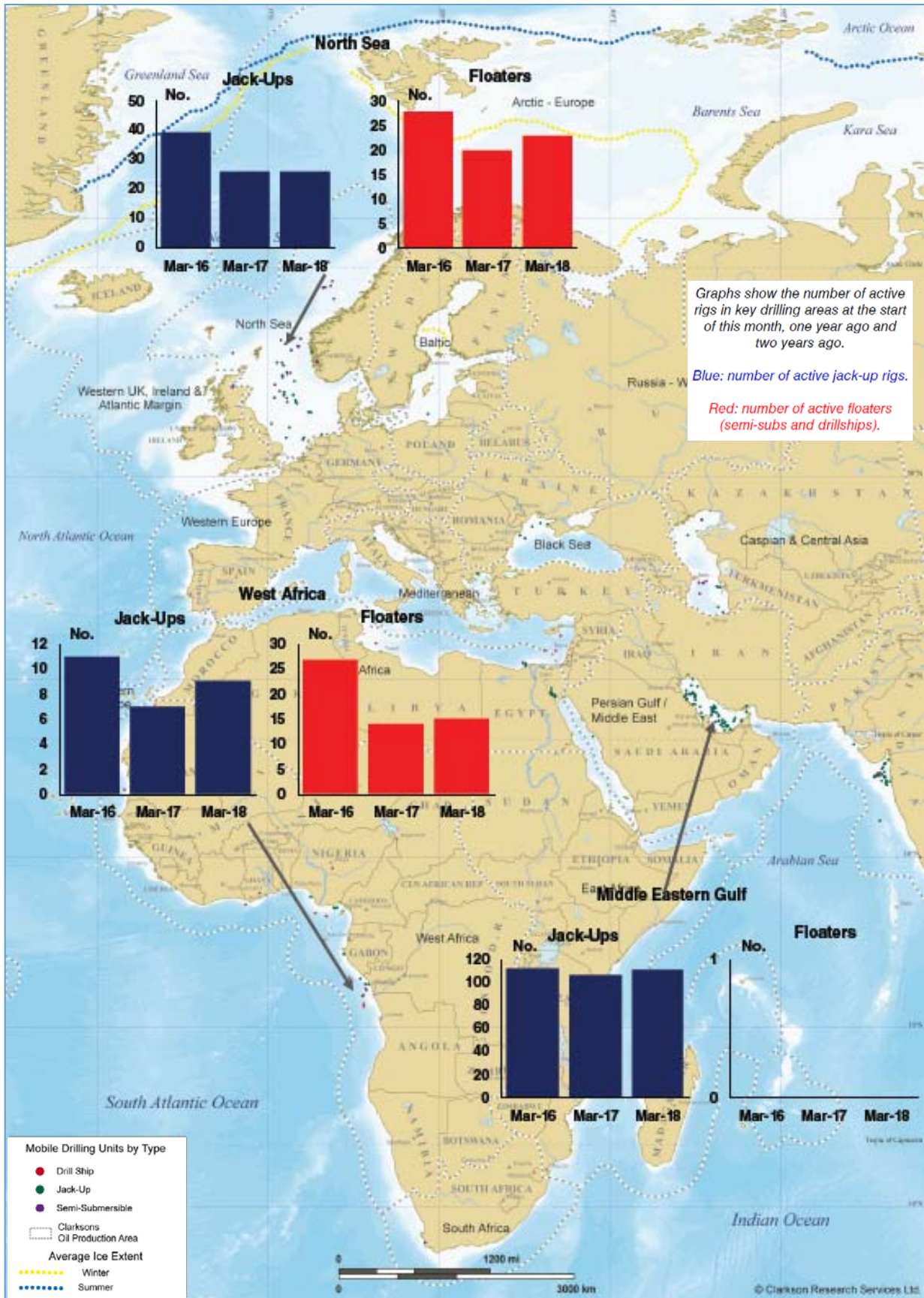


- According to the International Energy Agency (IEA), OPEC’s compliance among members towards its 1.8M bbl/day in production cuts is at 147% for February. When excluding Venezuela, the compliance would be at 100%. OPEC’s next scheduled meeting to review the production cuts is June 22.
- The IPO of Saudi Arabia’s national oil company, Saudi Aramco, with an estimated value of \$1.3T to \$2.0T, appears to have been scaled back with a listing on the Saudi exchange, Tadawul. An international IPO carried some complications and disclosure risk. The IPO is viewed as a motivating factor for Saudi Arabia to stabilize oil prices.
- Eni management has put forward a proposal to its Board of Directors to increase the dividend by 4%. This would mark the first dividend increase since 2014 for the Italian oil major. The company also indicated that it would consider share buybacks dependent on cash levels generated (March 16).
- Ghana’s GDP for 2018 is forecasted to grow 7.1% based on a consensus of analyst estimates from Bloomberg (March 16). The increase from 5.9% in 2017 and 3.5% in 2016 is being led by offshore oil projects coming online. Both Anglo-Irish based Tullow Oil and Eni have expanded operations in Ghana in recent years.
- **Exhibit 3:** Based on quarterly real GDP growth as sorted by the world’s leading consumers of oil (Saudi Arabia is excluded as it releases annual data), one can see that the emerging market countries have rebounded in a similar timeframe while China remains strong at +6%.
- **Exhibit 4:** Synchronized growth among countries has been a tail wind among trading partners. As more people are employed, this increases their standard of living, encourages the importation of goods and creates employment for exporting countries. This can be considered a feedback loop that is supportive of commodity prices.
- With the recent announcements of tariffs on goods imported into the U.S. and China, this presents a risk, albeit small, to economic growth. Unclear at this point is the impact to the oil industry with tariffs on steel that is used for pipelines.
- **Exhibit 5:** With the weakening of the U.S. Dollar (USD) since 1Q 2016, this would imply that economies outside the U.S. have improved on a relative basis. Should this trend continue as supported with feedback loops this would imply further support to oil prices given its correlation to USD.

Clarksons Research – Offshore Drilling Rig Report – March 2018



Clarksons Research – Offshore Drilling Rig Report – March 2018



Graphs show the number of active rigs in key drilling areas at the start of this month, one year ago and two years ago.

Blue: number of active jack-up rigs.

Red: number of active floaters (semi subs and drillships).

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