

# Outlook For Energy Markets

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# Key Themes In Today's Energy Markets

## 1. Crude Price: *Rangebound with an upside bias...*

*Ongoing supply outages versus mediocre demand growth have kept prices rangebound, but we have more confidence in the floor than the ceiling.*

## 2. US energy landscape: *What a difference five years makes!*

*Time to think about 'second order' impacts of the boom...*

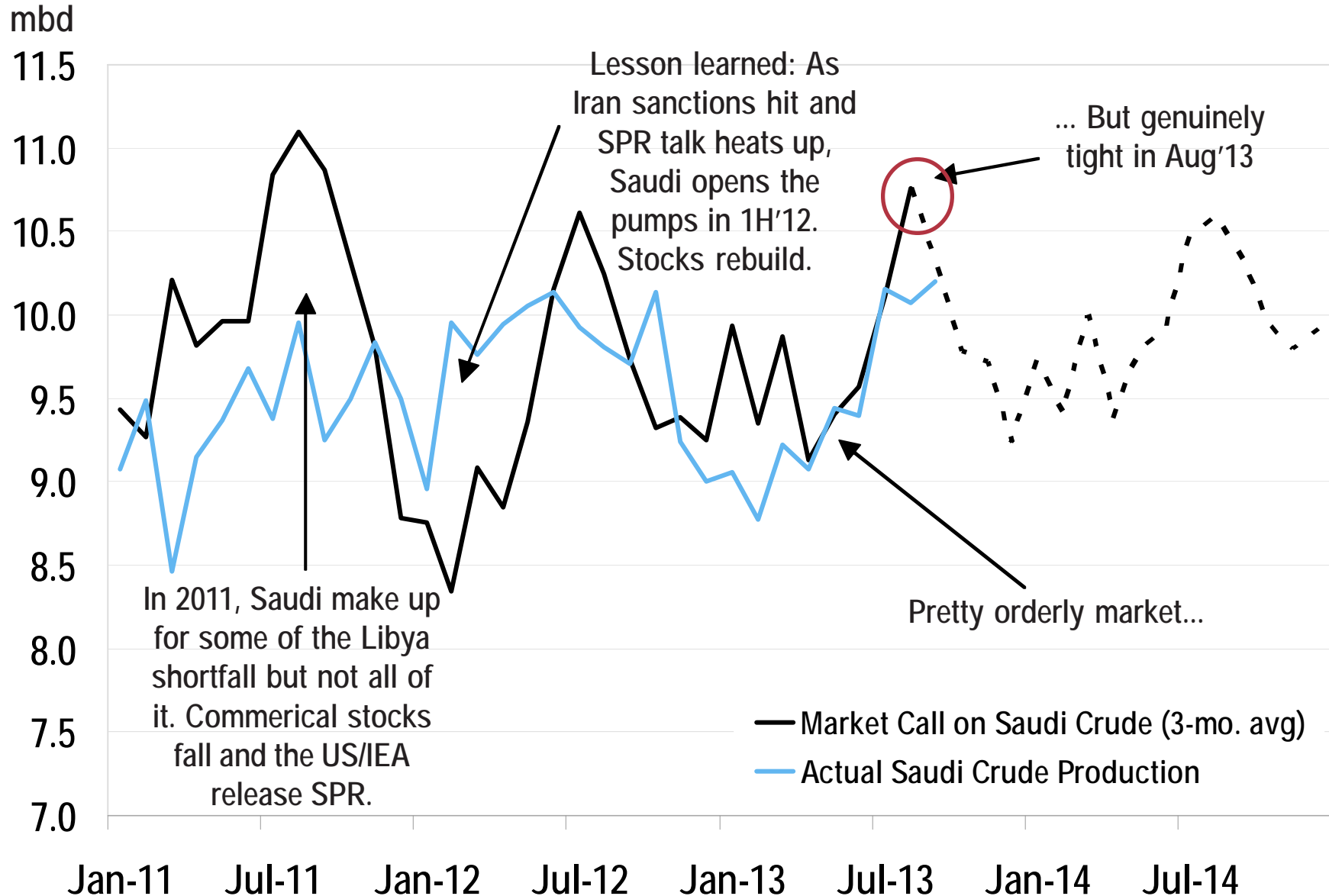
## 3. Natural gas: *Rangebound again, but this time with a bearish bias...*

*For now, both supply and demand are extremely price elastic. The market will really turn a corner when utility demand for gas becomes price inelastic.*

# 1. Rangebound Outlook for Crude Flat Price

*Ongoing supply outages versus mediocre demand growth*

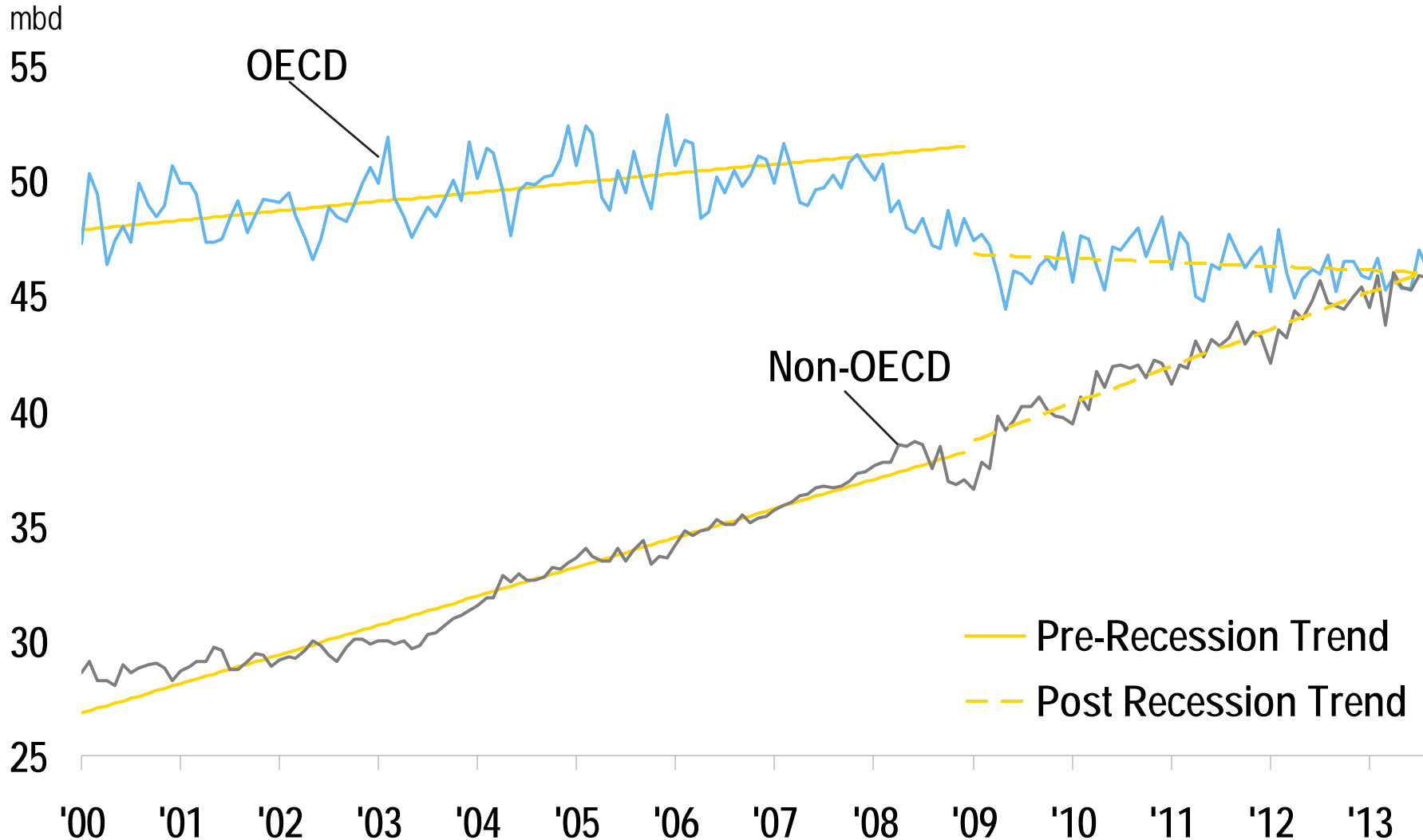
# Oil Prices Reflected Fundamentals



CIBC Commodities Strategy, Petrologistics, IEA, Company and Govn't Reports

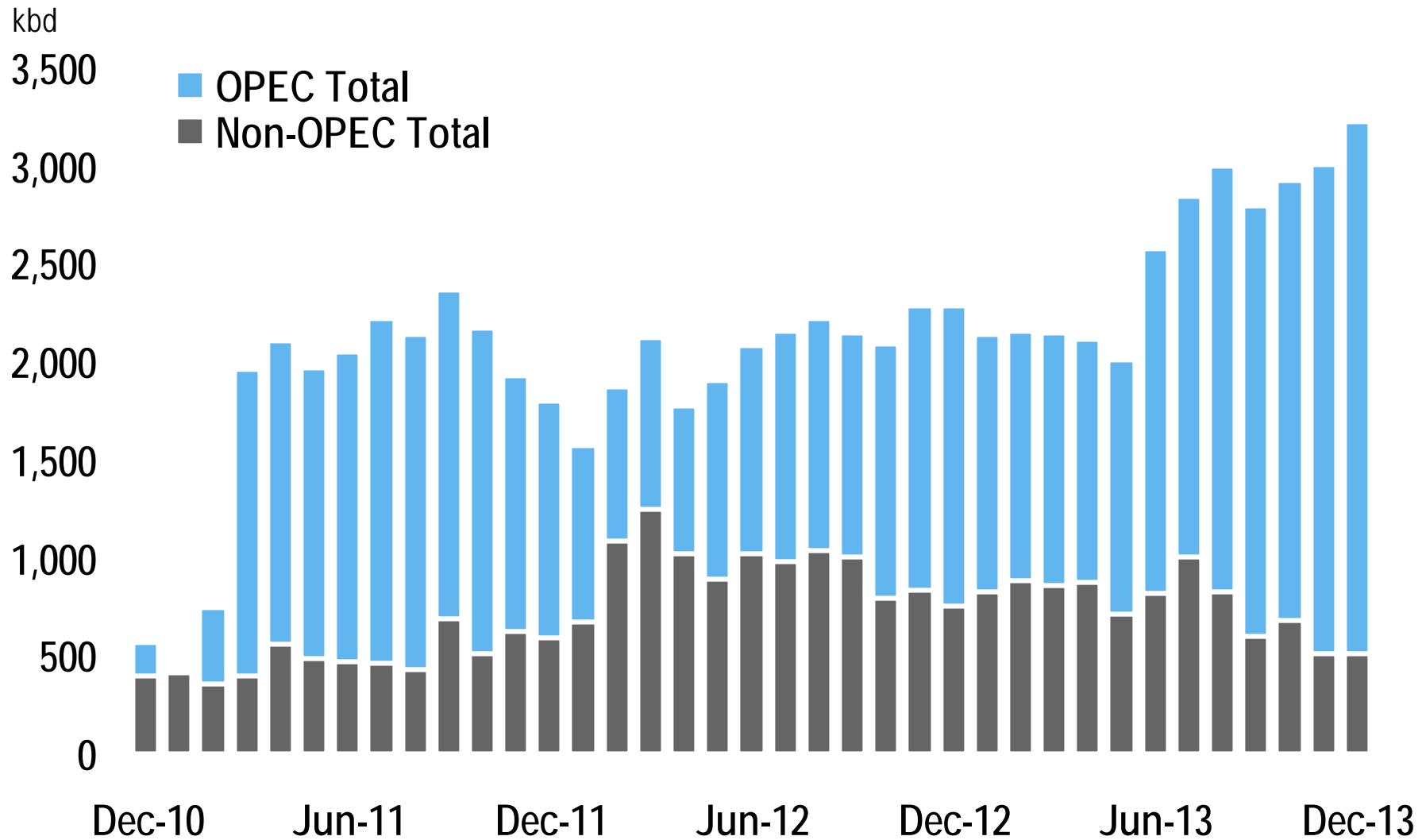
# Oil Demand Growth is in the Emerging World

(Before the recession, during the recession, after the recession)



