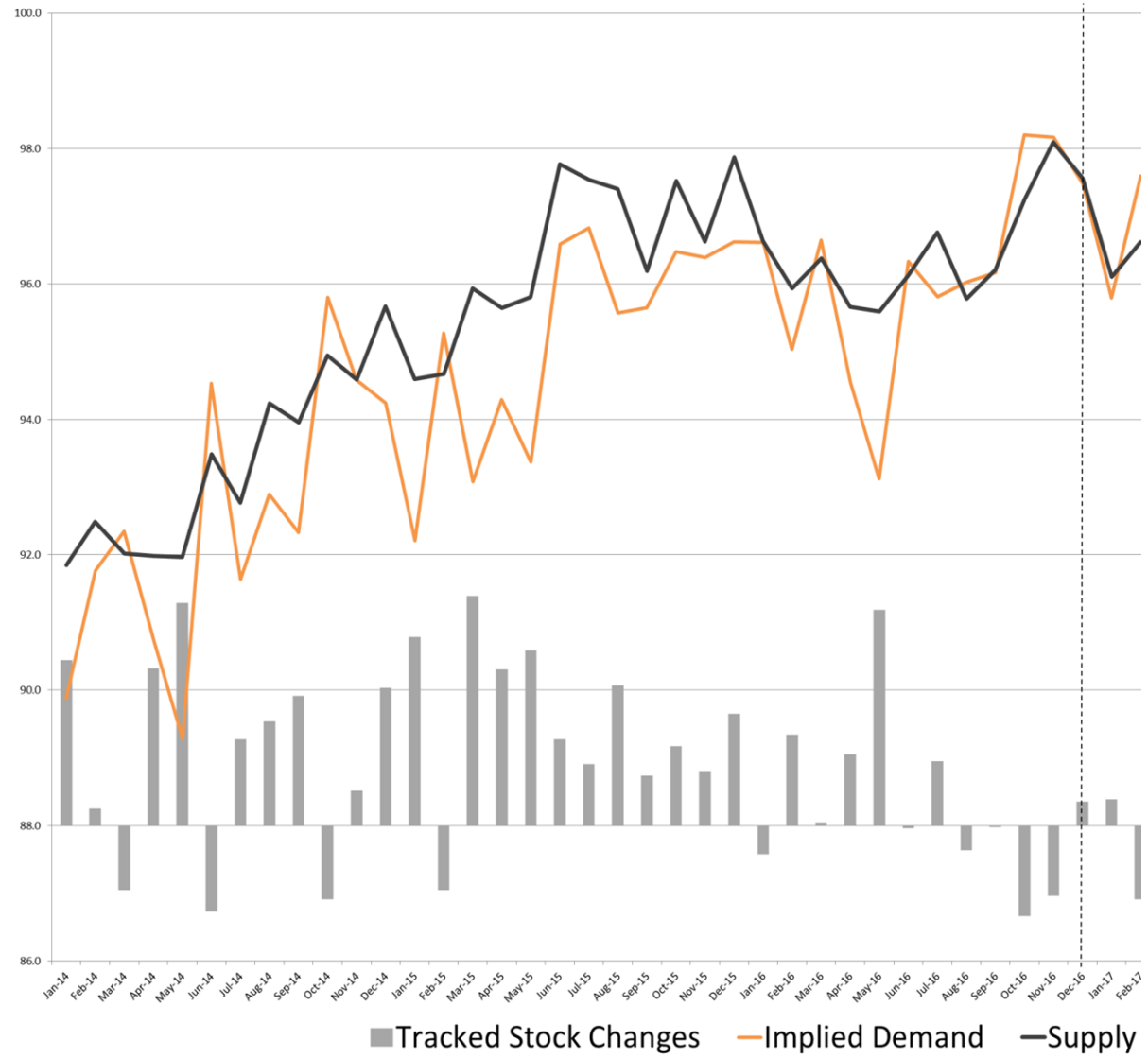
Oil Market Developments

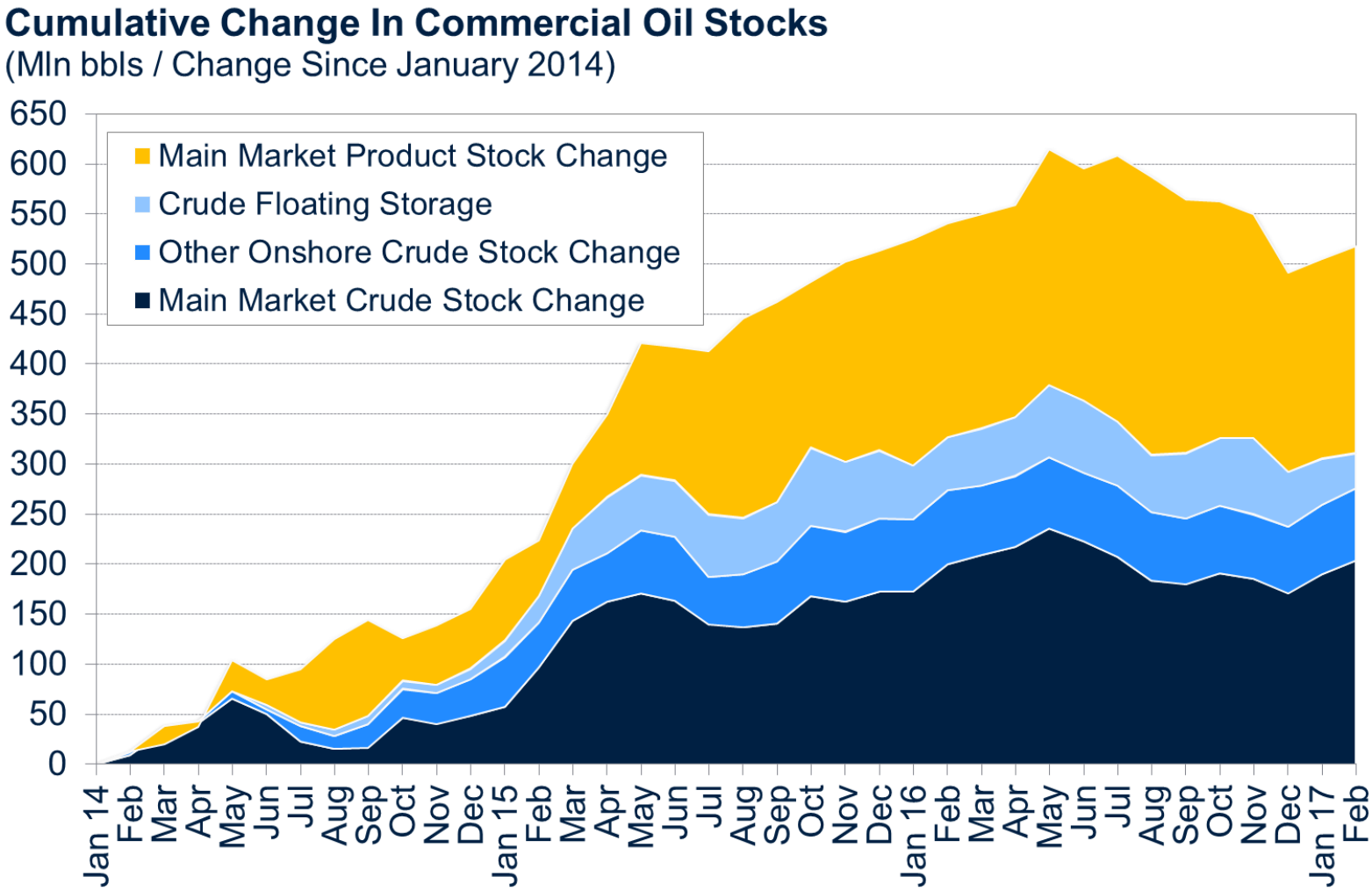
March 2017

