

Oil Strategy Outlook 2019

Overlooked and Underestimated Themes

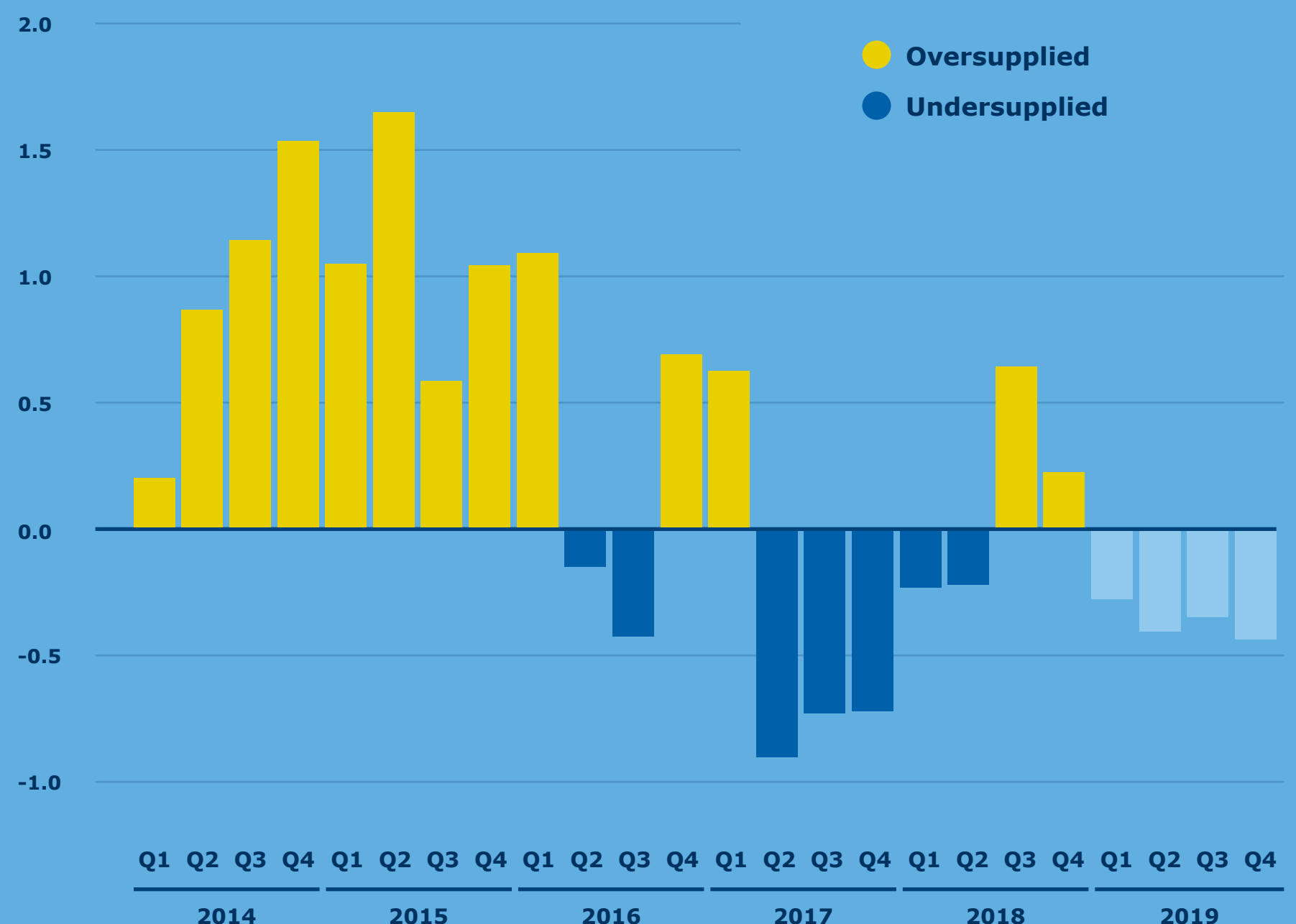
Global supply and demand should find a fine balance next year but seasonality of demand may pose a challenge.

