



CORNERSTONE ANALYTICS

THE MORNING ENERGY UPDATE

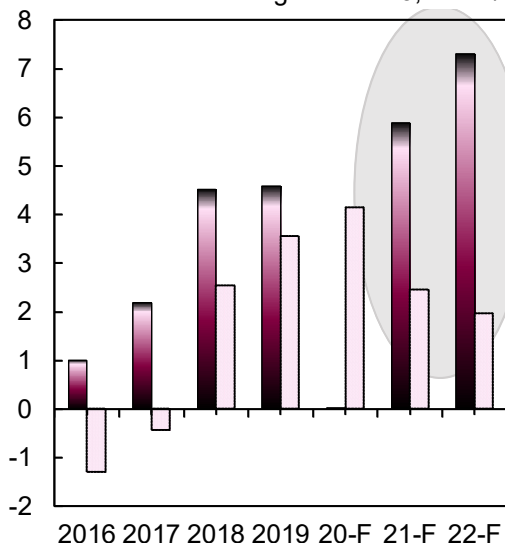
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IT'S TOO SOON TO TALK ABOUT THE MEDIUM TERM, BUT IT ISN'T TOO SOON TO START *THINKING* ABOUT IT

Demand vs Non-OPEC Supply

Accumulated change since '15, MM b/d

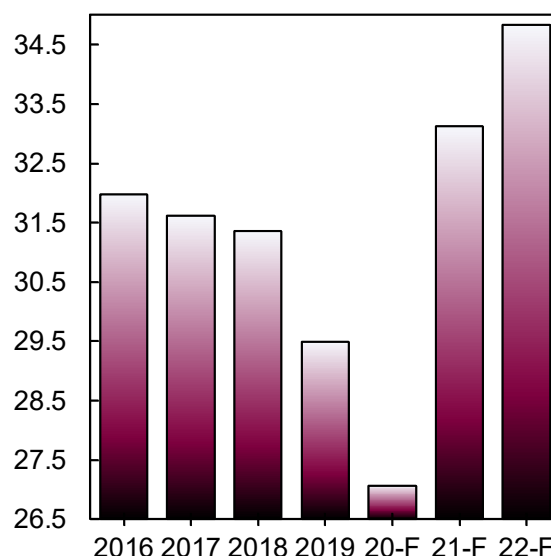


While we're mired in a historic oil supply and demand imbalance, there're questions one should contemplate for the outlook after WuFlu demand effects abate. In our written and video updates we have purposely refrained from focusing on the medium term. The "why" is because we feel it unfitting to downplay significant near-term bearish issues since OPEC's punt on March 6th and because of the subsequent data in late March pointing to an epic demand contraction. We still think the focus needs to be on near term issues (we discuss another one on the following page), but we are getting some questions about what happens "down the road." In short, we see demand rebounding post 2020 without a consequent rebound in non-OPEC supply. The result is a material jump in the "call on OPEC oil" that we think will strain the group's production capacity and work away the inventory overhang that is likely to develop this year.

The building blocks of the forecast center on global oil demand returning to a trend growth figure post-2020. Oil demand remains joined at the hip with world economic activity meaning the end of isolating effects from the WuFlu will put growth back on solid footing. As to a muted non-OPEC production path, we're facing strong prospects for US output to decline further after this year before flattening out. This represents a dramatic change from the past decade. Shale's "twilight" hasn't been discounted by market players, nor have probable impacts from large capital expenditure cuts in the upstream business. The "call on OPEC crude" will rise to a historically high level (9% above the all-time peak) which will be a challenge given Venezuela, Libya and Iran issues not to mention other capacity risks. Hopes that electric vehicles "kill demand" remain misplaced and we contend that the downdraft in oil prices will likely lead to delays in the already struggling initiatives that have produced only a tiny footprint in the global auto fleet.

"Call on OPEC Crude"