Giovanni Serio

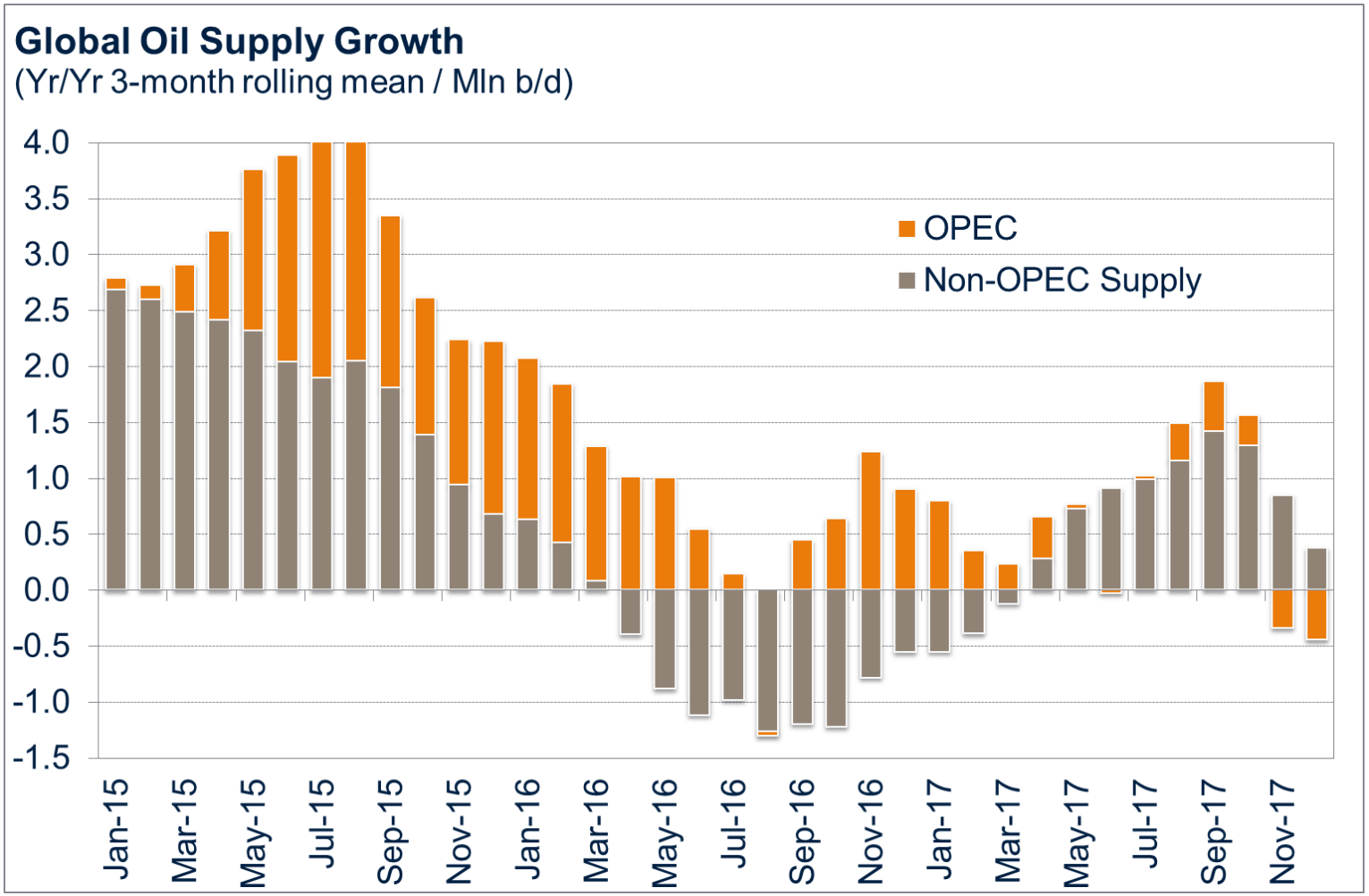
The large expansion in supply has led to a sharp surplus