Outlook: A Balanced State?

Global supply and demand should reach a fine balance due to OPEC's resolve to return the market to equilibrium, but seasonality of demand may pose a challenge.



Global Supply & Demand Balance

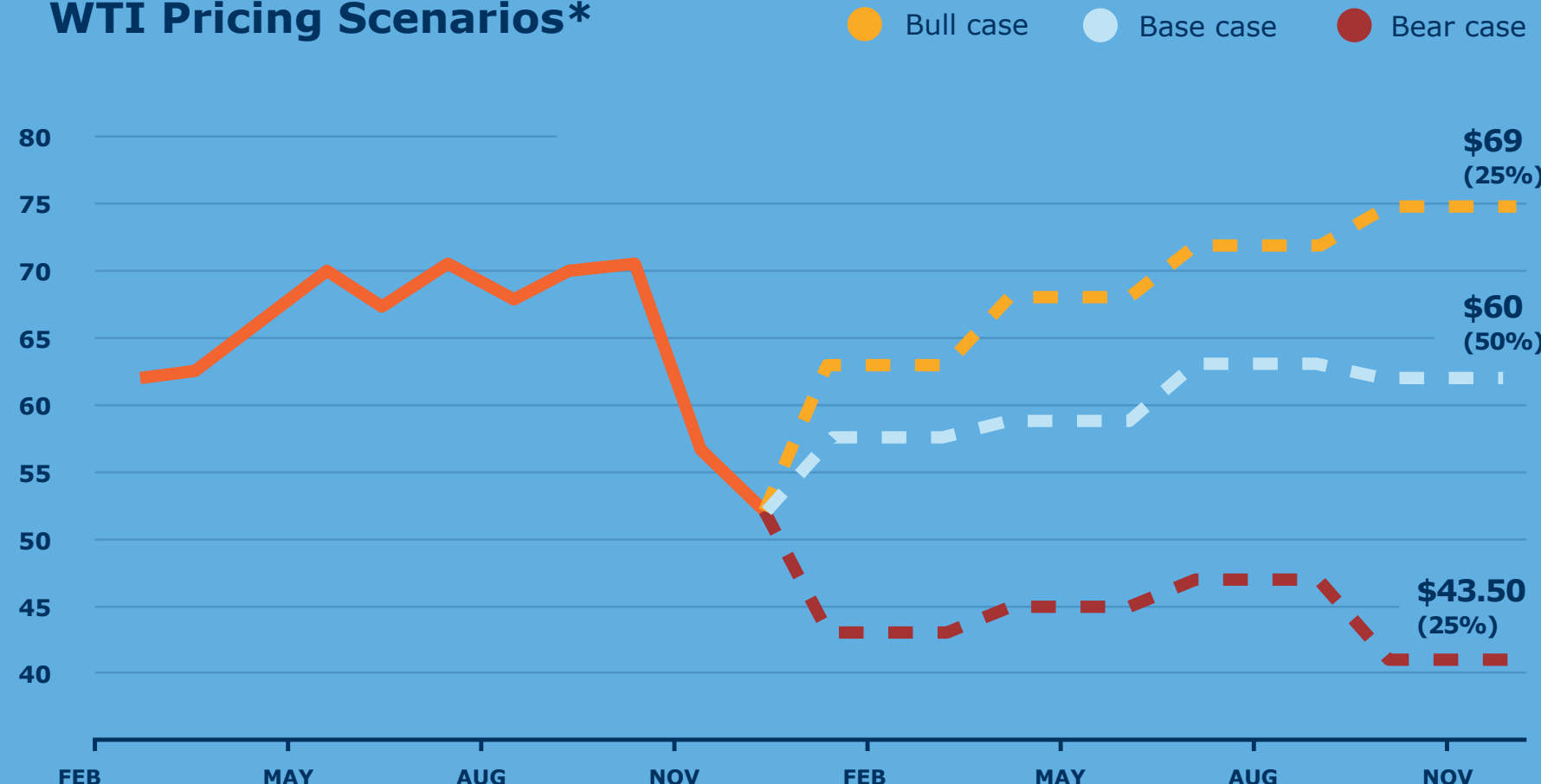


Price Outlook

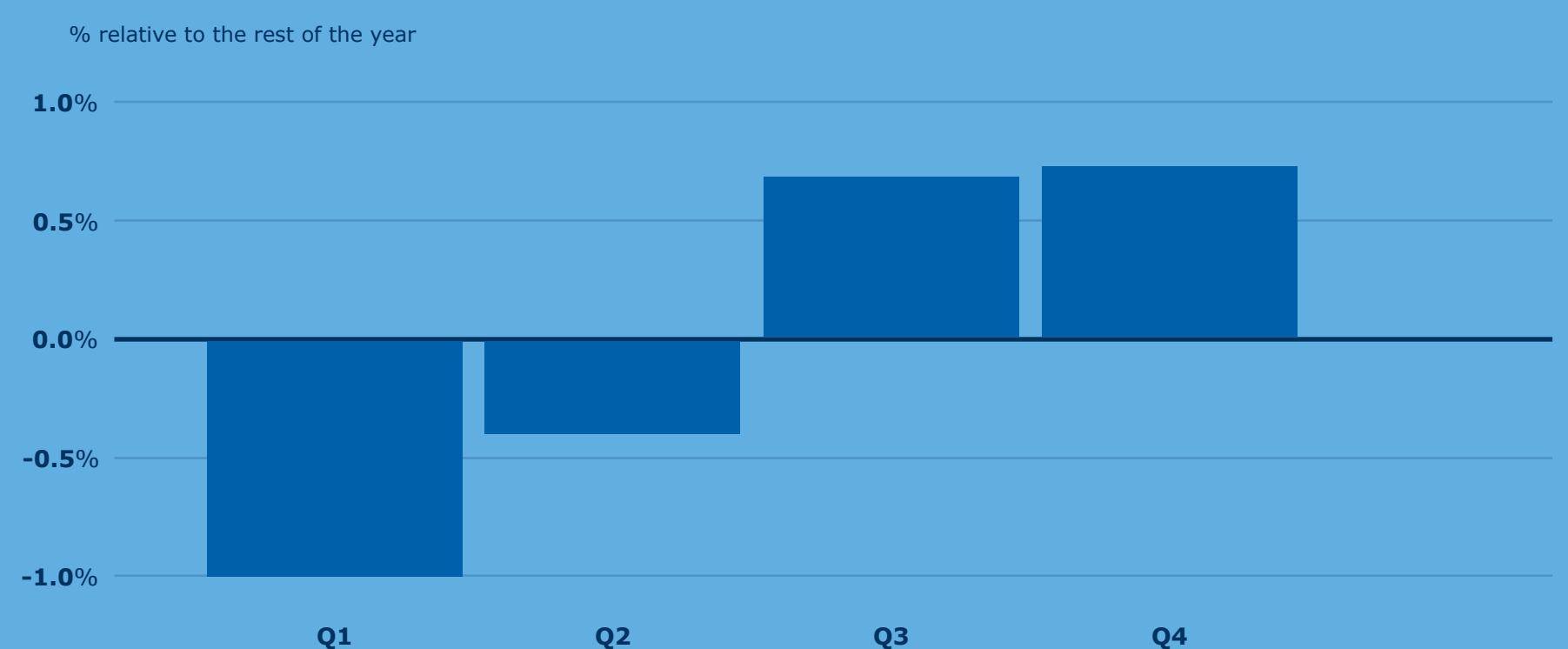
Michael Tran believes that the market is oversold and has a "moderately constructive" price outlook.

