



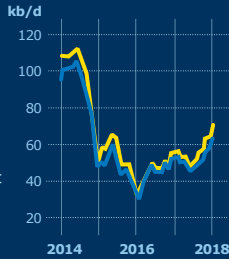
# 2018 Oil Strategy Outlook: The Battle for Balance

The fundamental backdrop is improving but 'Tourist Traders' can have an outsized impact on oil prices.

## 2018 Outlook: What To Watch For

### Prices

The push-pull between bearish US production and a bullish global macro framework will keep prices range near current levels but the market is fraught with asymmetrical risk to the upside given a geopolitical backdrop that is heating up.

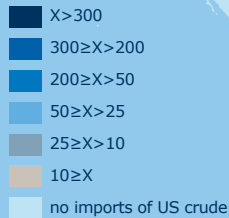


### Inventories

We expect them to return to seasonally normal levels by mid-2018 based on balances that currently suggest global stock draws of **400 kb/d** on average through 2018.

400 kb/d

#### 2017 US Crude Exports by Country (kb/d)



### Introducing the US As the Oil Market's First Quintuple Threat

The US is the Wal-Mart of the oil market. You need it? They have it. Elastic production, diverse crude quality, vast storage, integrated trading capabilities, and concentrated refining capacity all hold radically different roles today compared to prior to the downturn. This is completely re-writing the historical rules of thumb of global competition.

The drastically improved fundamental backdrop makes the recent recovery more sustainable in 2018.



The necessity of OPEC's production cut extension.



The Atlantic Basin physical oil differentials act as a barometer of the oil market's health.



The US shale phenomenon has gone global, with US barrels competing in key demand growth regions such as China and India.

## Key Risks For 2018

US Production

Market Risk Appetite

Geopolitical Risk

Global demand appetite

OPEC Off Ramp

### Tourist Traders Adopt a Herd Mentality

Influx of non-energy specialists with little knowledge of the oil market can cause violent price swings and a decoupling from fundamentals for longer periods

Due to less expertise in the oil market, these traders are influenced more by headlines than the market fundamentals, leading prices to disconnect for longer periods of time than historically.



### Crude Oil Prices In the Last 10 Years