CIBC Commodities Strategy, EIA, IEA, country & gov't sources

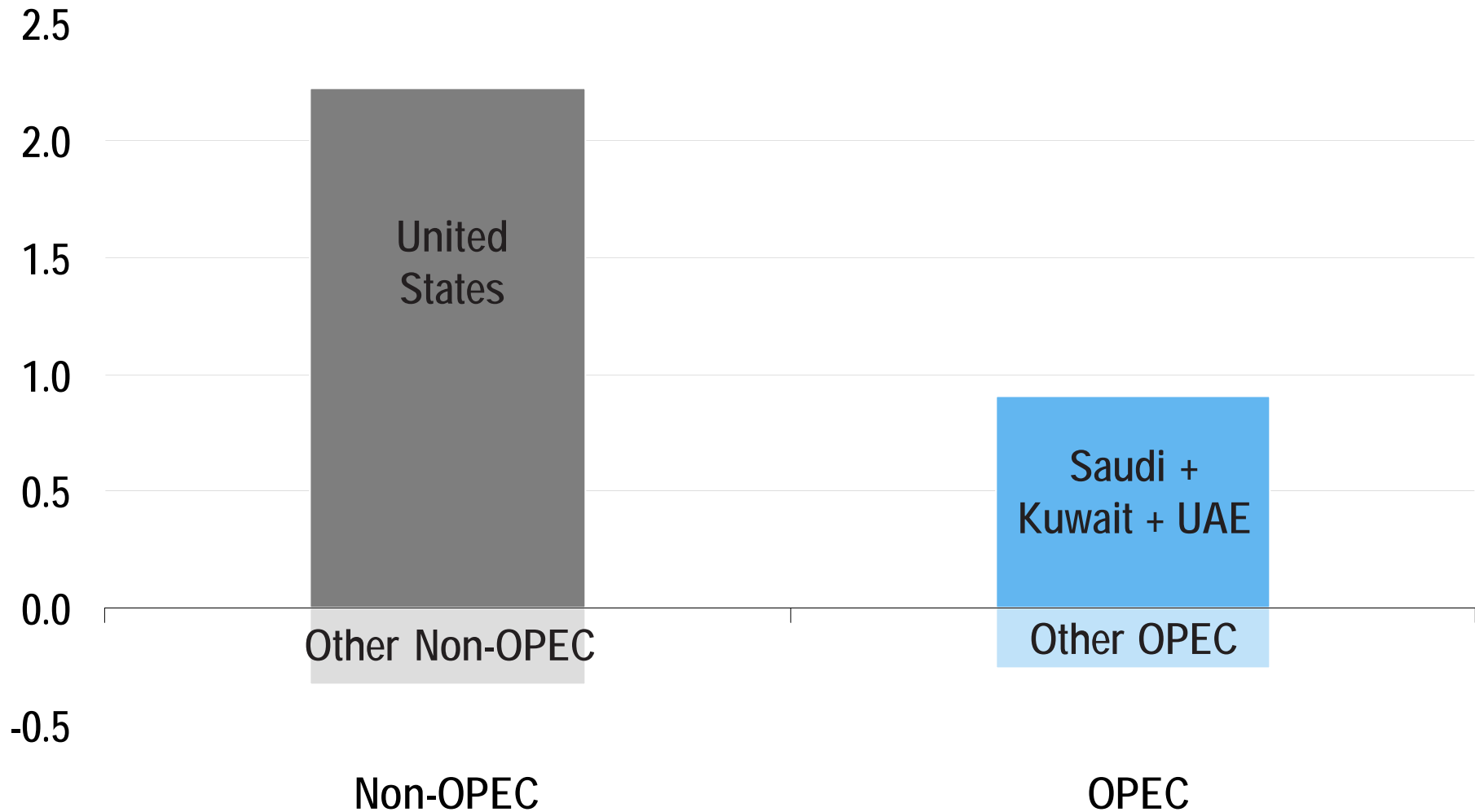
# Global Supply Outages Pile Up



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# US + Saudi Bail Out Market Single-Handedly

August'13 Versus August'11, mbd



*CIBC Commodities Strategy, IEA, EIA, Petrologistics, other company and gov't sources*

# Macro Fundamentals Summary....

- Status quo oil demand...not a new story, likely marginal improvement in 2013.
- Supply was the story in 2011-12, and is very much the story again in 2013 thanks to a persistently high outage rate in both OPEC and non-OPEC.
- Saudi has done a really good job of balancing the market.
- But the bullish take on this story? During a period of weak oil demand growth *and* unprecedented supply growth in the US, it still takes record Saudi production for months in a row to balance the market, and global oil prices never go much below \$90.
- What would that last three years have looked like *without* US growth? Remember... it doesn't come cheap. What are the implications for the investment cycle?



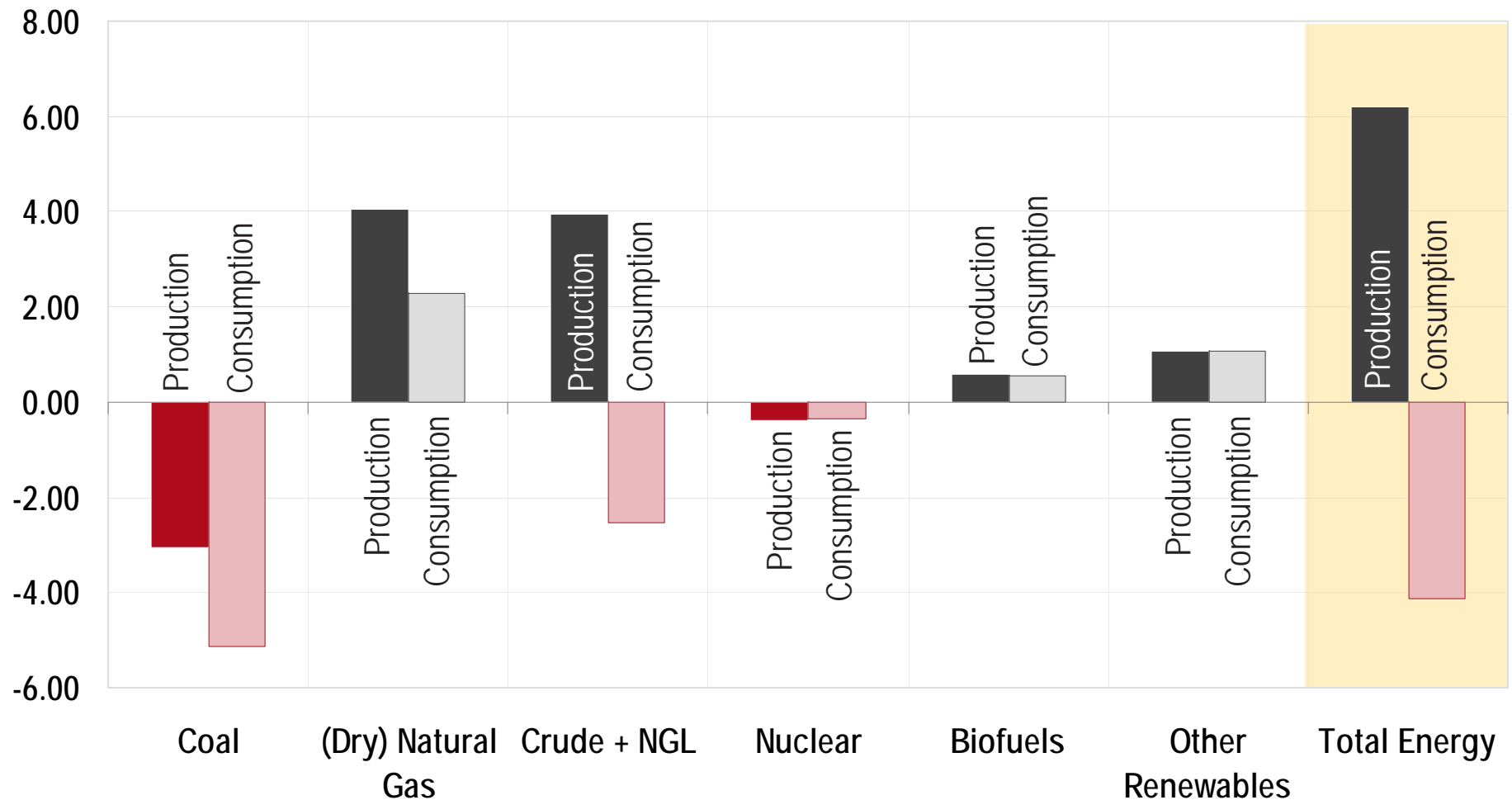
## 2. The US Energy Landscape:

*What A Difference Three Years Makes! Time to Think About 'Second Order' Implications of the Boom*

# What A Difference Three Years Makes!

## US Energy Production & Consumption, 2012 Versus 2008

quadrillion Btu

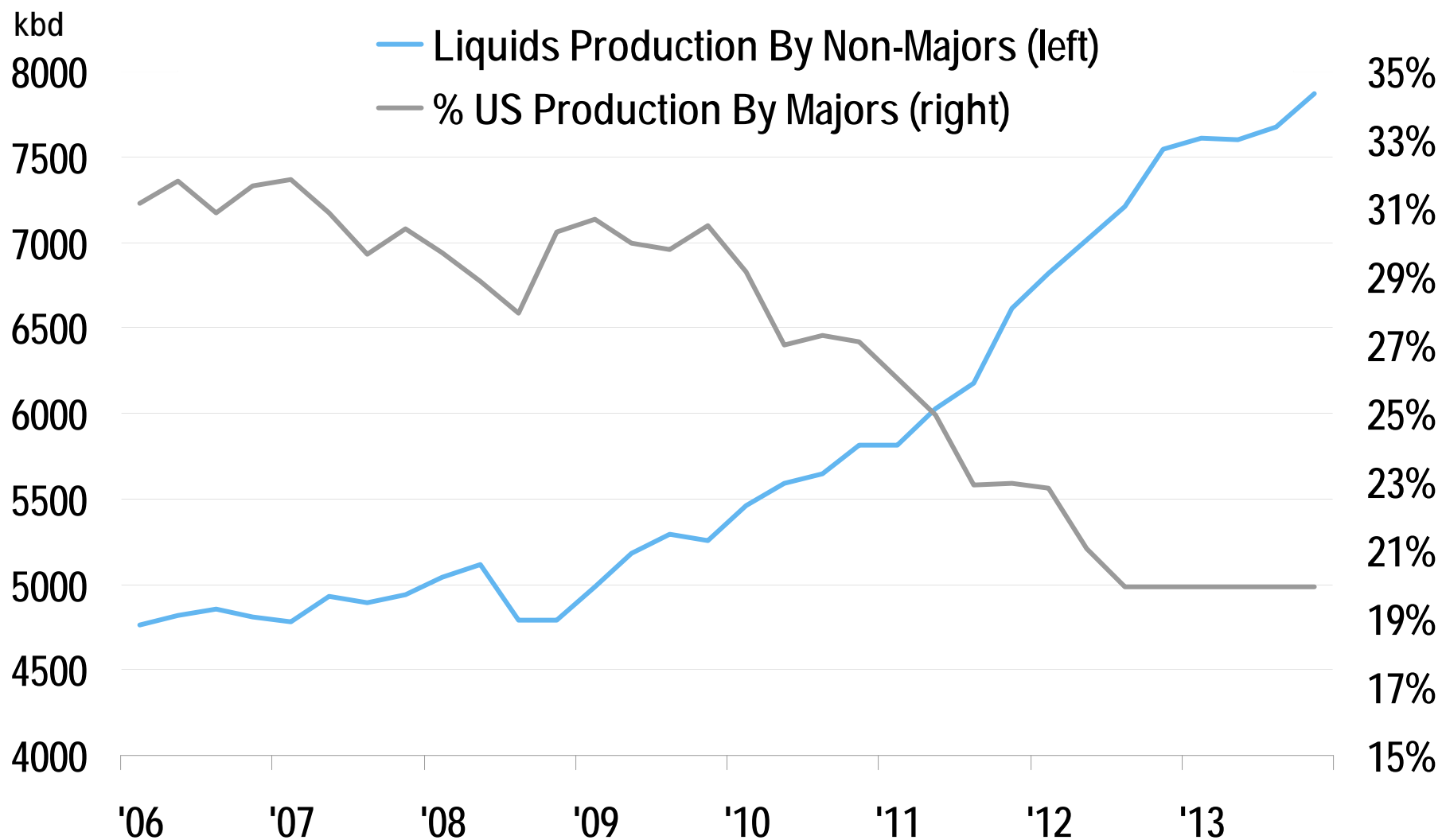


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# Impact On WTI Term Structure