We expect WTI and Brent to average \$60 and \$68/bbl this year, respectively.

WTI Pricing Scenarios*



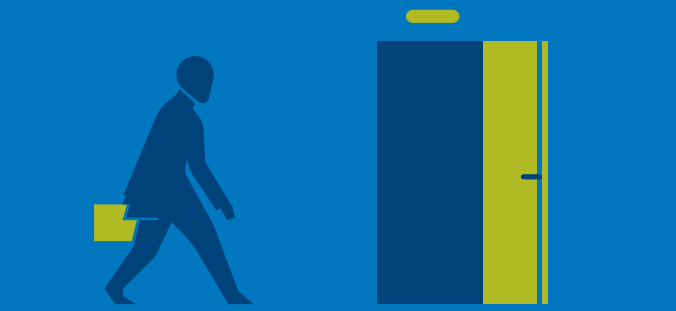
Global Oil Demand Seasonality (five year avg.)



* measured in annual averages

Source: RBC Capital Markets, Bloomberg, Petro-logistics SA, IEA, EIA, JODI, Company and government sources.

What to Watch For in 2019



Ongoing exit of energy dedicated traders

A structural issue altering the signal to noise ratio perception.



Geopolitical hotspots

Supply outages from geopolitical hotspots remain a clear and present danger for a market that has become complacent about disruption risk.



Crude Quality Matters

OPEC+ will be evaluating their individual crude slates and ultimately look to cut the least valuable barrel.