Annual average, MM b/d

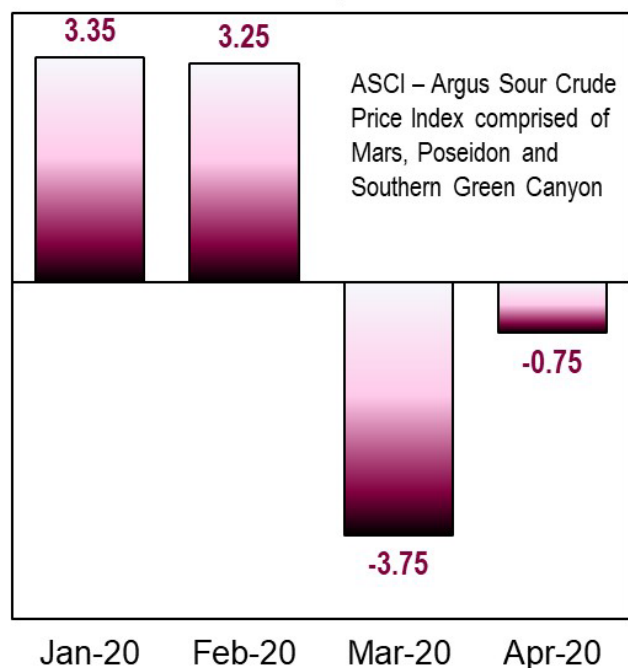


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US IMPORTS FROM SAUDI ARABIA TO SPIKE IN MAY

Arab Light-to-USA Formula

Versus ASCI, Dollars/bbl

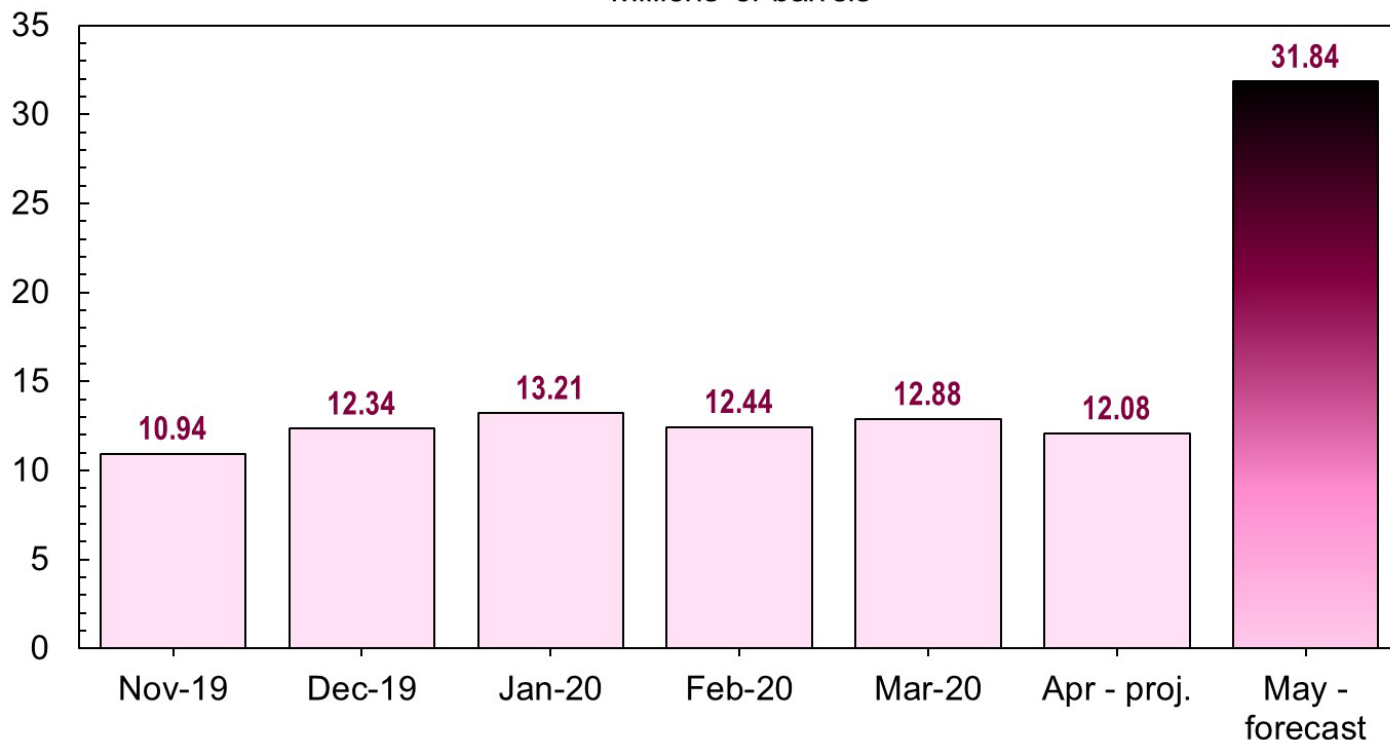


Indications from reliable sources are that a literal armada of crude laden tankers from Saudi Arabia will hit American shores next month. A wee less than 32 million barrels are scheduled to be delivered representing a near-tripling of flows compared with the preceding 6 months. As monthly numbers go, it'll be the highest level of imports from the KSA in a half-dozen years. The stepped-up purchases appeared to come in reaction to March's price formula adjustment (aka the Saudi price war). The differential to ASCI swung by $-\$7/\text{barrel}$, as detailed to the left.

The oil balance issue, of course, is that these delivered Saudi barrels will come at a time when US refinery run rates will still be depressed adding to an already evident swelling of inventories.

Monthly US Imports of Crude Oil from Saudi Arabia

Millions of barrels



JAMMING 10 POUNDS OF SALAMI INTO A 5 POUND WRAPPER

Crude stocks at Cushing, the delivery point for the NYMEX contract, are about 15% (or 10 million barrels) away from hitting the all-time high. Based on the weekly build rate of late, that 70 million barrels high watermark looks to get tested in the next two weeks. The very steep *contango* that developed in WTI's term structure reflects crude oil's storage in the large US market being filled towards capacity. This past week's contract expiration for May futures was related to the inventory capacity issue (in addition to holders of long contracts having been squeezed to liquidate open positions ahead of expiry). The inverse correlation between the time spread and Cushing crude stocks levels in our analysis below is what one should expect to see.

Cushing Crude Stocks

Weekly, Million barrels

