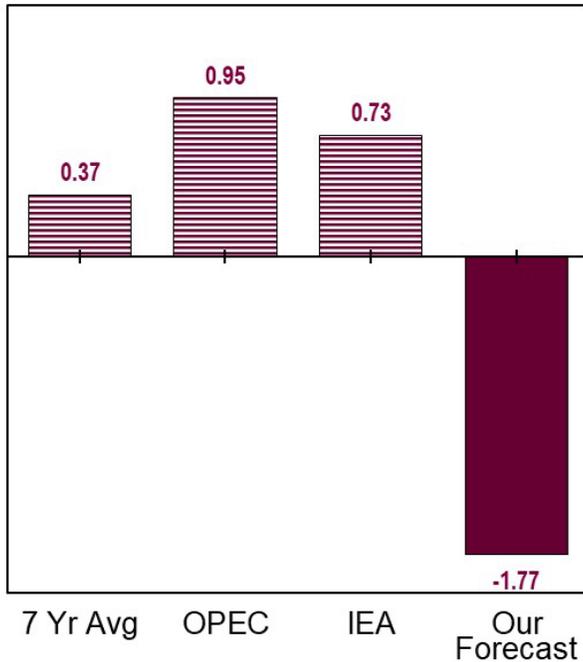




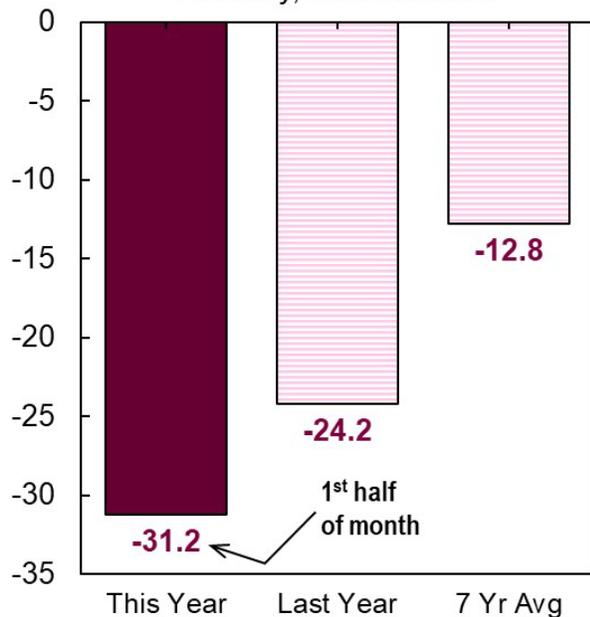
THE DIFFERENCE BETWEEN A CLIFF AND A COW PASTURE

1Q 2021 Inventory Forecast
 Quarterly change, Million b/d

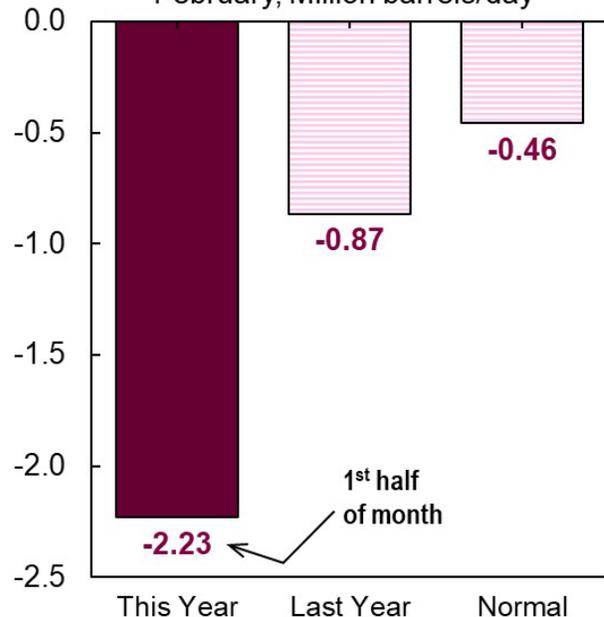


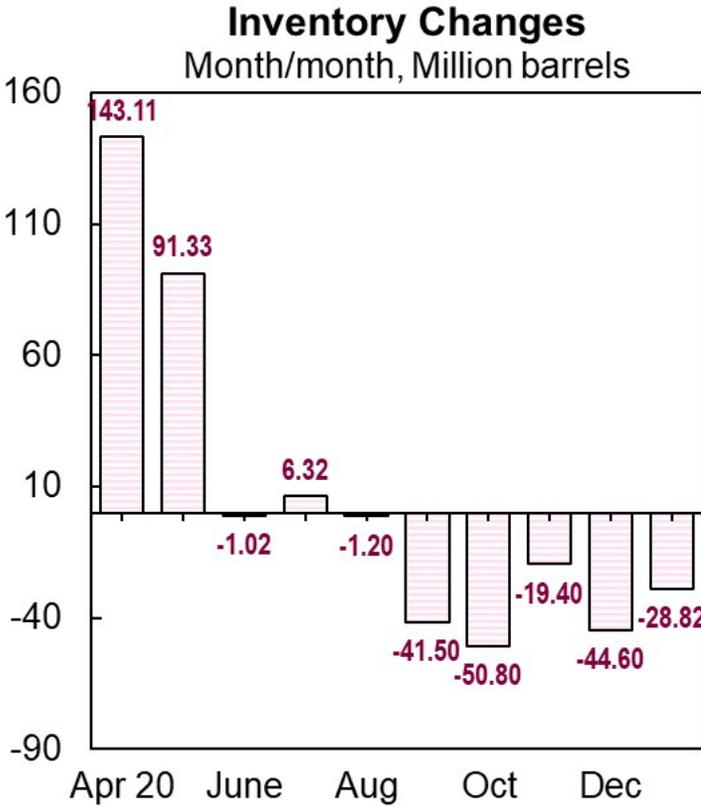
Inventory draws so far this year have run diametrically opposite the consensus' projection. The analysis on the left details our forecast for the 1Q inventory change as compared with the IEA and OPEC's internal numbers. Global inventories *drew down* by 0.98 million b/d during January, with the North America and Pacific regions seeing a further 2.23 million b/d draw during the first-half of February -- we discussed this in Friday's video update. The counter-seasonal draw so far this quarter is occurring with a tepid demand environment. The stock change speaks, instead, to the lackluster non-OPEC supply picture and the continued production restraint by OPEC. It's a wee too early to make a call about the March 4th OPEC+ meeting, but the sense we're getting is there's still hesitancy about a full unwinding of Phase II quotas owing to the still high level of storage which we discuss further on the following page.