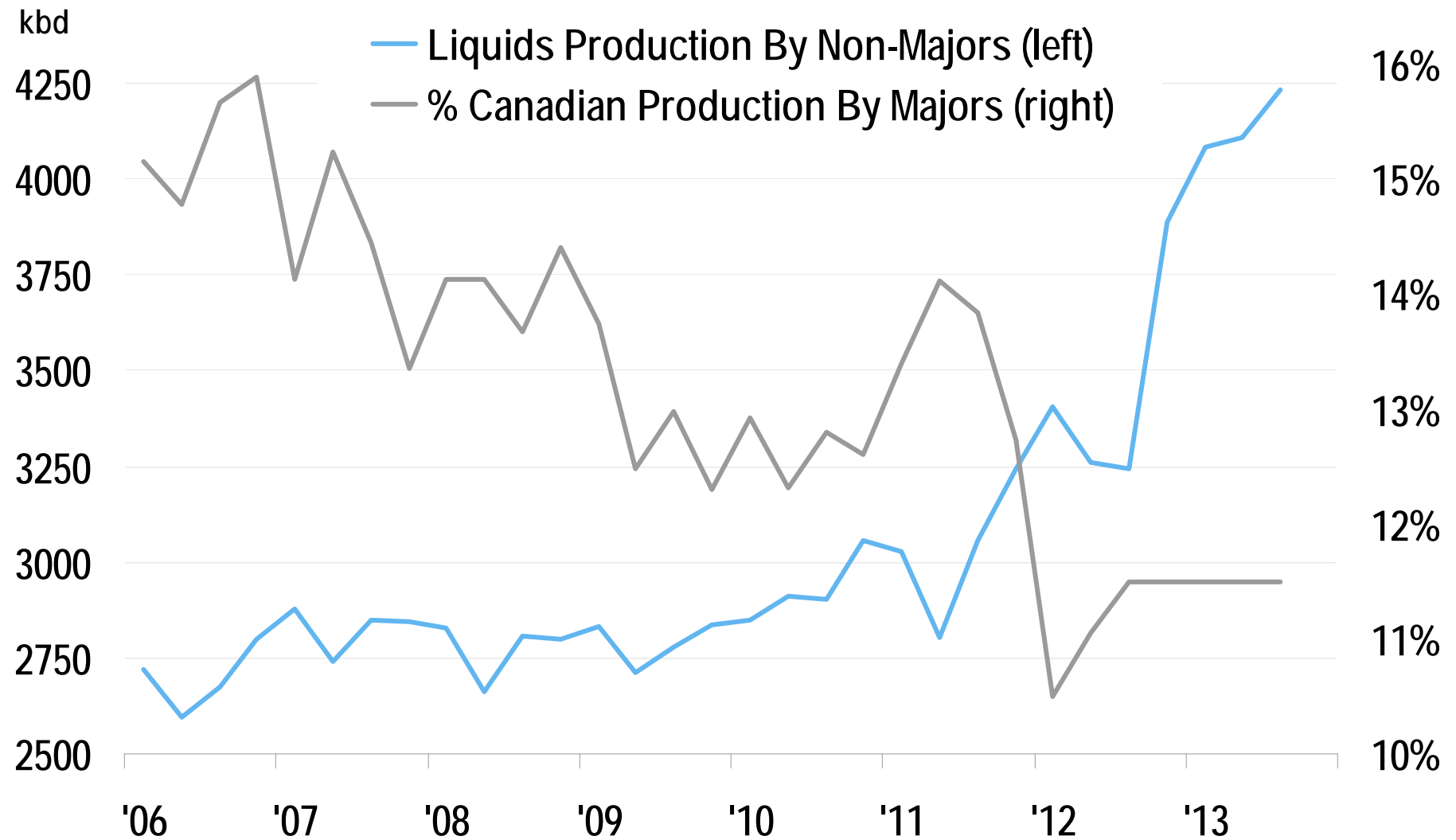
- The front of the WTI curve is a different story... we'll get to that.
- Beyond the front six months though, we think spreads will stay very well bid, in large part because, going forward, an increasing percentage of new crude production will be hedged in the forward market.
- North American producers hedge more than producers in other regions, and that's where virtually all incremental crude production growth is coming from. The type of companies most active in shale plays are even more inclined to be disciplined hedgers.
- At the same time, we would argue that deferred liquidity from hedge funds and banks has deteriorated.

# Crude Growth Not From the Majors\* In the US



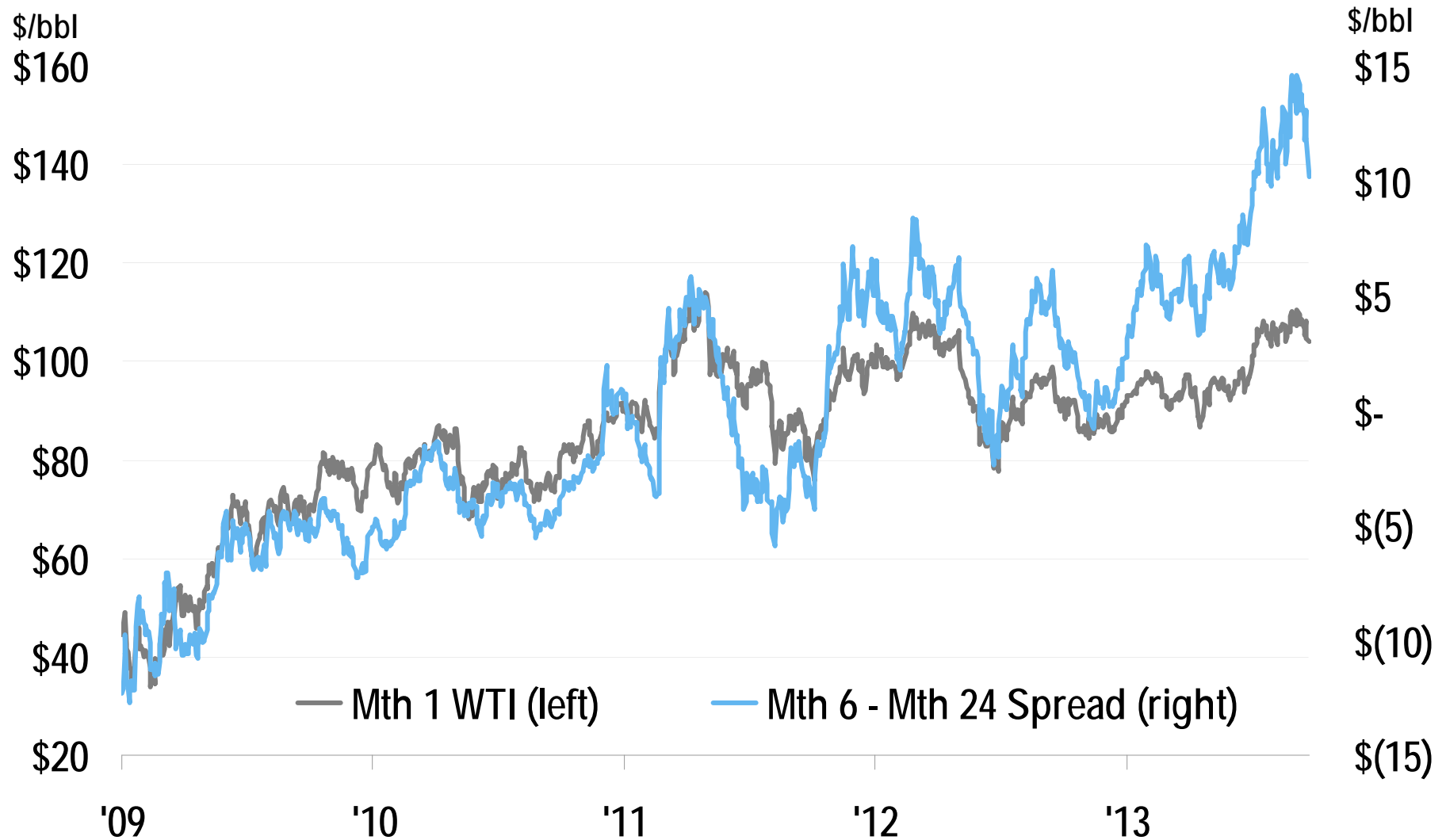
*CIBC Commodities Strategy, IEA, Industry Reports  
 \*Majors here include BP, CVX, COP, XOM, RDSA, TOT*

# ...Or In Canada



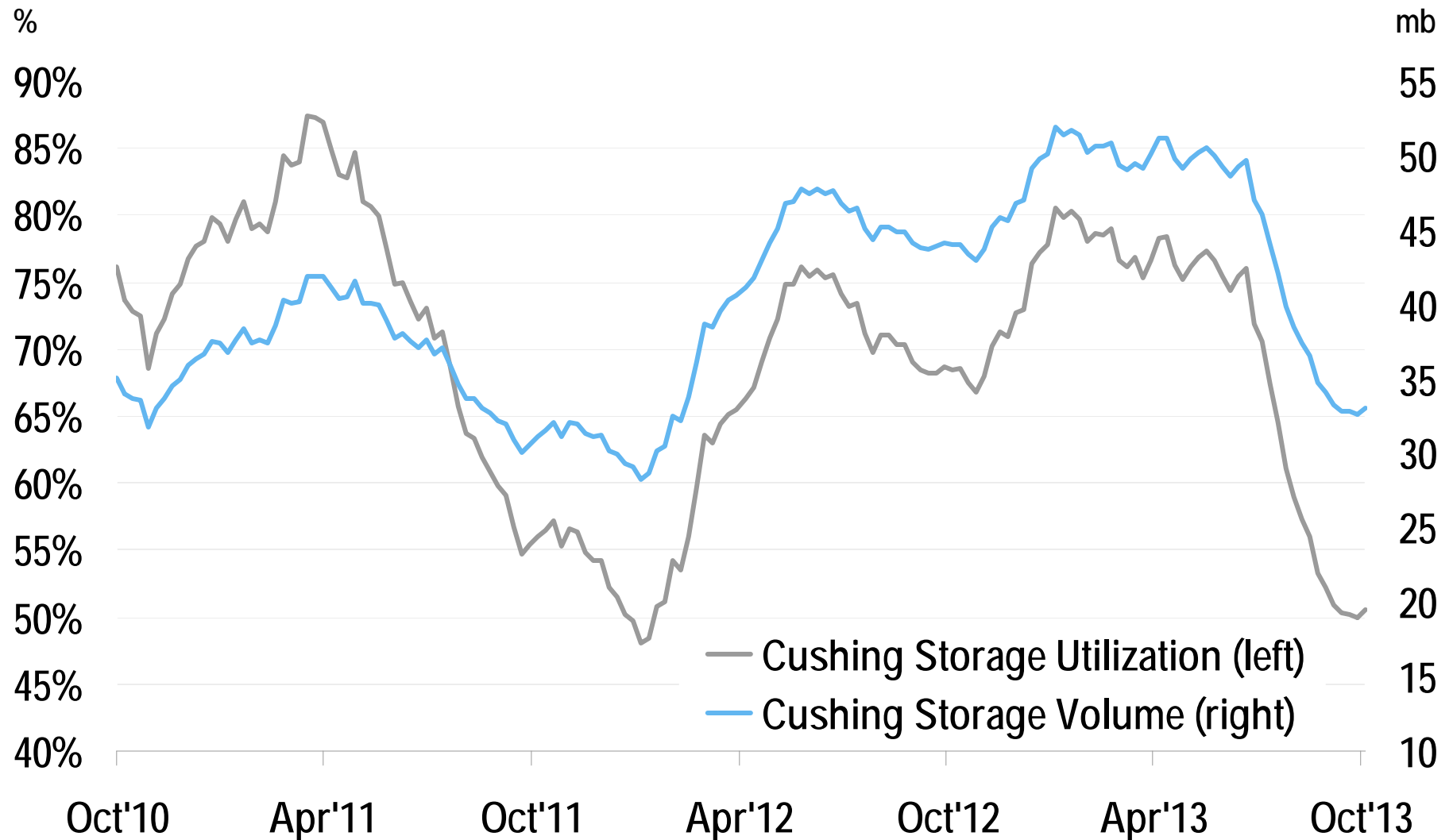
CIBC Commodities Strategy, IEA, Industry Reports  
 \*Majors here include BP, CVX, COP, XOM, RDSA, TOT