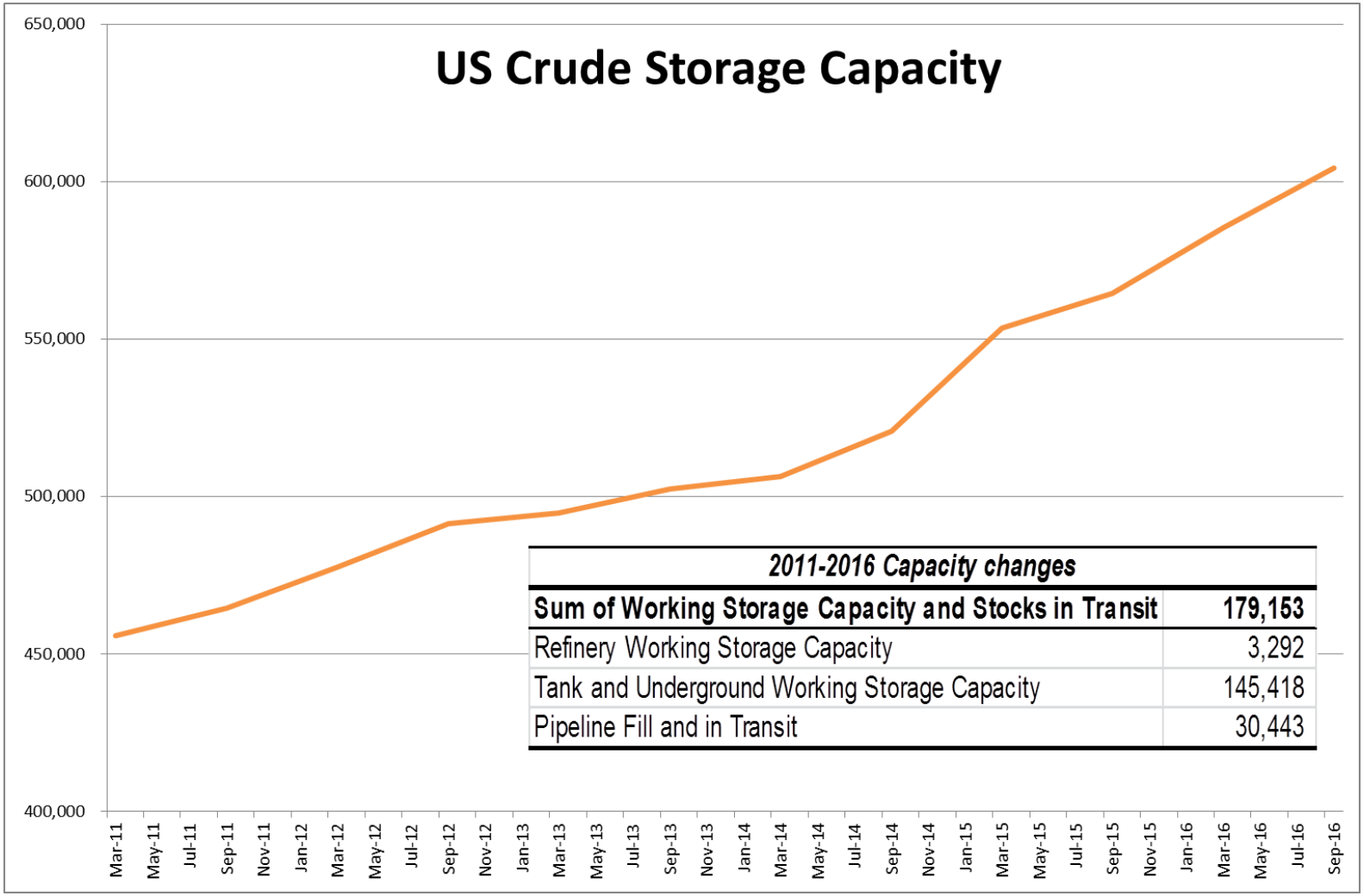
As a result global commercial oil stocks have surged