NA & Pacific Stock Change
 February, Million barrels



NA & Pacific Stock Change
 February, Million barrels/day

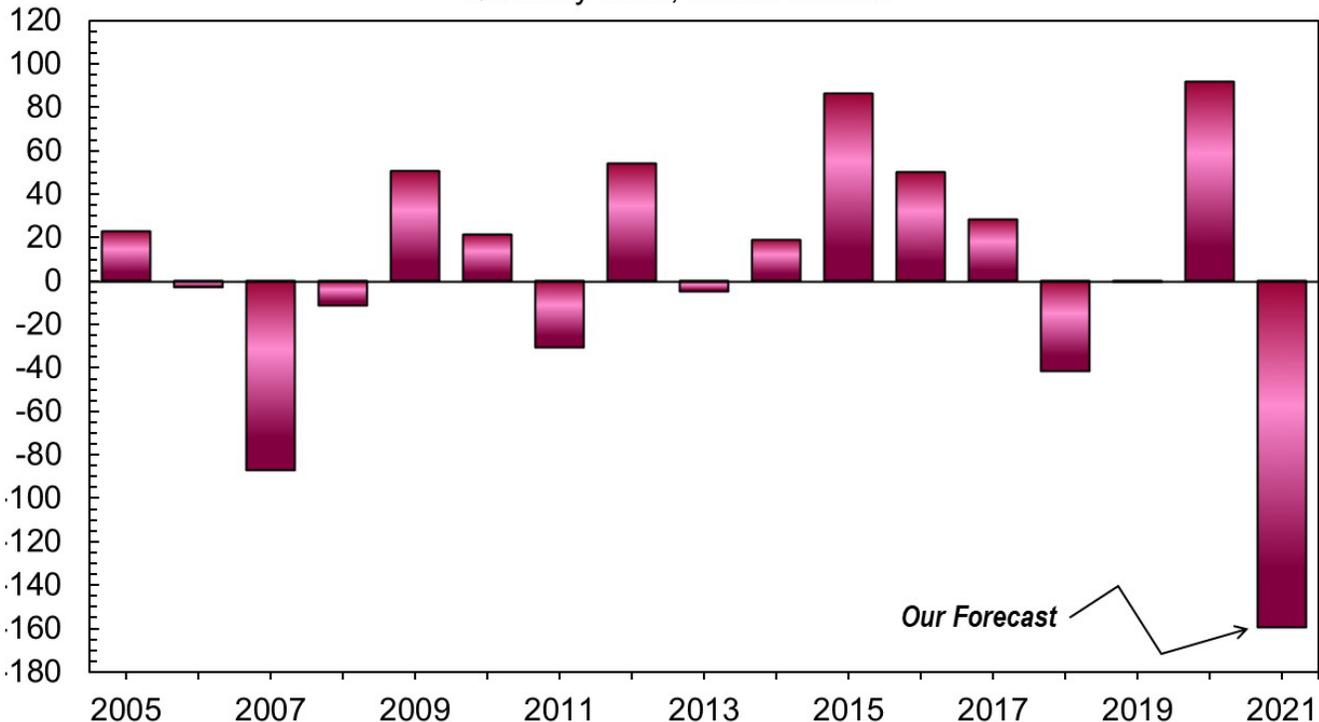




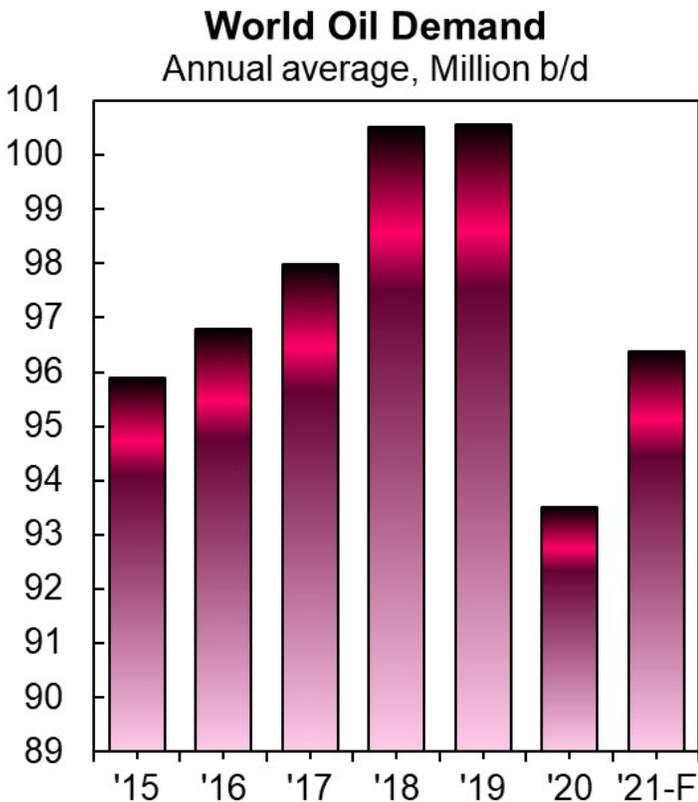
There's never a shortage of goofy analyses from ill-informed market watchers which is why we've seen chatter of late about Saudi Arabia's unilateral output cut for February and March ending on April 1 – no one should assume the Saudis will keep its extra cut beyond the end of March. From our vantage point, the OPEC+ production cuts being further unwound is also an eventuality, but our sense is the timing depends on the level of inventories as opposed to reacting to oil price changes (which is what most frame the story as). The stock draw we're forecasting for the quarter as a whole will rank as the largest in a 1Q period since 1988. Even so, and assuming we're close to the mark, storage would be at 2.903 billion barrels come April 1st. This appears a little too high for OPEC to phase in the full Phase III quotas – which is why we may see just another 0.5 million b/d collective unwind. Keep in mind Saudi Arabia has made a point of noting that it's better for the oil market to be over-tight than over-supplied.