# Long-dated WTI Spreads Outpace Flat Price



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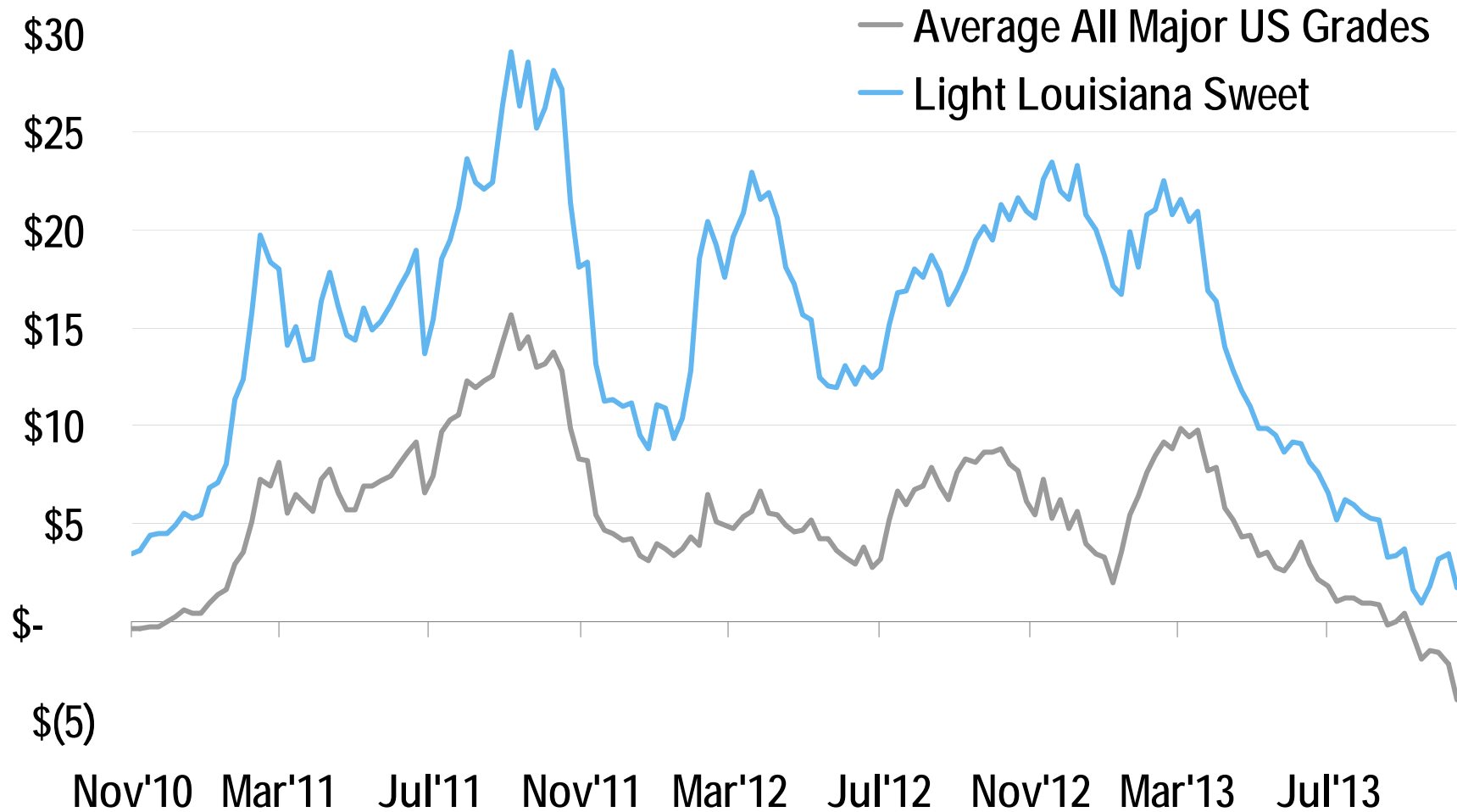
# Cushing Stocks Are Falling Rapidly



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# Cash Crude Premiums to WTI Shrink

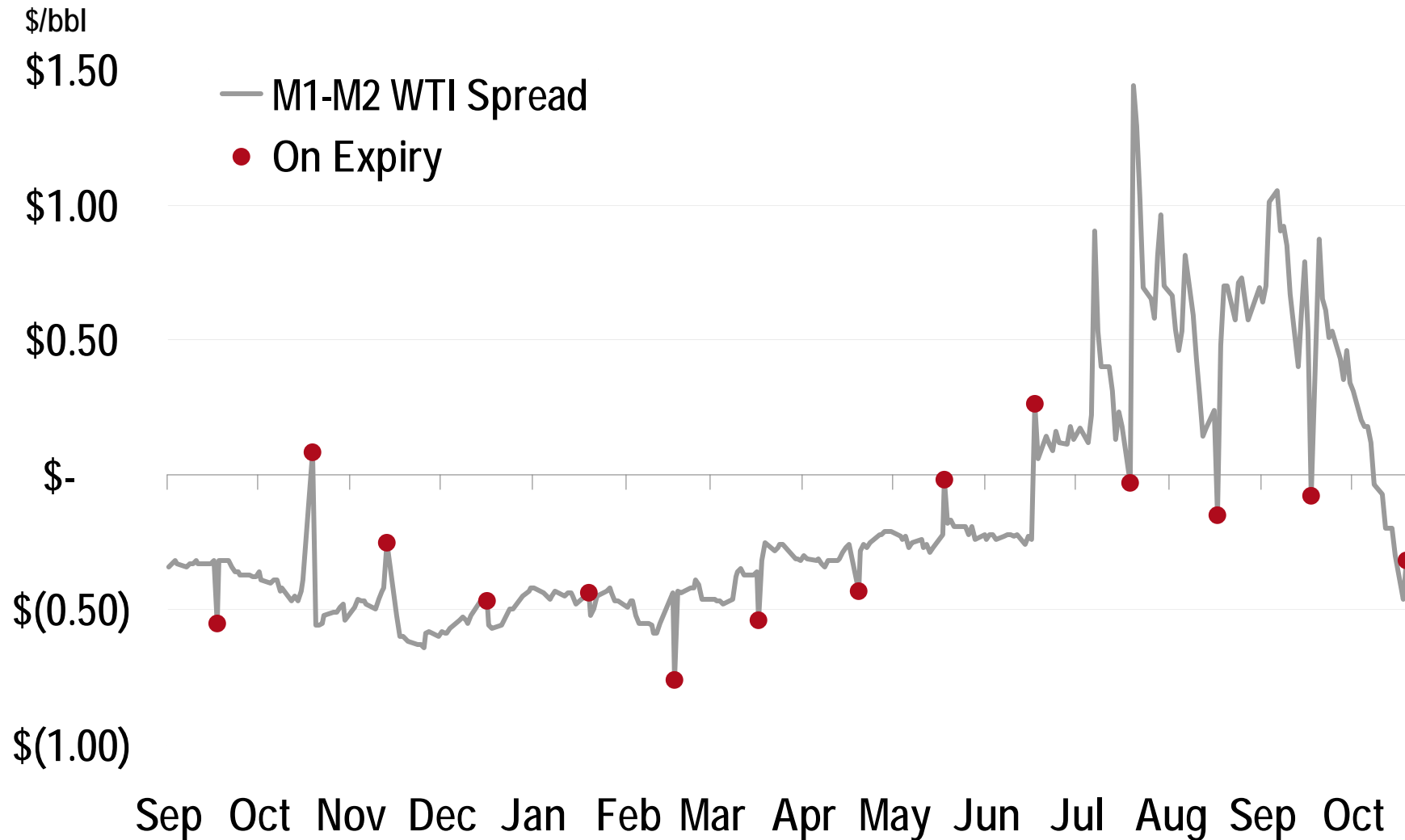
Differential to WTI, \$/bbl



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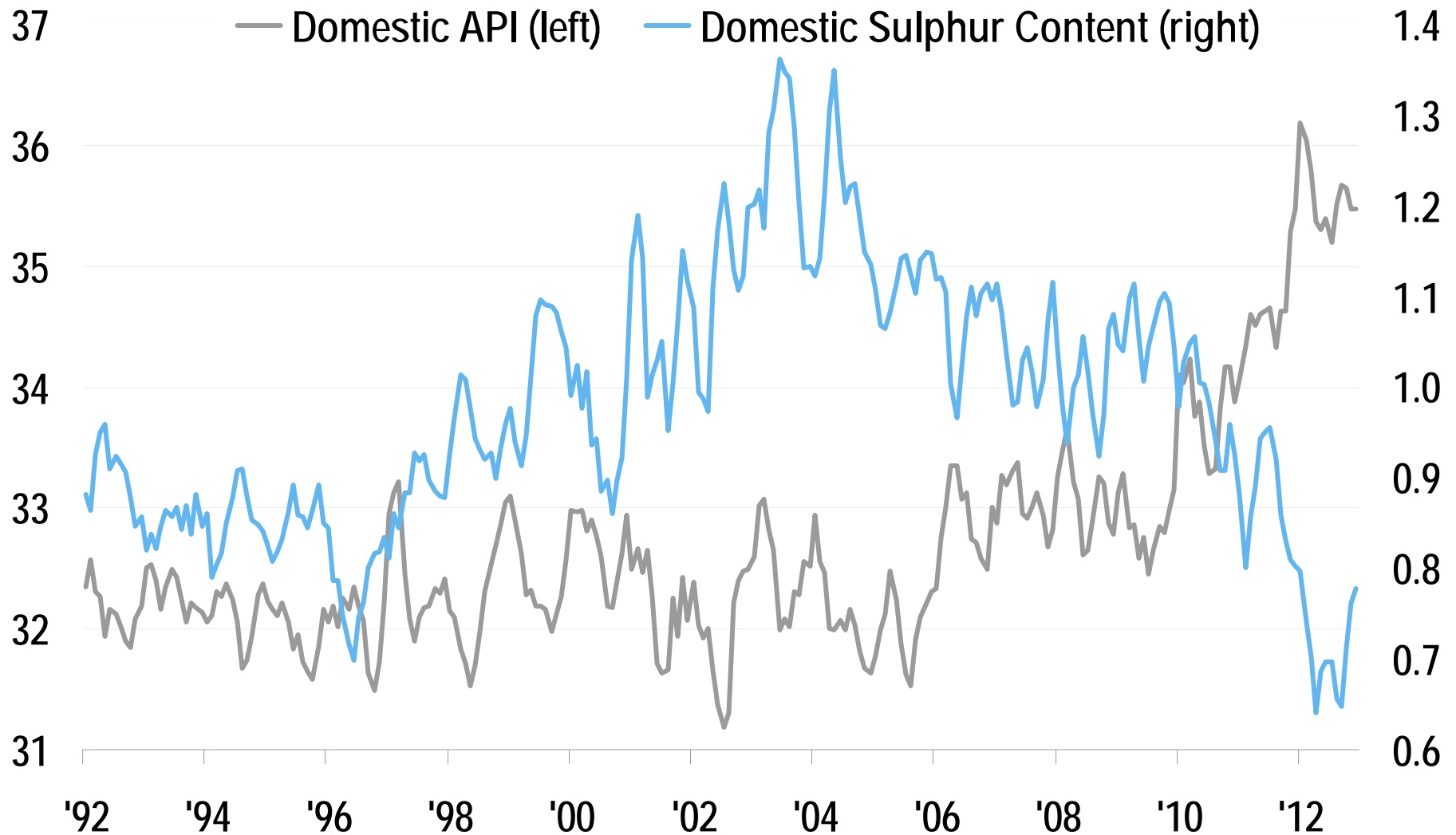