Forcing a rebalancing via non-OPEC production cuts

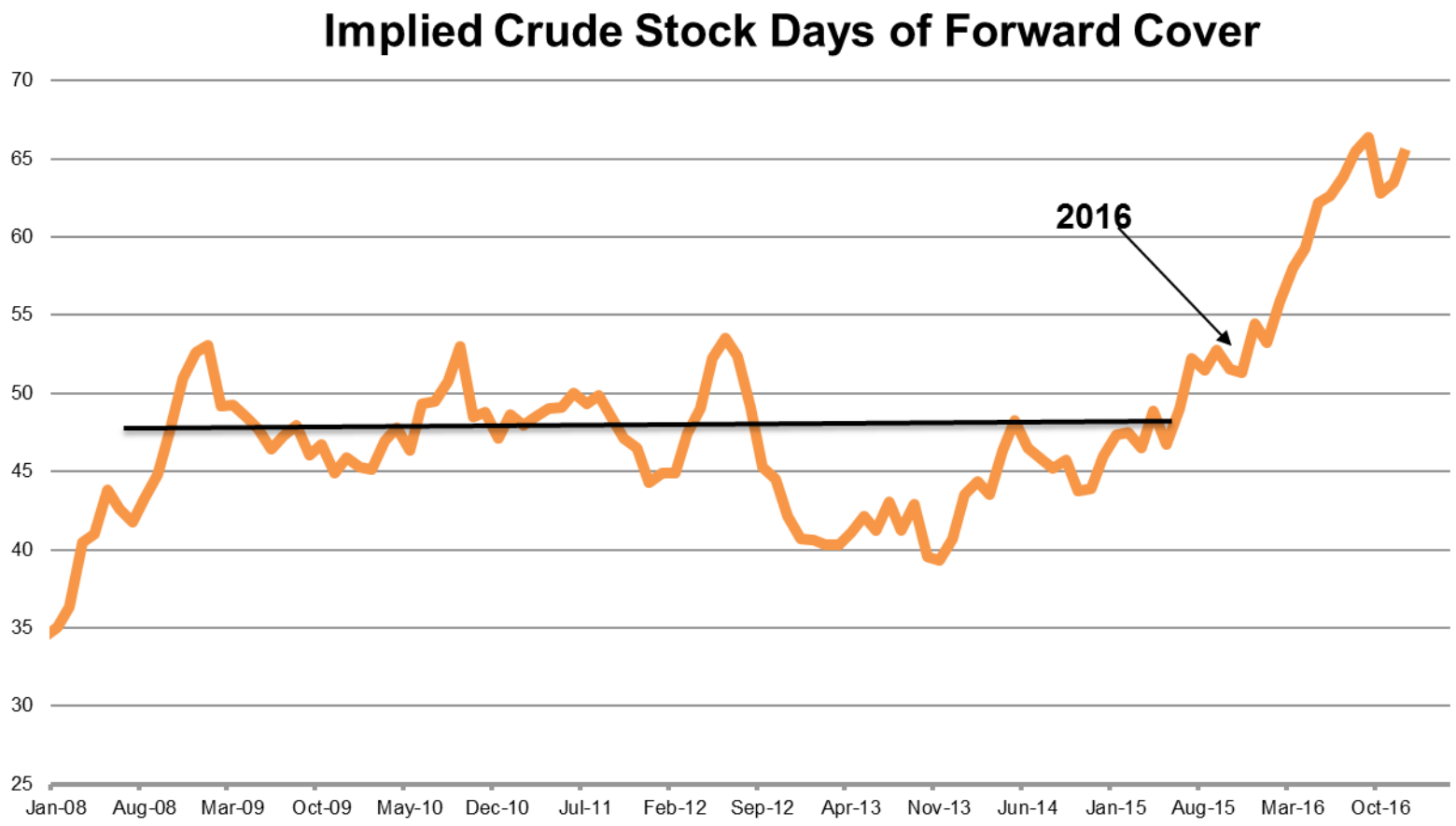


Storage capacity has increased significantly

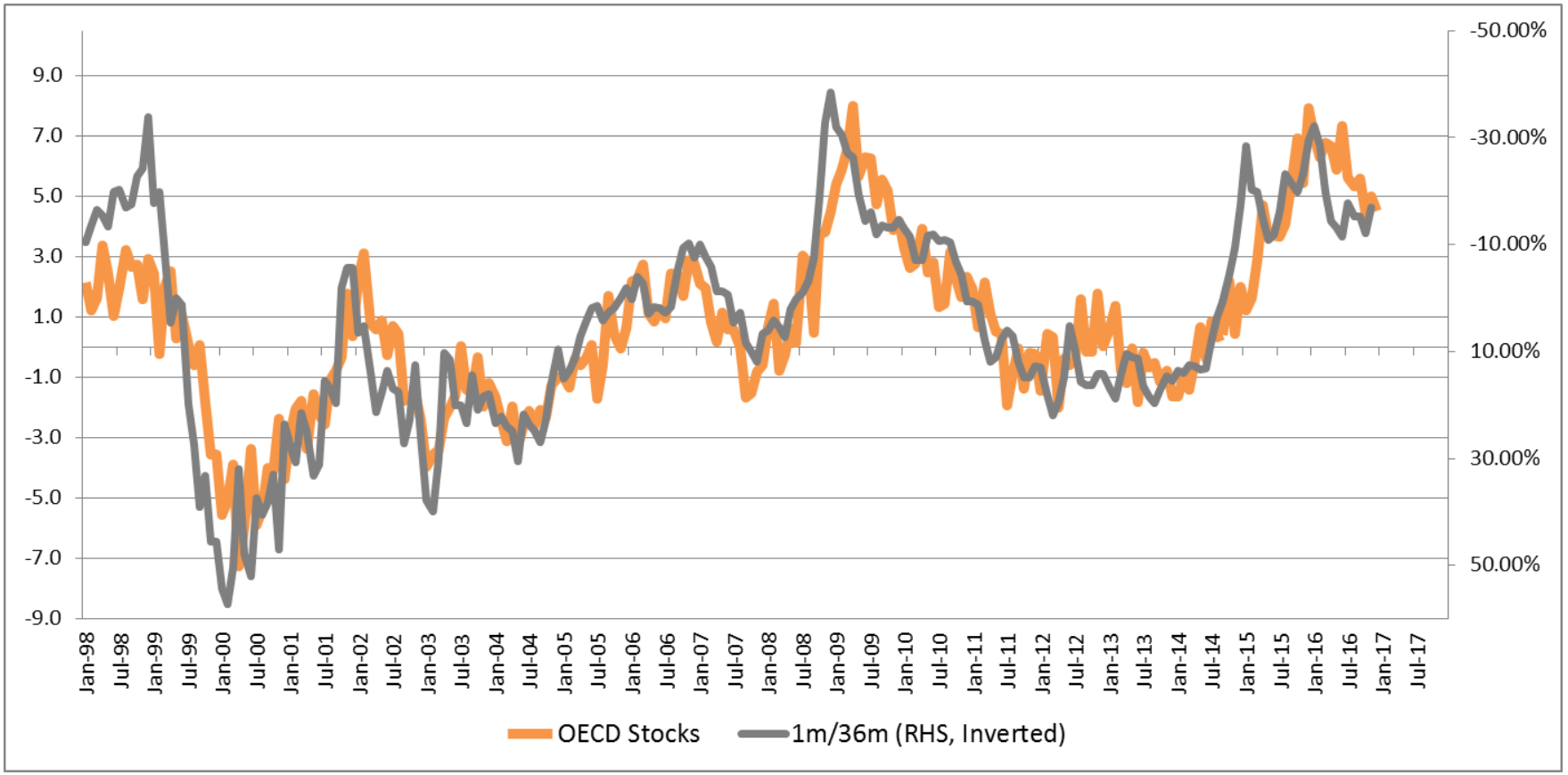


2011-2016 Capacity changes	
Sum of Working Storage Capacity and Stocks in Transit	**179,153**
Refinery Working Storage Capacity	3,292
Tank and Underground Working Storage Capacity	145,418
Pipeline Fill and in Transit	30,443

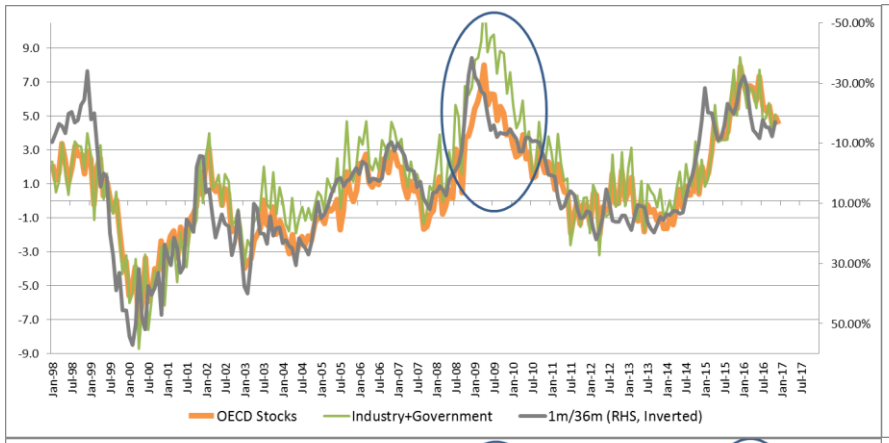
China implied stock builds have set new highs