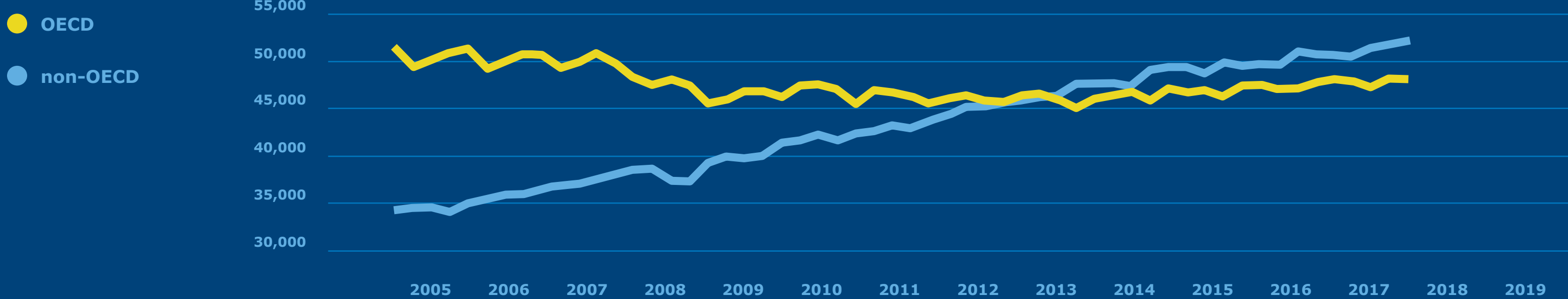
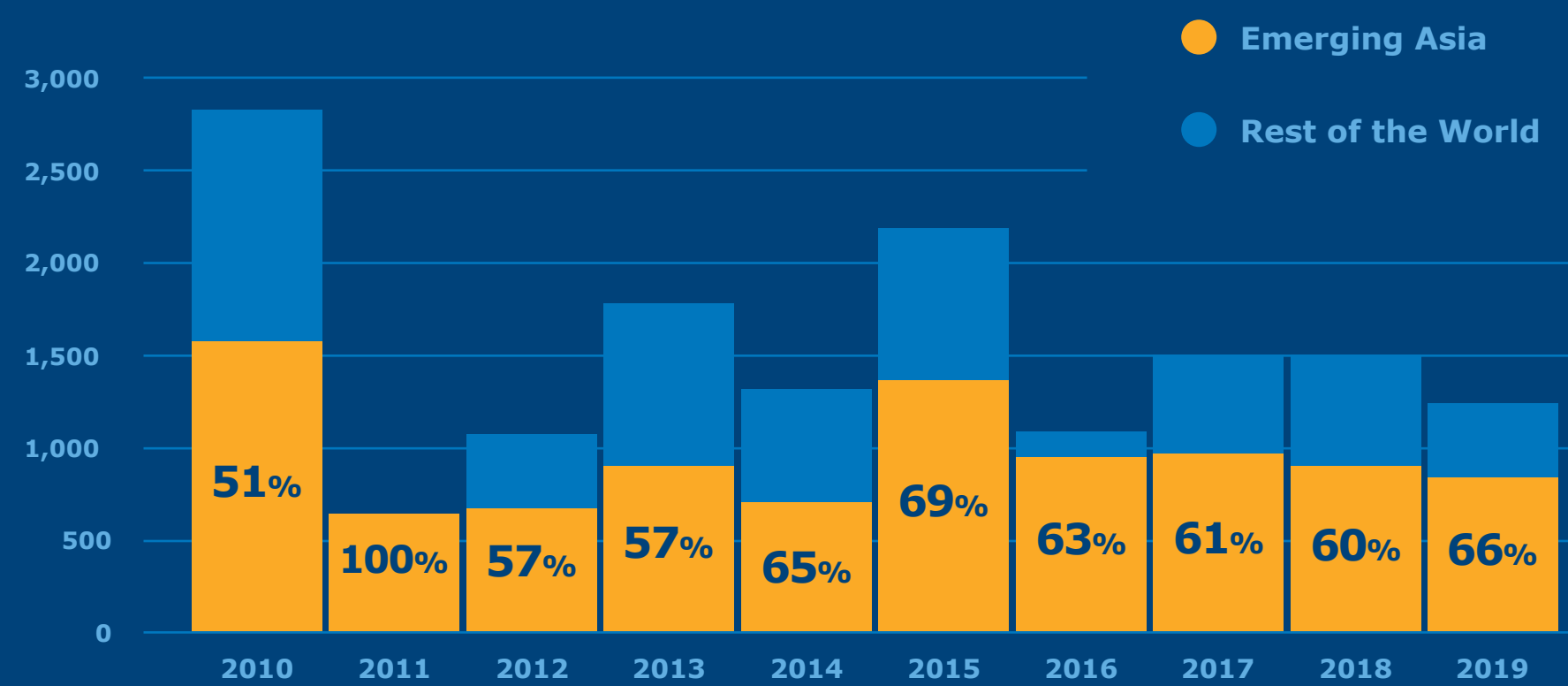
Light(en)ing up the market

Lost medium and heavy barrels are difficult to replace given challenges in Iran, Venezuela, Mexico and Canada.

The Macro View on Oil Demand

Concentration Risk Persists

Despite headlines of a slowing global macro backdrop, Michael Tran anticipates status quo steady oil consumption near 1.2 mb/d. As OECD oil demand reverts to a structural downward trend, global oil demand growth is fueled by China, India, and rest of Emerging Asia — meaning significant concentration risk exists.



Source: RBC Capital Markets, Reuters, Bloomberg, Petro-logistics SA, IEA, EIA, JODI, company and government sources.

The One Indicator to Watch in 2019

Gasoline Margins

The market may be fixated on crude balances but poor gasoline margins are the single biggest fundamental downside risk to the oil market for the year ahead, with the possibility of setting off a domino effect of economic run cuts across geographies.

The Bearish Domino Effect: saturated gasoline balances are a supply issue and not to be confused with a weak demand story.



Asia-Pacific
\$3.19/bbl
(Singapore)



U.S. Gulf Coast
\$12.14/bbl



North West Europe
\$6.43/bbl



Mediterranean
\$4.99/bbl