# Backwardation? Not On Expiry Days



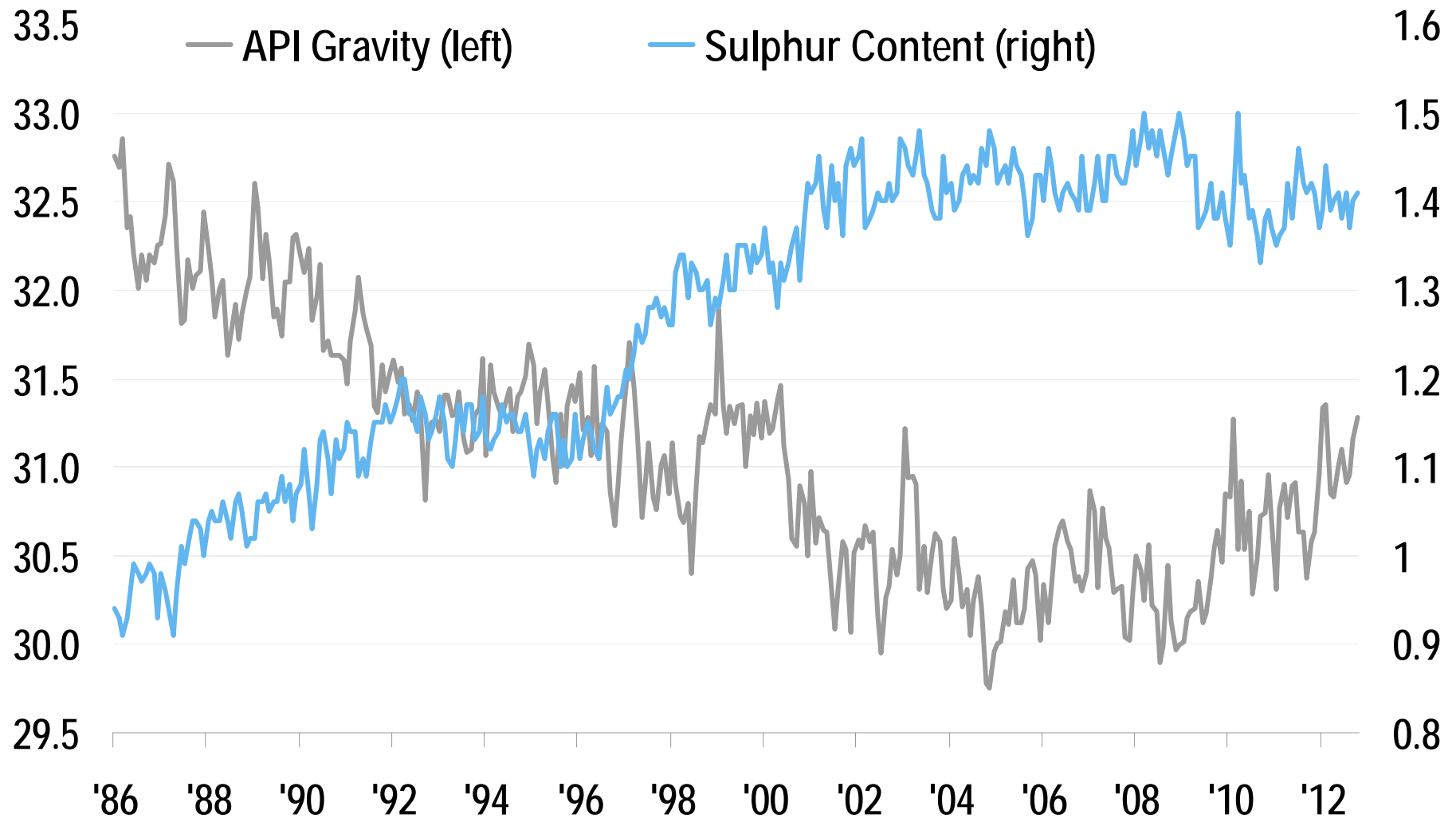
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# US Crude Production Gets Lighter and Sweeter



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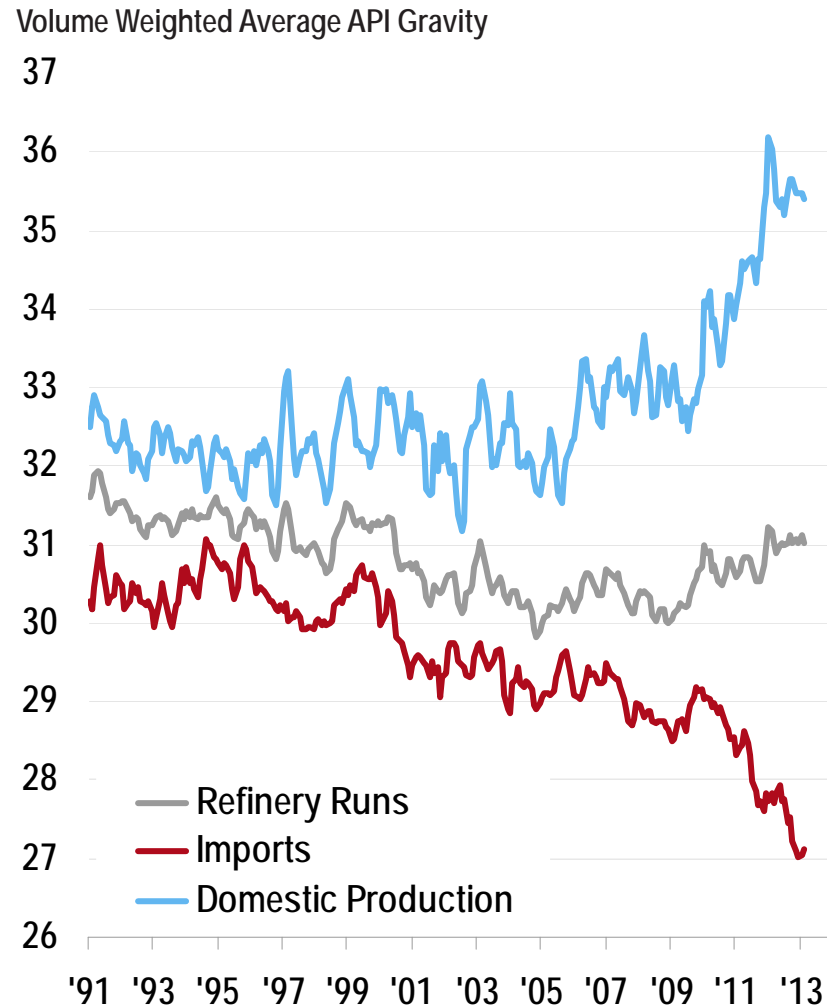
# US Refiners Tweak Their Slate... To A Point



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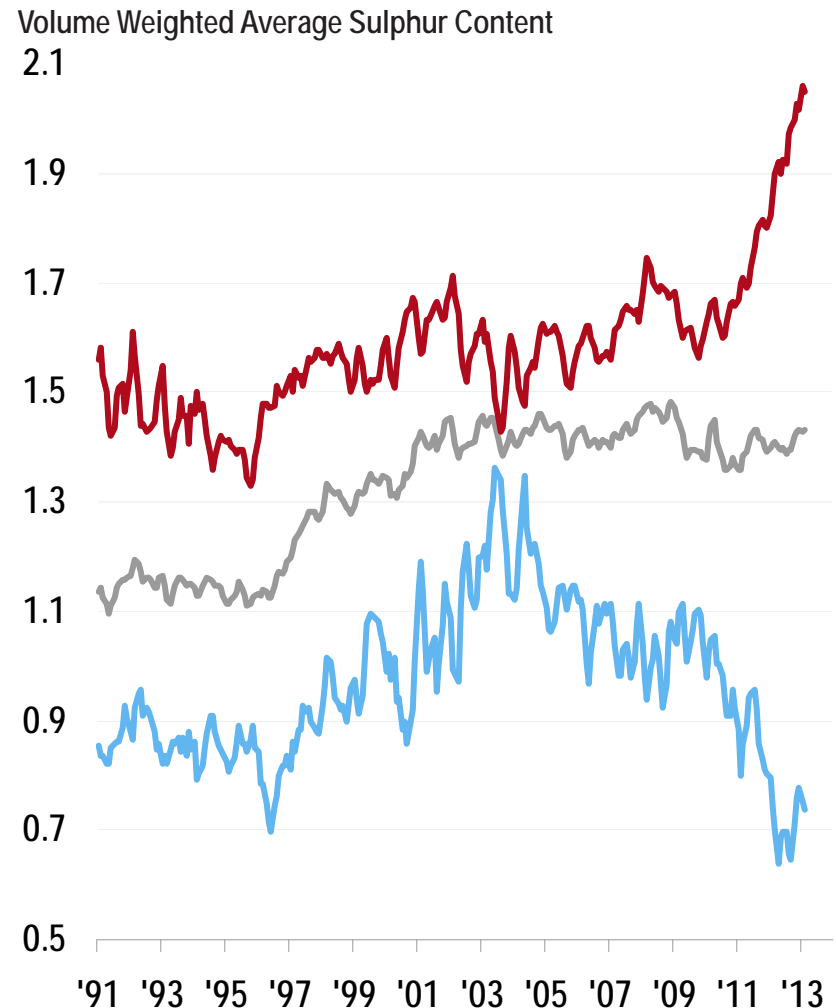
# US Crude Production / Import Quality Shift

## Production Gets Lighter, Imports Heavier



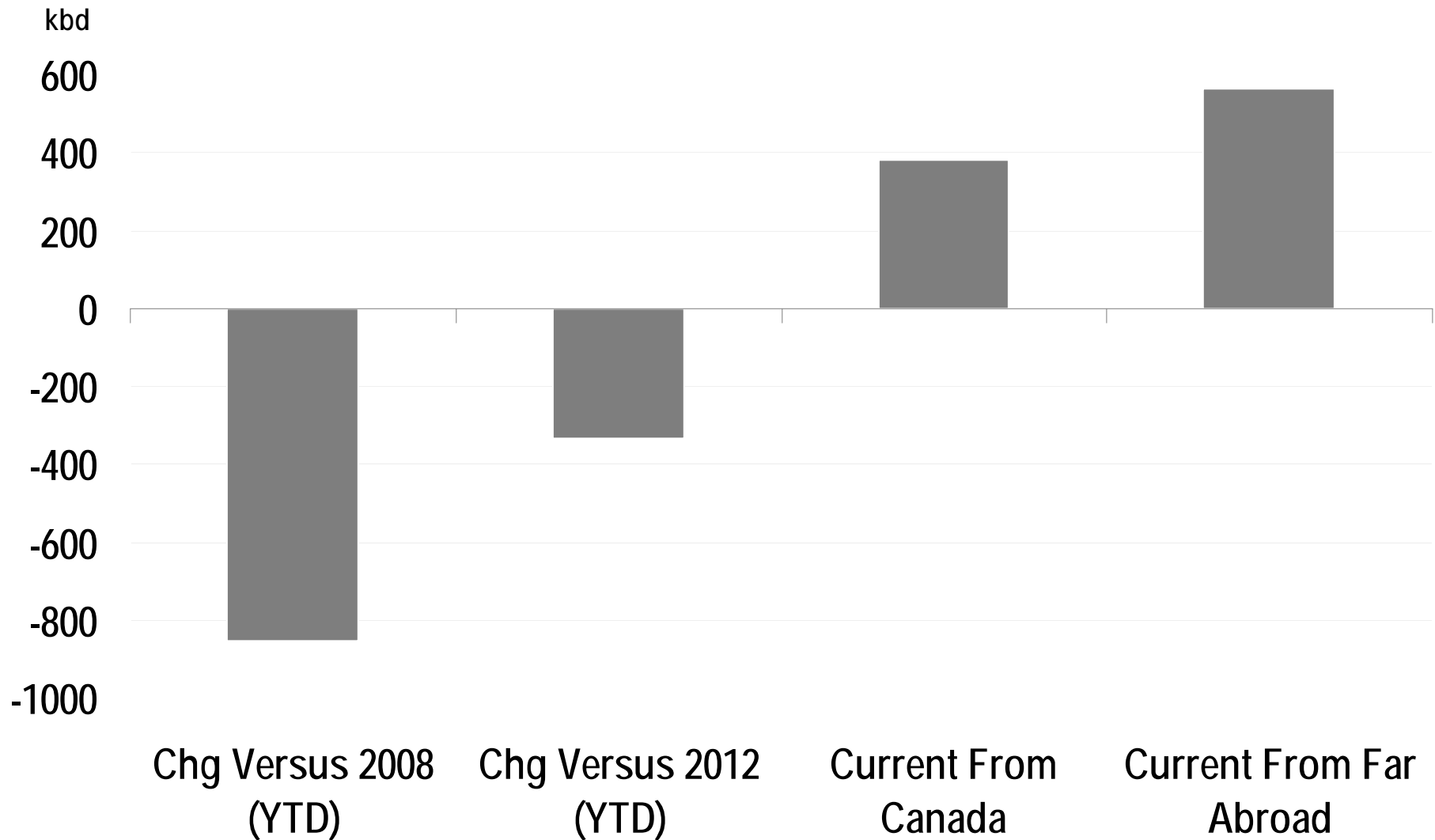
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## Production Gets Sweeter, Imports More Sour