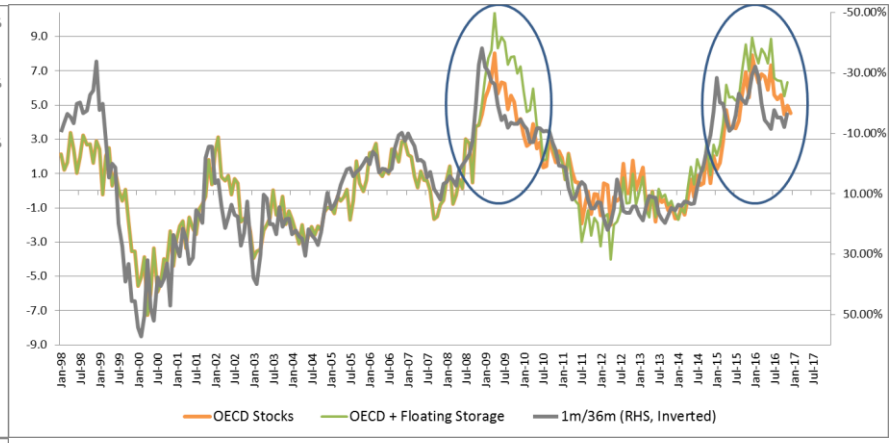


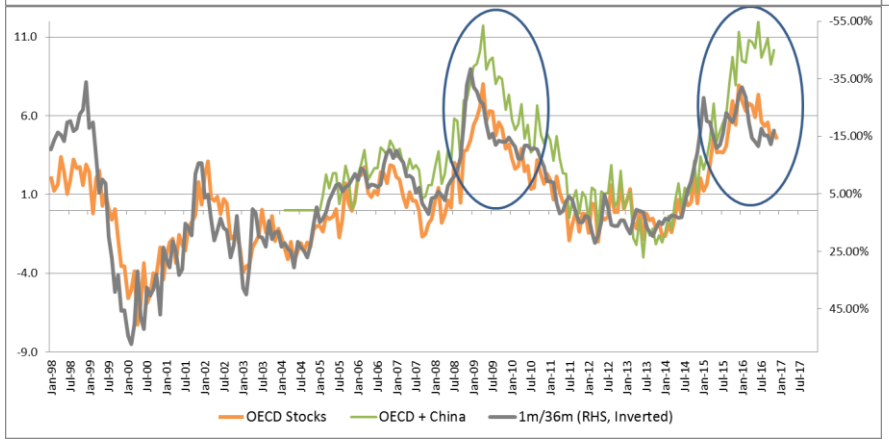
However, the relationship between commercial inventories and Brent structure has remained strong



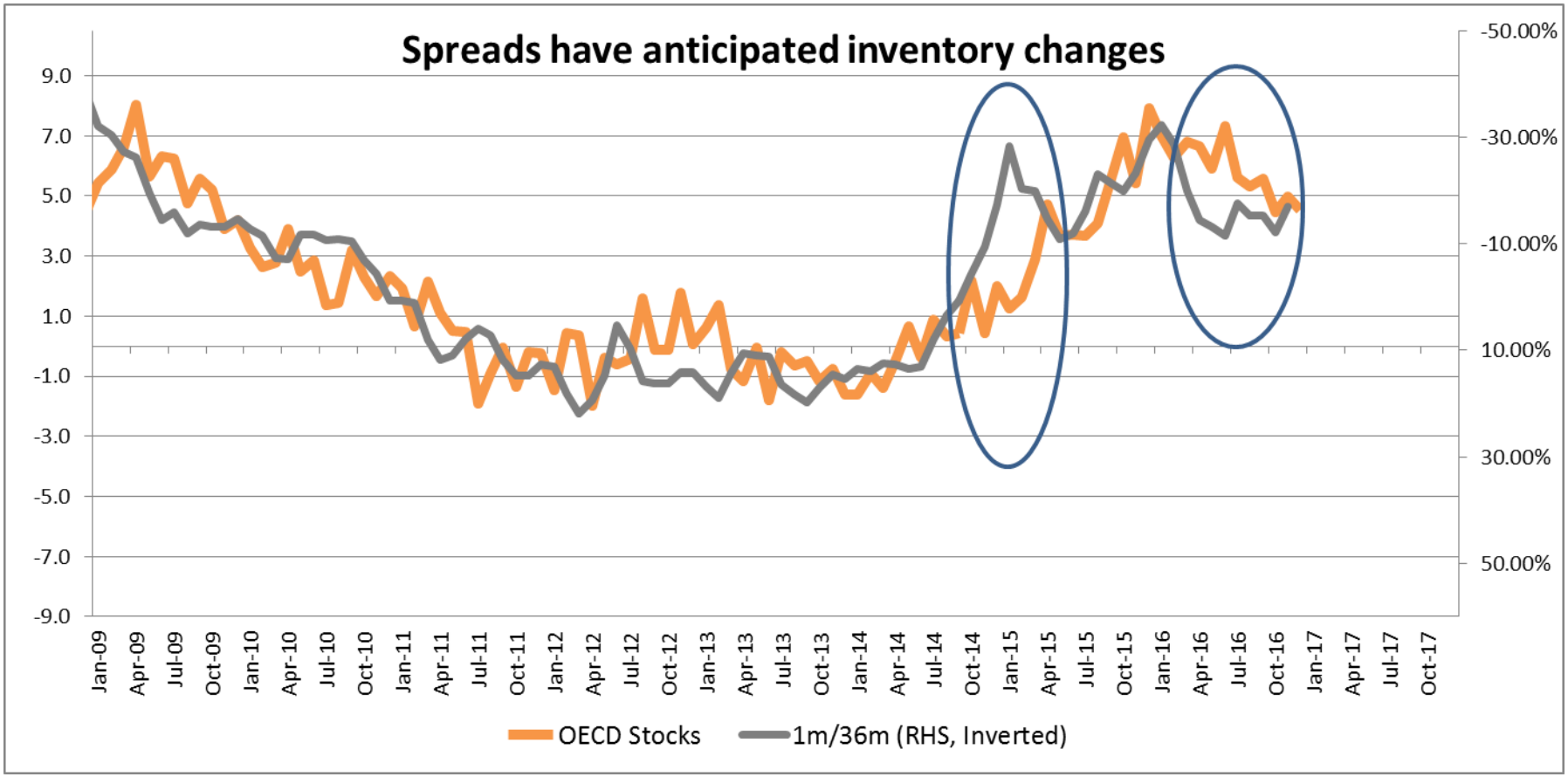
Other stocks, such has China, government stocks and Floating Storage have a weaker correlation with time spreads