OECD Inventory Change during the 1Q Period

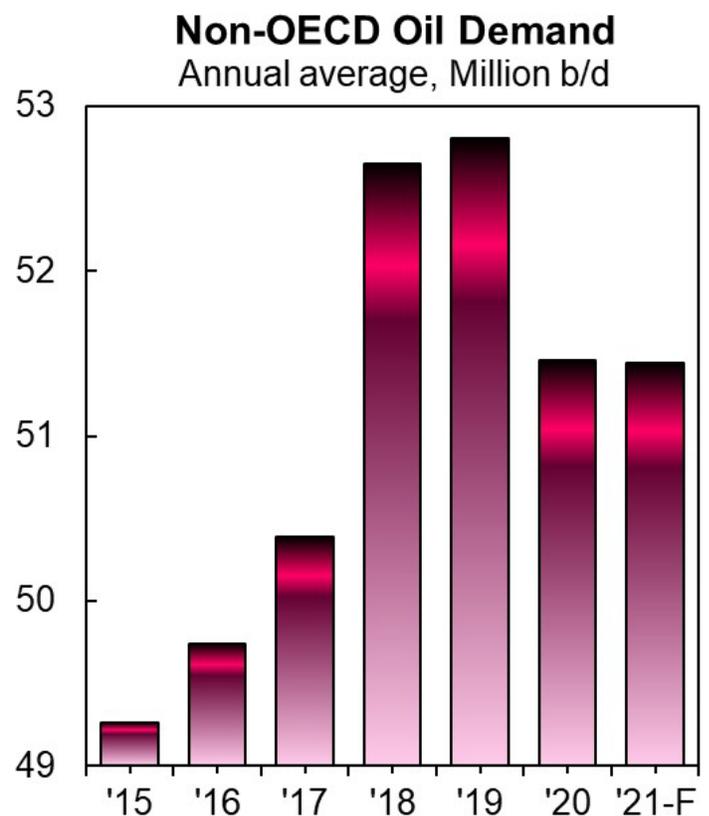
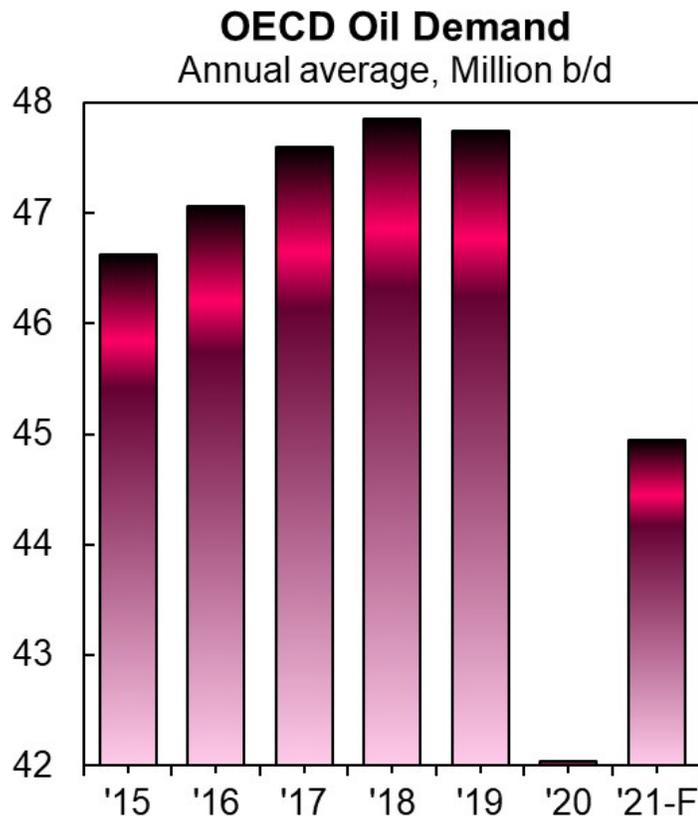
Quarterly delta, Million barrels



WILL “CONSERVATIVELY LOW” PROVE TO BE TOO LOW?



We've been upfront in noting that our demand forecast for '21 is “conservatively low” because we think it's been prudent to assess the outlook from that perspective. Though we've followed the global energy market for 37 years, this is our first go round with a pandemic producing effects like what we have seen from COVID. We have good reason to be optimistic about the vaccine roll-out, but we're still hesitant to adjust our demand figures higher (particularly for the 1st half of the year). As discussed in our video update Friday, all of the “bounce” we do have in our '21 demand comes from the OECD. Our non-OECD demand forecast is actually a hair lower than the 2020 level. This bucks the pattern we've seen over these past 20 years, a point further underscoring the conservatively low rate we're using for the current year global demand outlook.



IT'S A BIG, BIG BLENDER

Last week's deep freeze affecting petroleum and natural gas operations in the greater-Texas area impacts both supply and demand, the net effect of which we're unsure of. Record level oil well freeze-offs are estimated to have shut-in about a million b/d of production – this amounts to “forfeited supply” as that output cannot be made up. Because of the widespread power outages, oil import and export operations were impacted, as were refinery operations. Lastly, deliveries of products out of the refinery gate were impacted which directly and negatively affects demand – recall that oil demand is measured as deliveries from the primary system (of which oil refiners heavily count). With the exception of crude (and natural gas) production – which can't be made up – all other weather-related effects generally can be thought of as transitory.