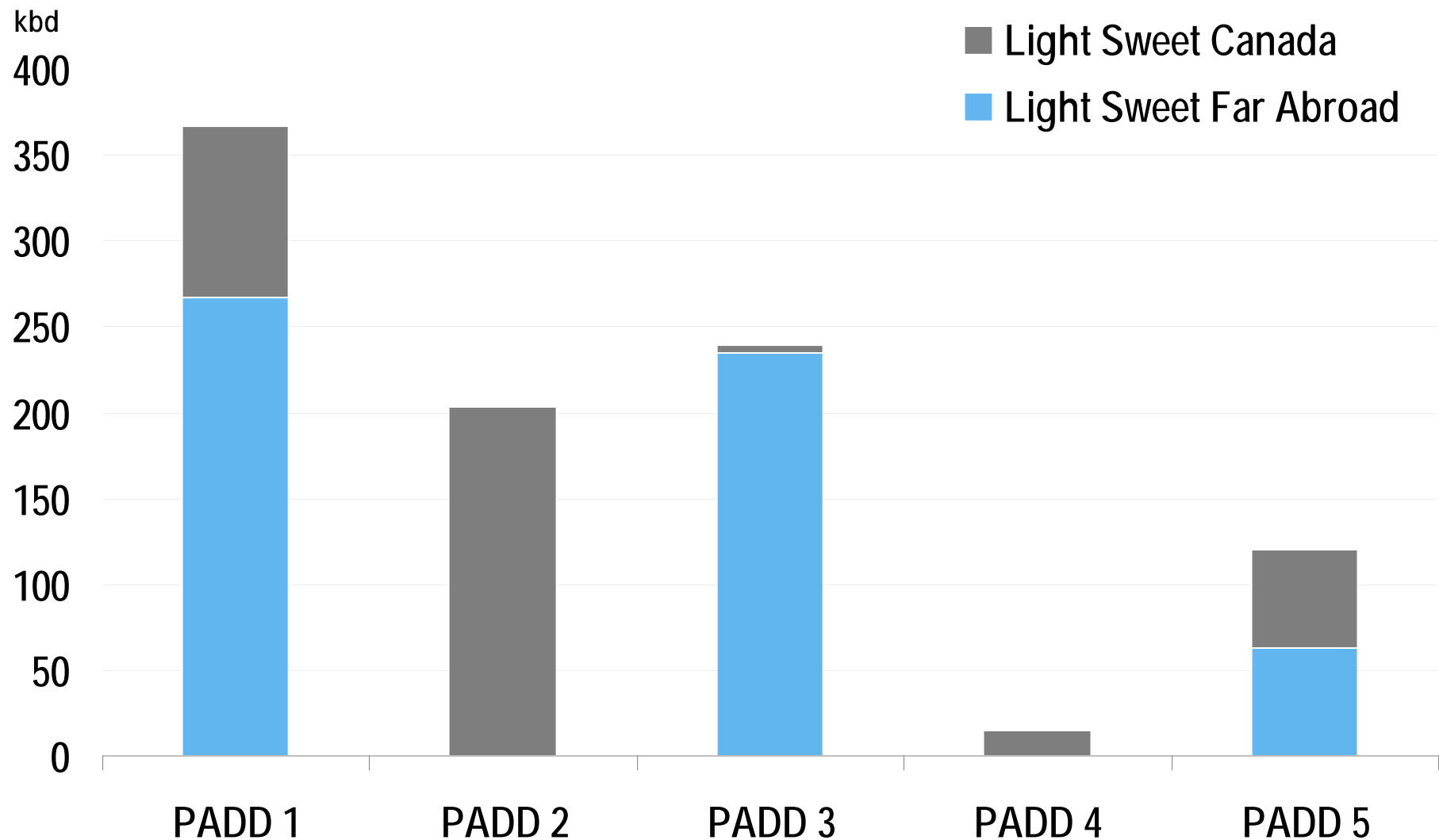
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# US Sharply Trims Light, Sweet Crude Imports



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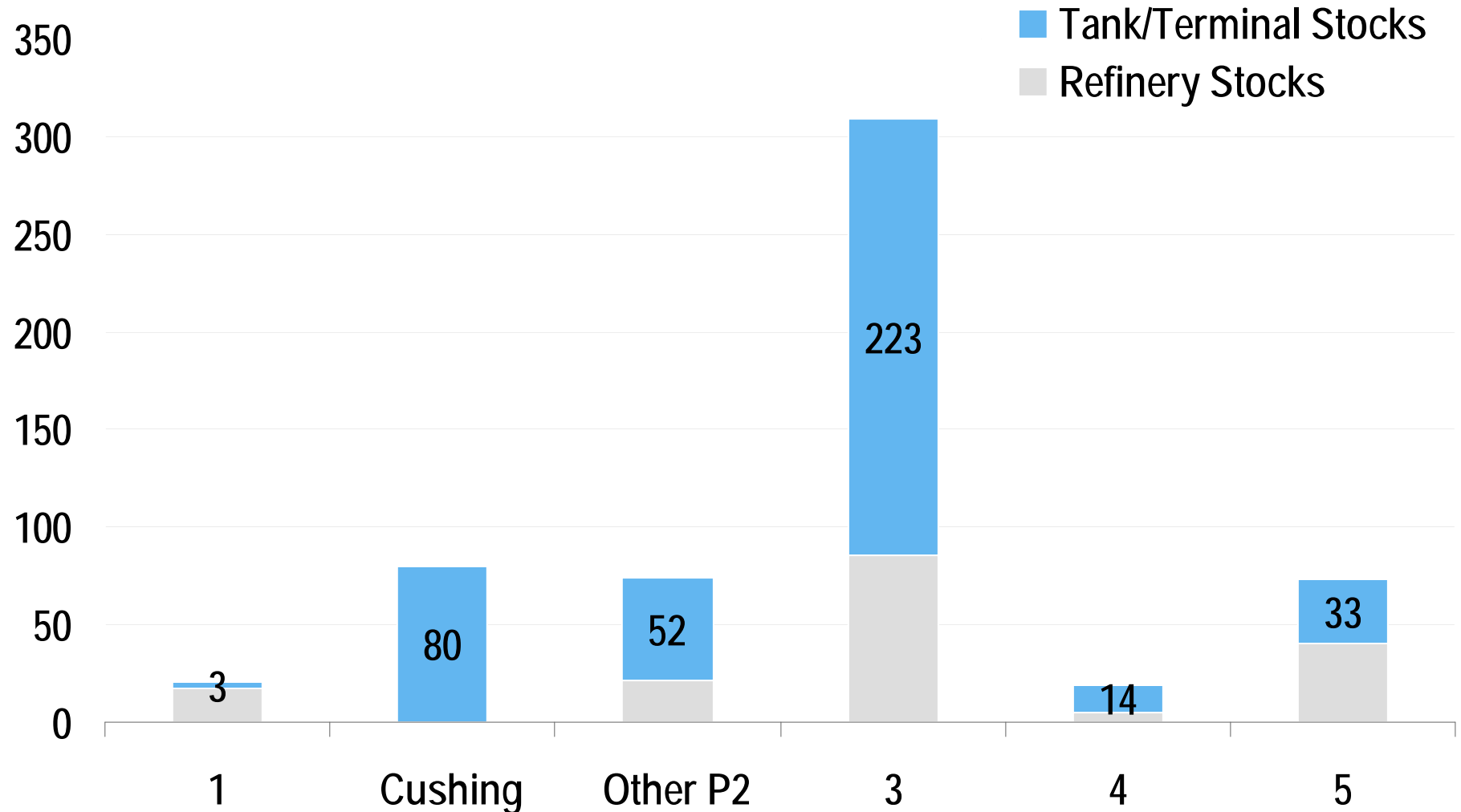
# How Much Imported Light Crude To Back Out?



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# Crude Capacity At Tanks/Terminals vs Refineries

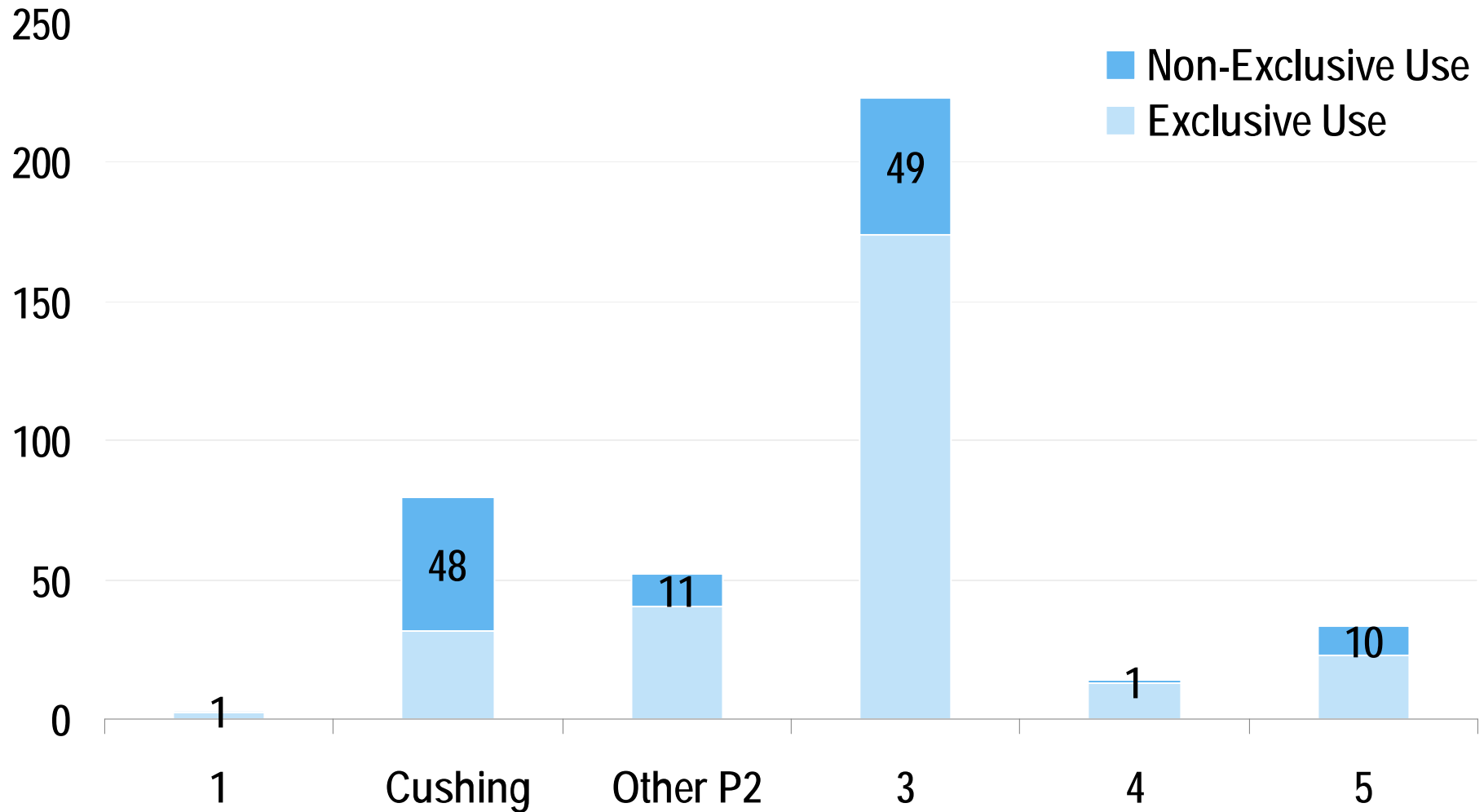
million bbl



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# Exclusive / Non-Exclusive Crude Storage Capacity