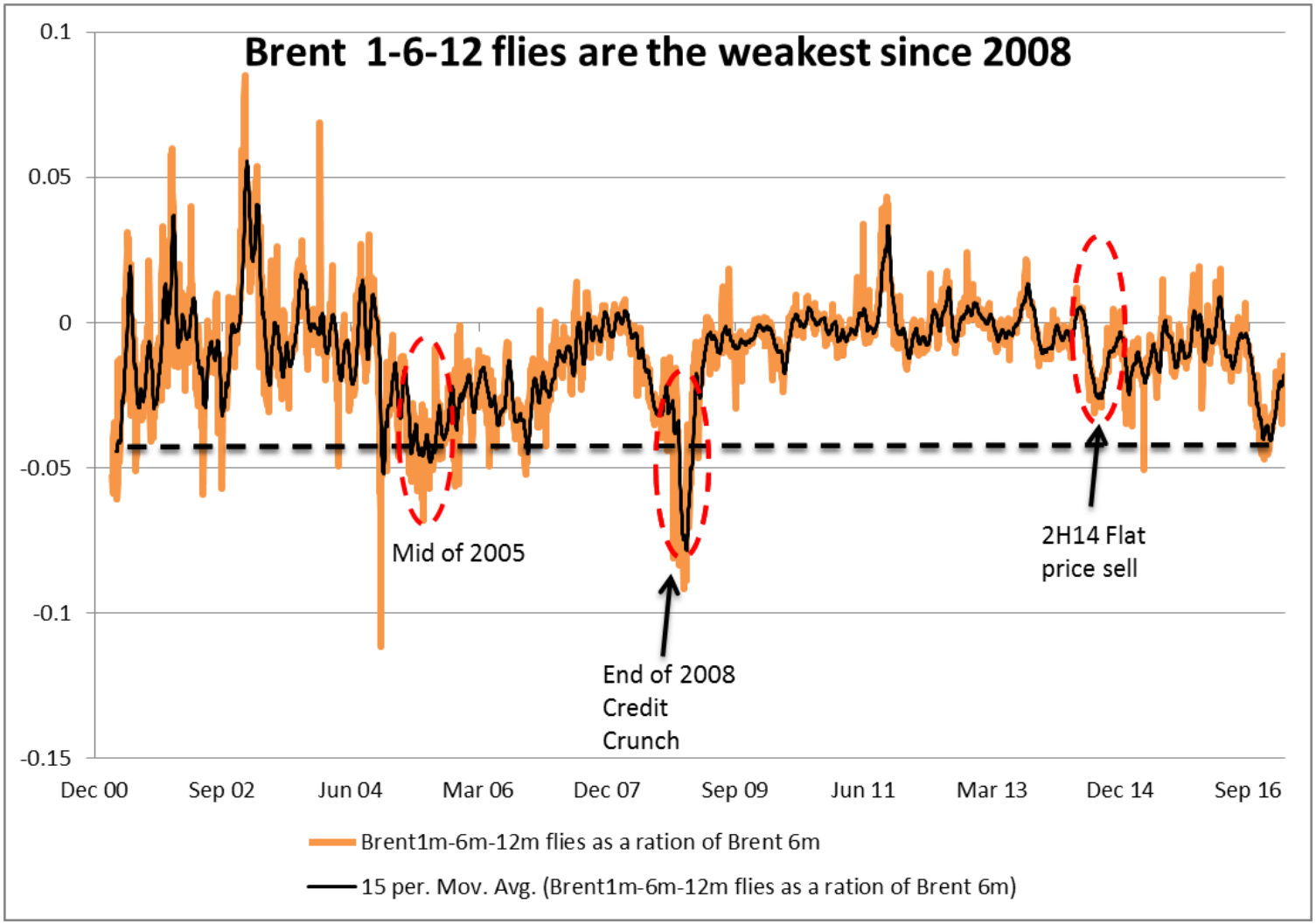




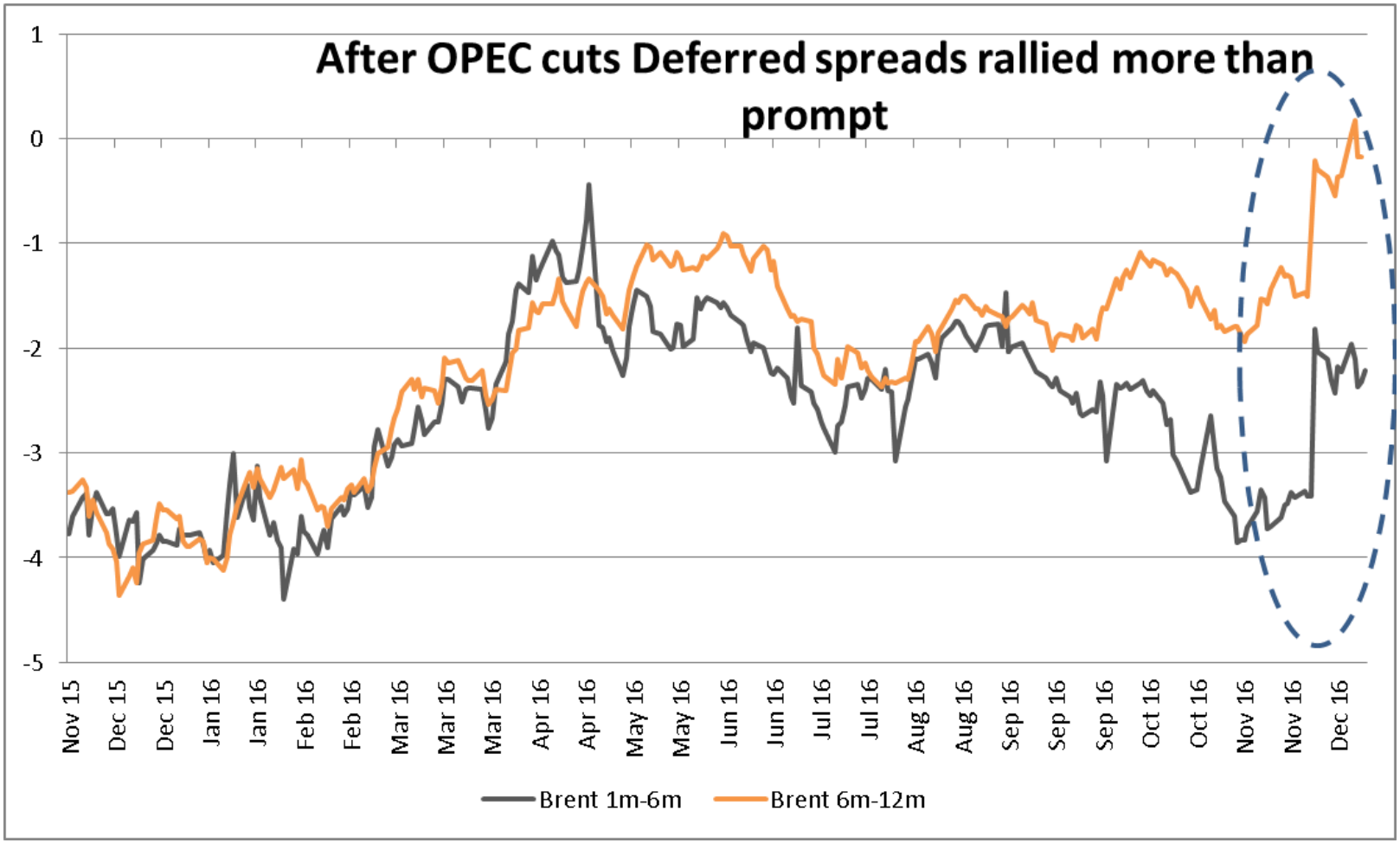
Since 2014, the market has been characterized by a pronounced “forward looking behaviour”