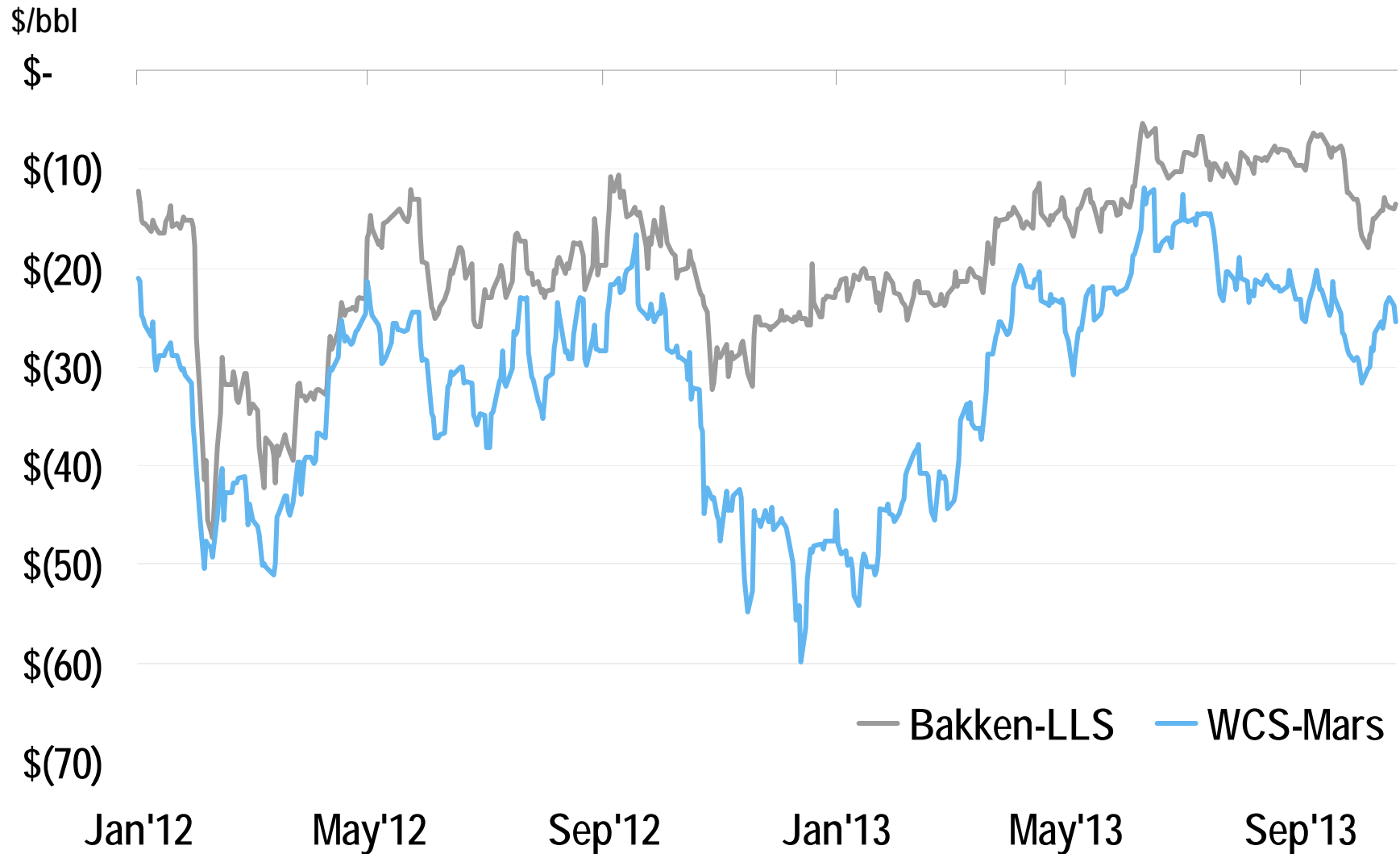
million bbl



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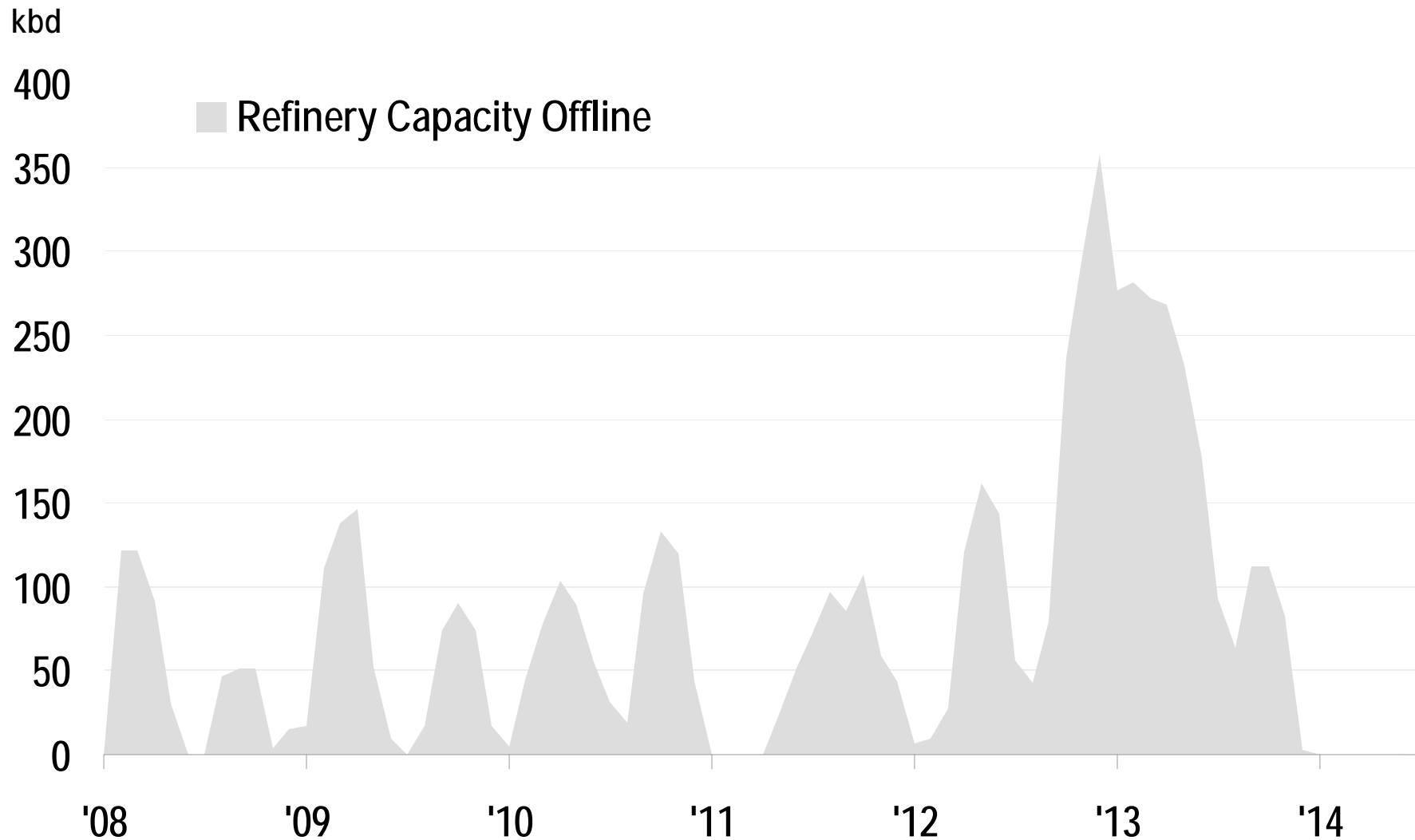


# WCS Handicapped By More Than Infrastructure



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# Just 6 US Refiners Take Half of Canada's Exports



Top 6 offtakers of Canadian Crude: Bayway, Whiting, Joliet, Lemont, Pinebend, Wood River  
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# 3. North American Natural Gas

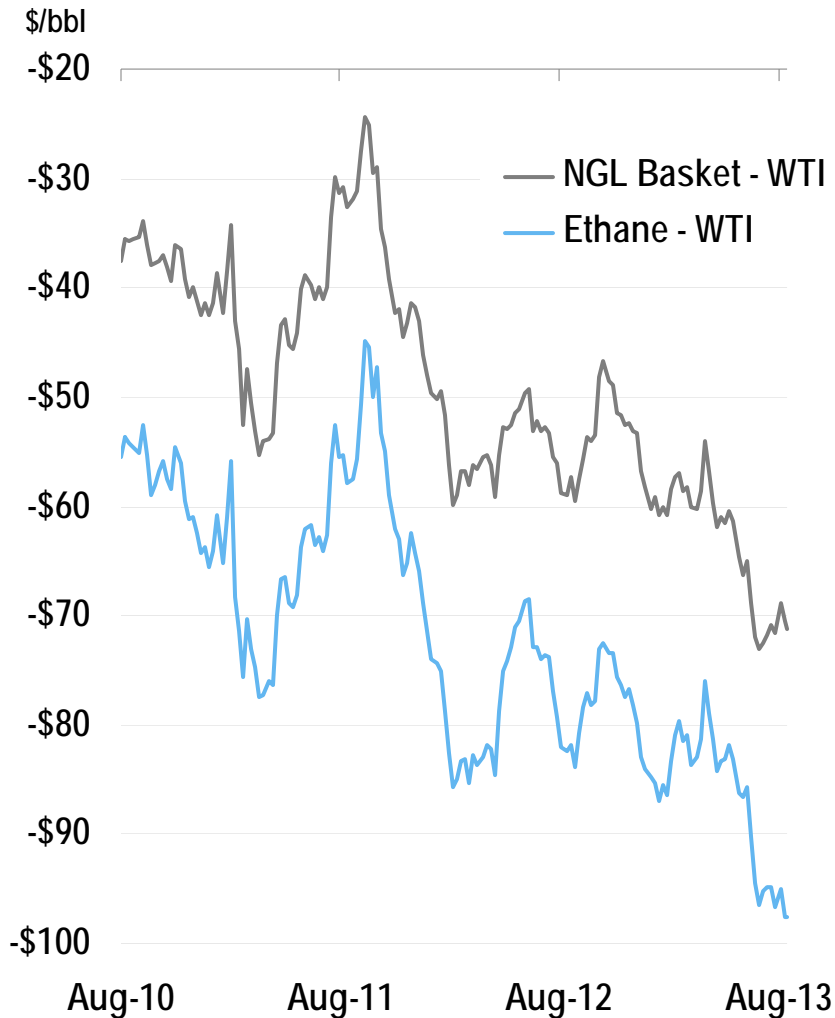
*Don't Get Too Excited Yet...*

# Not Out Of The Woods Yet...

- The US gas balance looked marginally price supportive in 2013, but in the short-run (24 months) both gas supply and gas demand are still very price elastic. That means rangebound prices.
- In the medium- to long-run, gas production will continue to be price sensitive. It is when gas demand — specifically utility demand for gas — is no longer price elastic that the market will truly turn the corner. The 2015-16 period will be key.
- Last summer gave us a taste of what coal-to-gas substitution can do to the market. This year will pale in comparison, but eventual coal retirement will make that shift to gas permanent. One implication is that gas prices will reflect a steeper summer pricing.
- Production of gas liquids has been phenomenal, and prices have come off sharply. What will it take to see a shift back to dry gas production?
- LNG will matter at the margin, but won't be the game changer for the US supply/demand balance. Alberta may be a different story... maybe.

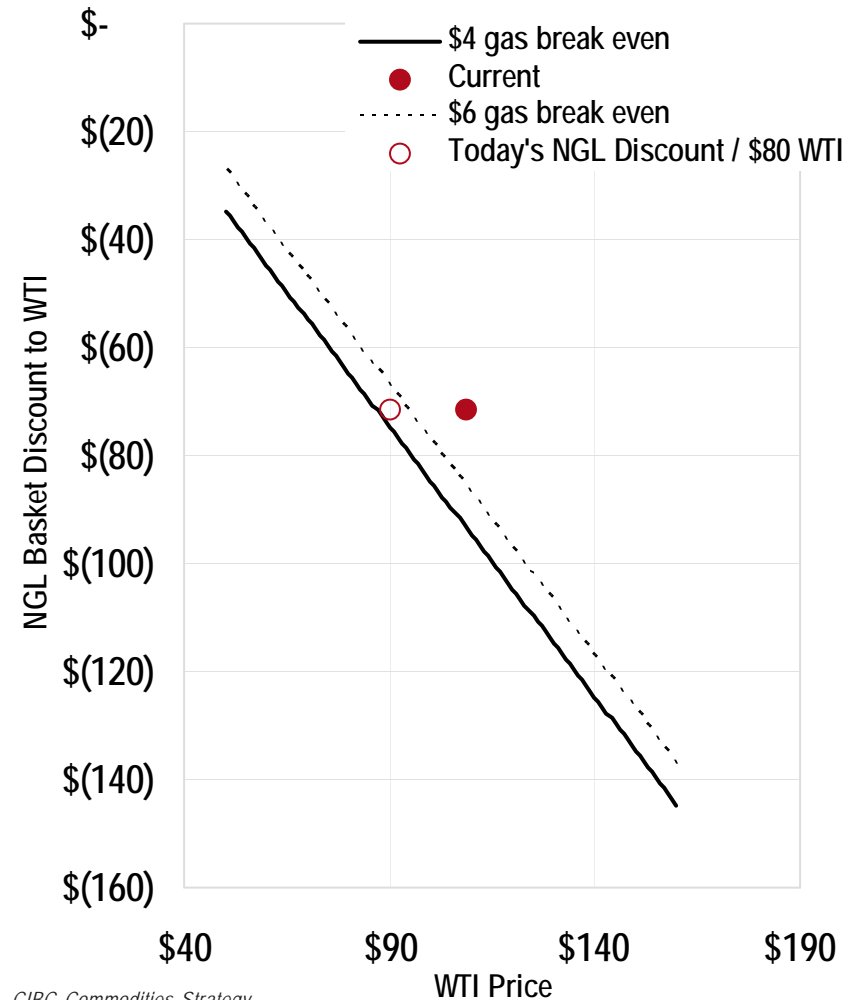
# Is the Liquids Subsidy At Risk...?

## NGL Prices Continue Their Collapse



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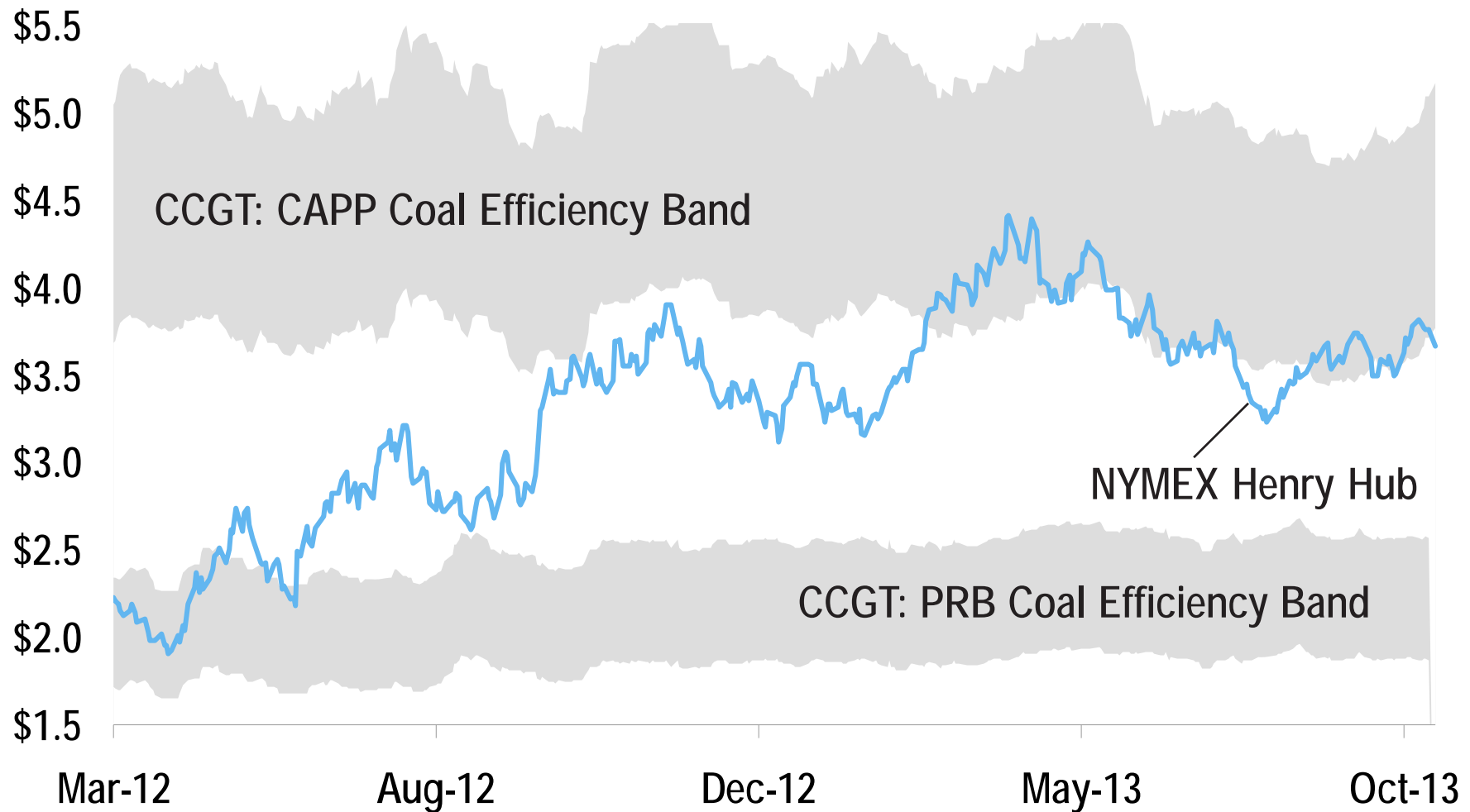
## NGL Subsidy At Risk At \$90 Crude



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# Natural Gas Competes With CAPP Coal

Competing Fuels - Past 12 Months  
\$/MMBtu

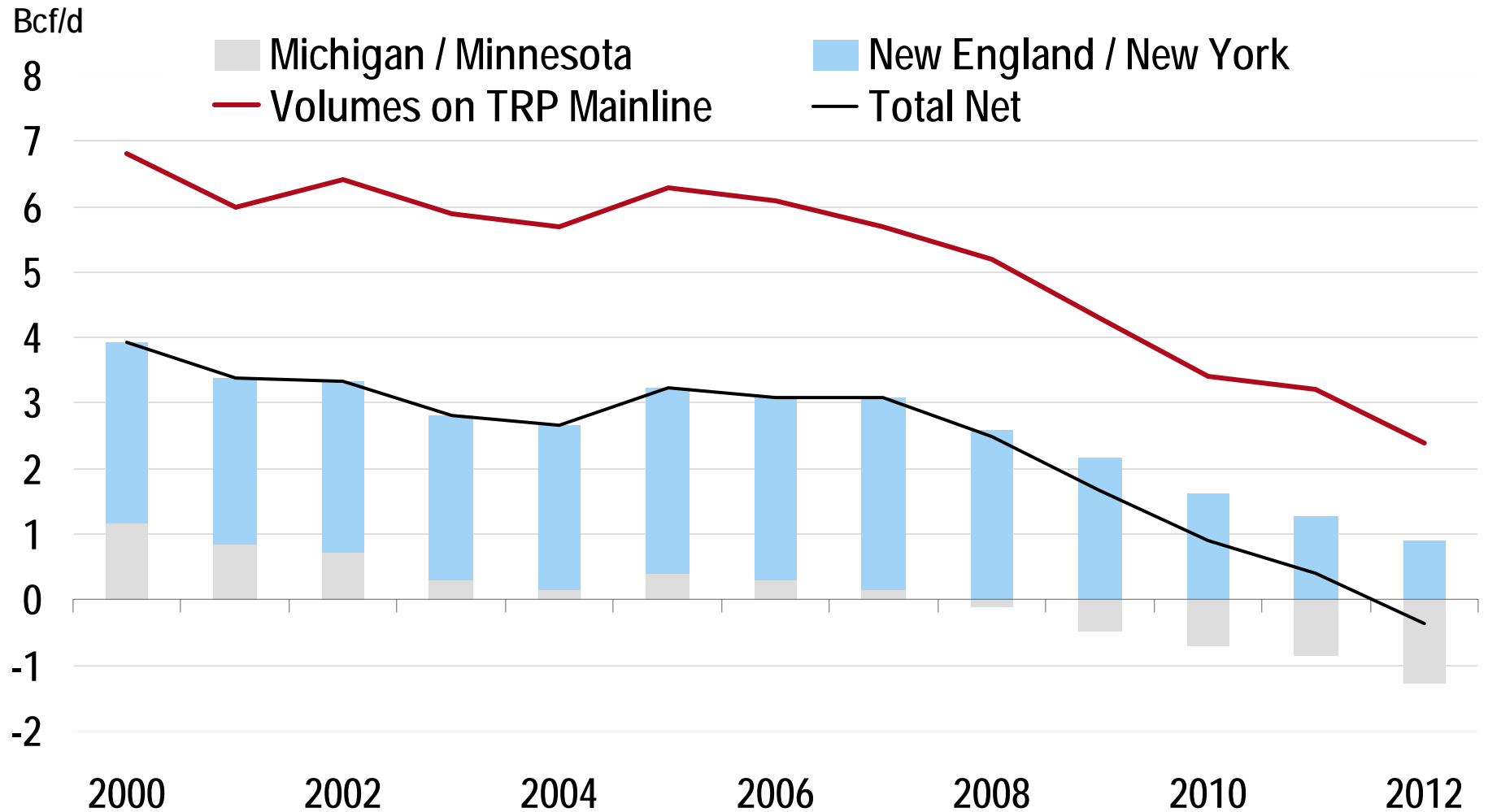


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# LNG Now Seems Like a Reality

- It is not clear to us that LNG will make or break the US gas balance... The market will ultimately cap export volumes, not policy.
- But there will be interesting seasonal implications. The US will be the one place in the world that can both import and export LNG. The US also has significantly more gas storage capacity than Europe does.
- LNG will matter more for AECO, but not for a while.

# Net 'East of Mississippi' US Imports Of CAD Gas

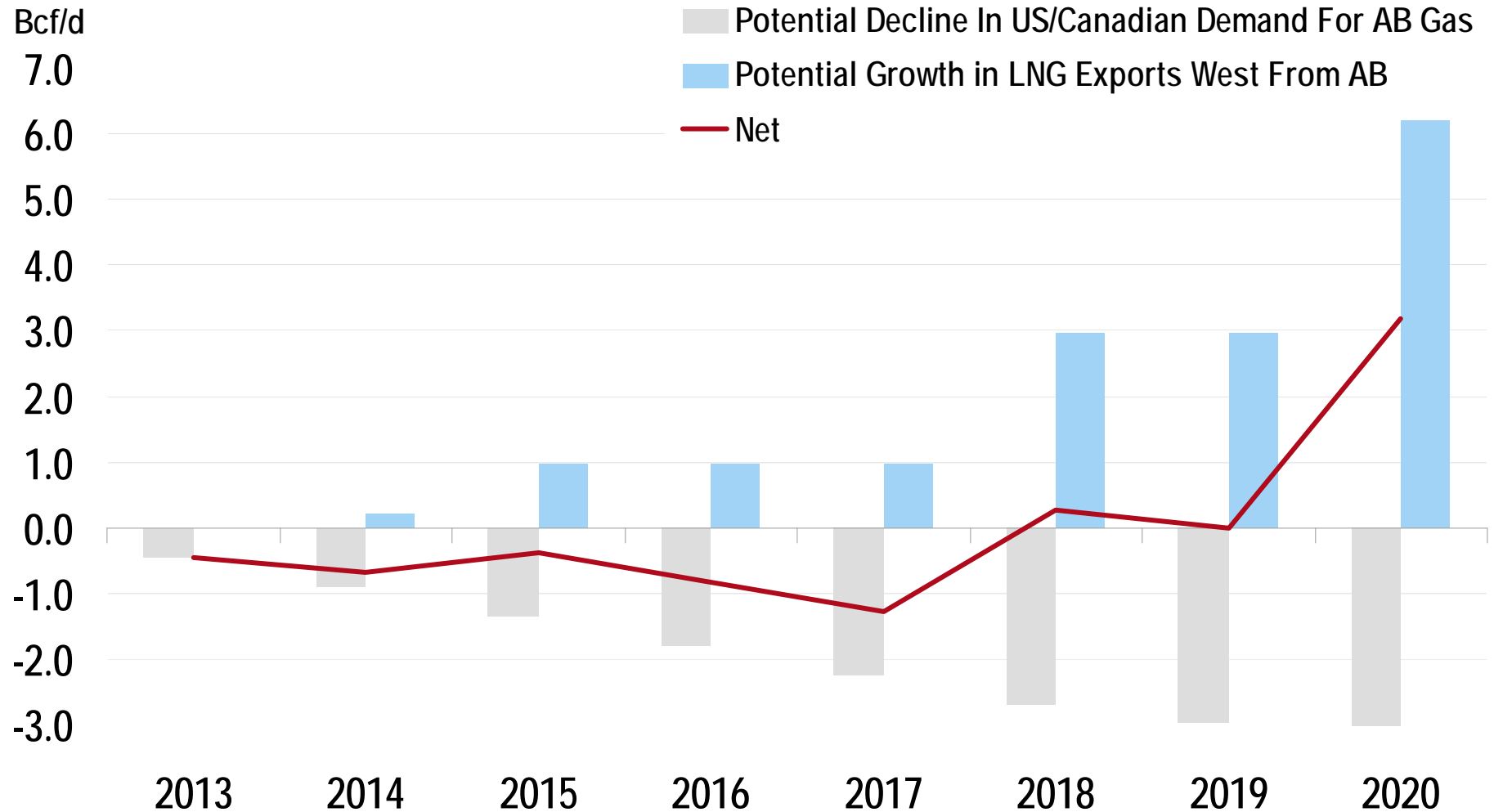


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# Alberta Gas Balance Looks Heavy...Until 2020\*

\* *MAYBE*



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