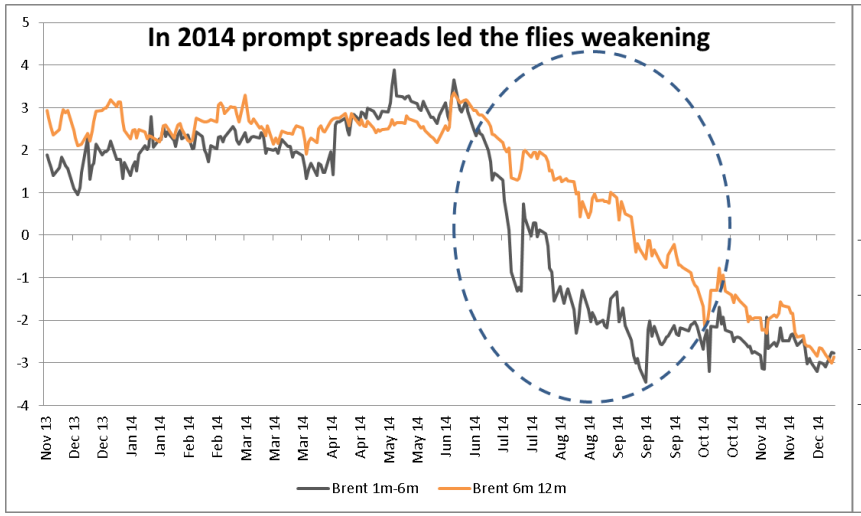
Curvature in December hit near historical lows

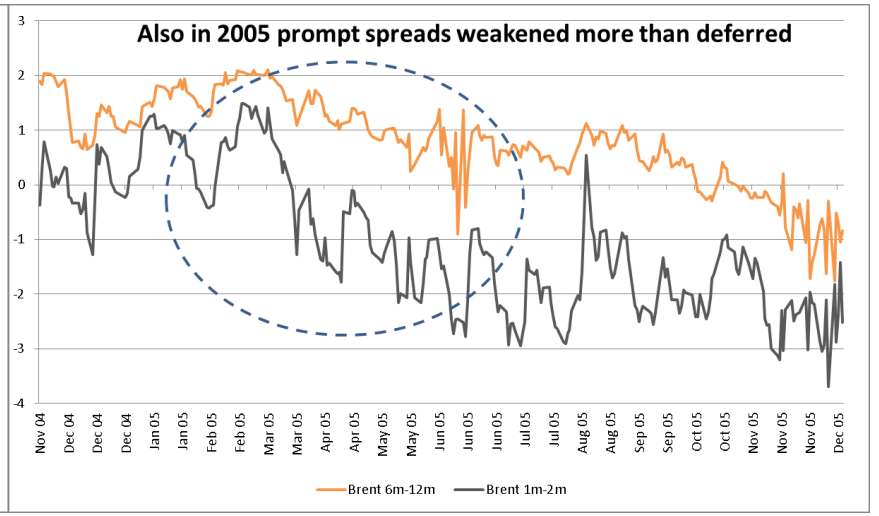


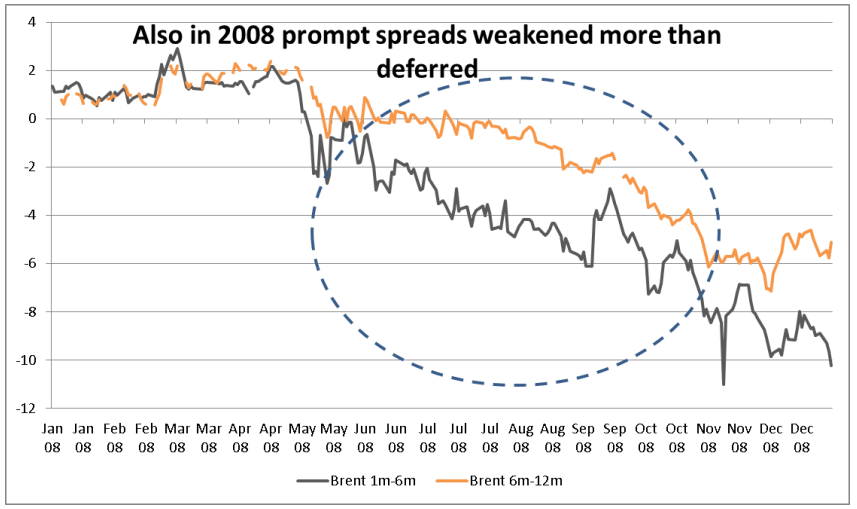
Deferred spreads strengthening was behind this

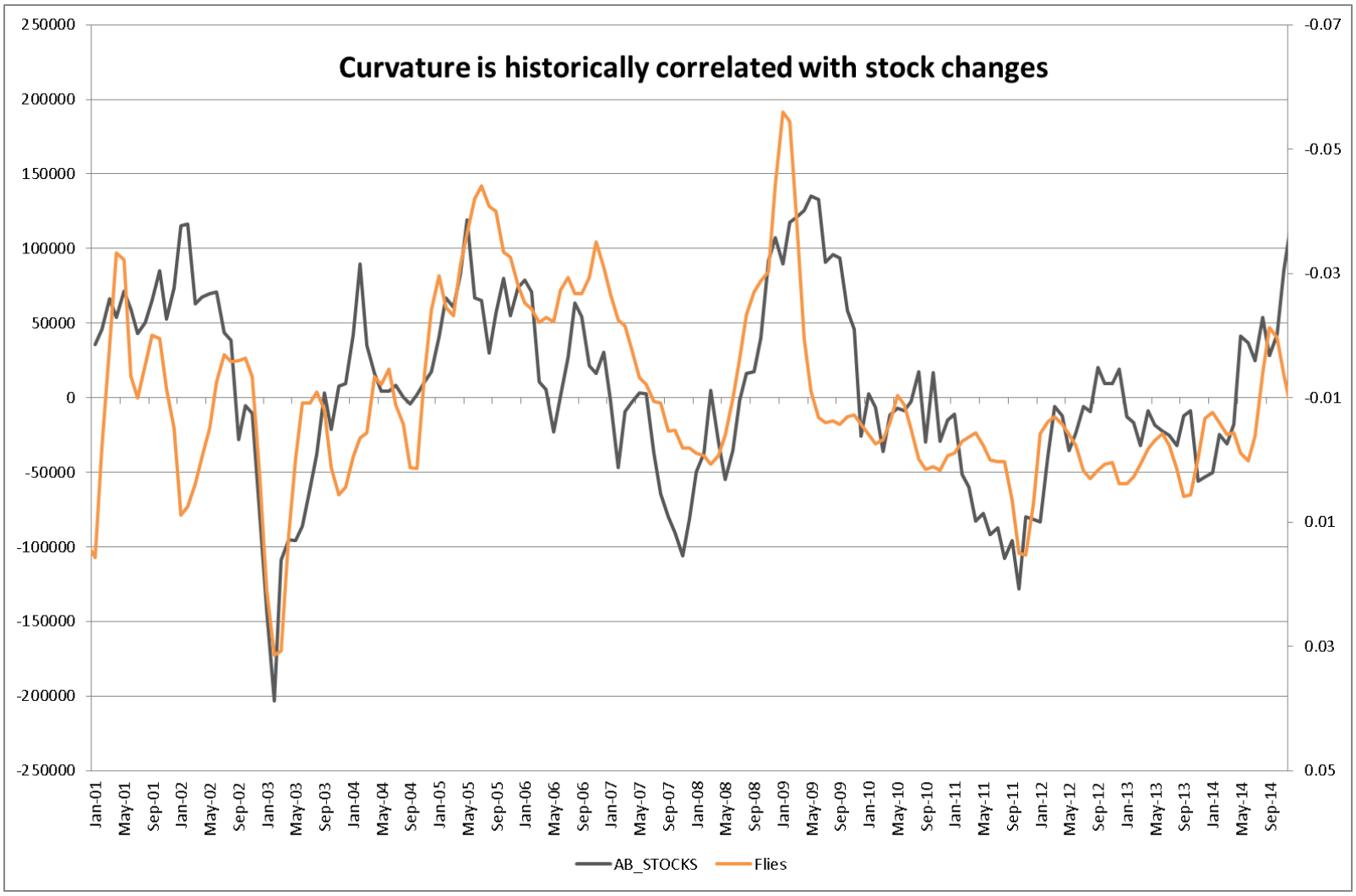


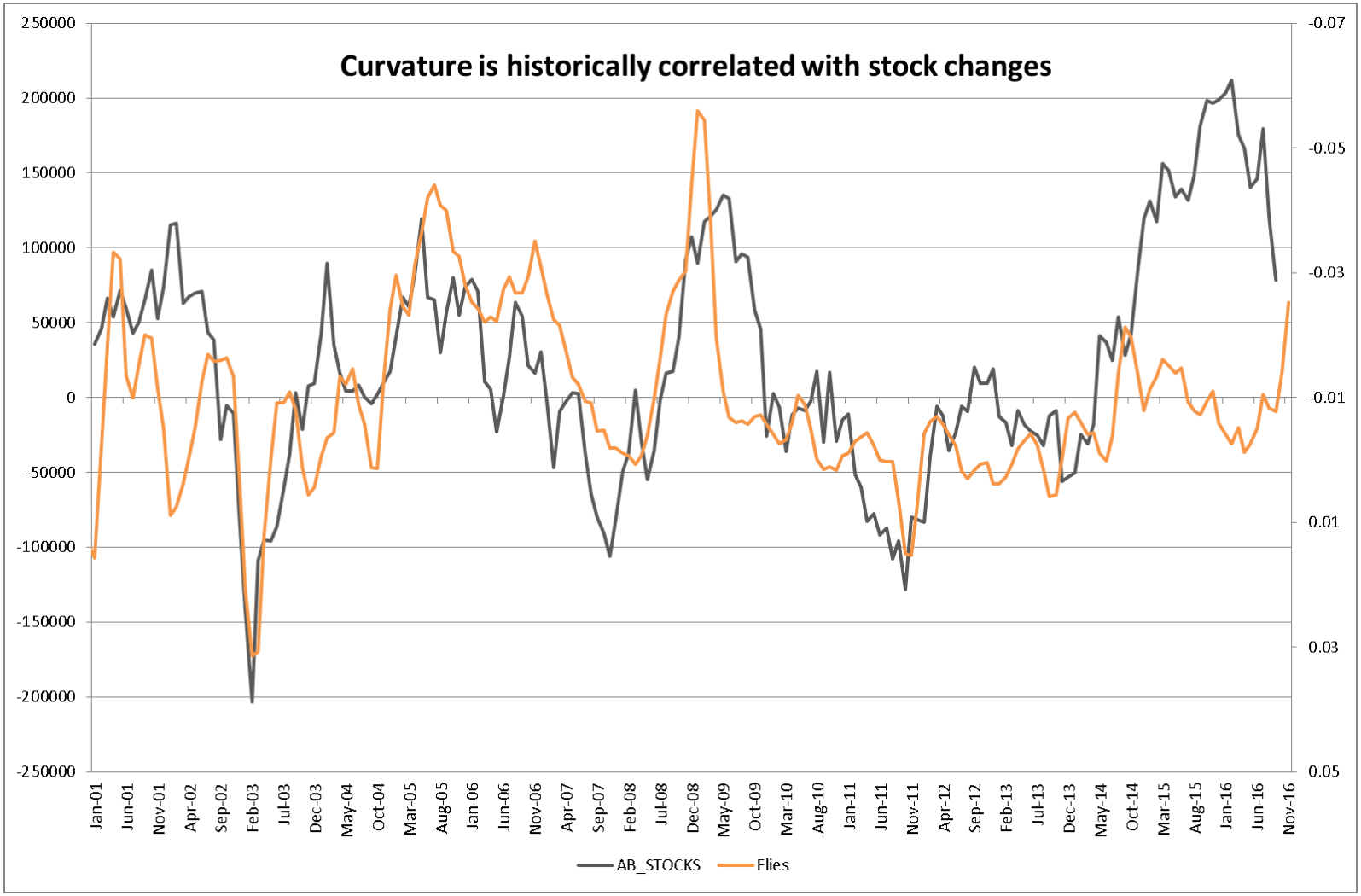
In most prior examples curvature moves are driven by the prompt spreads

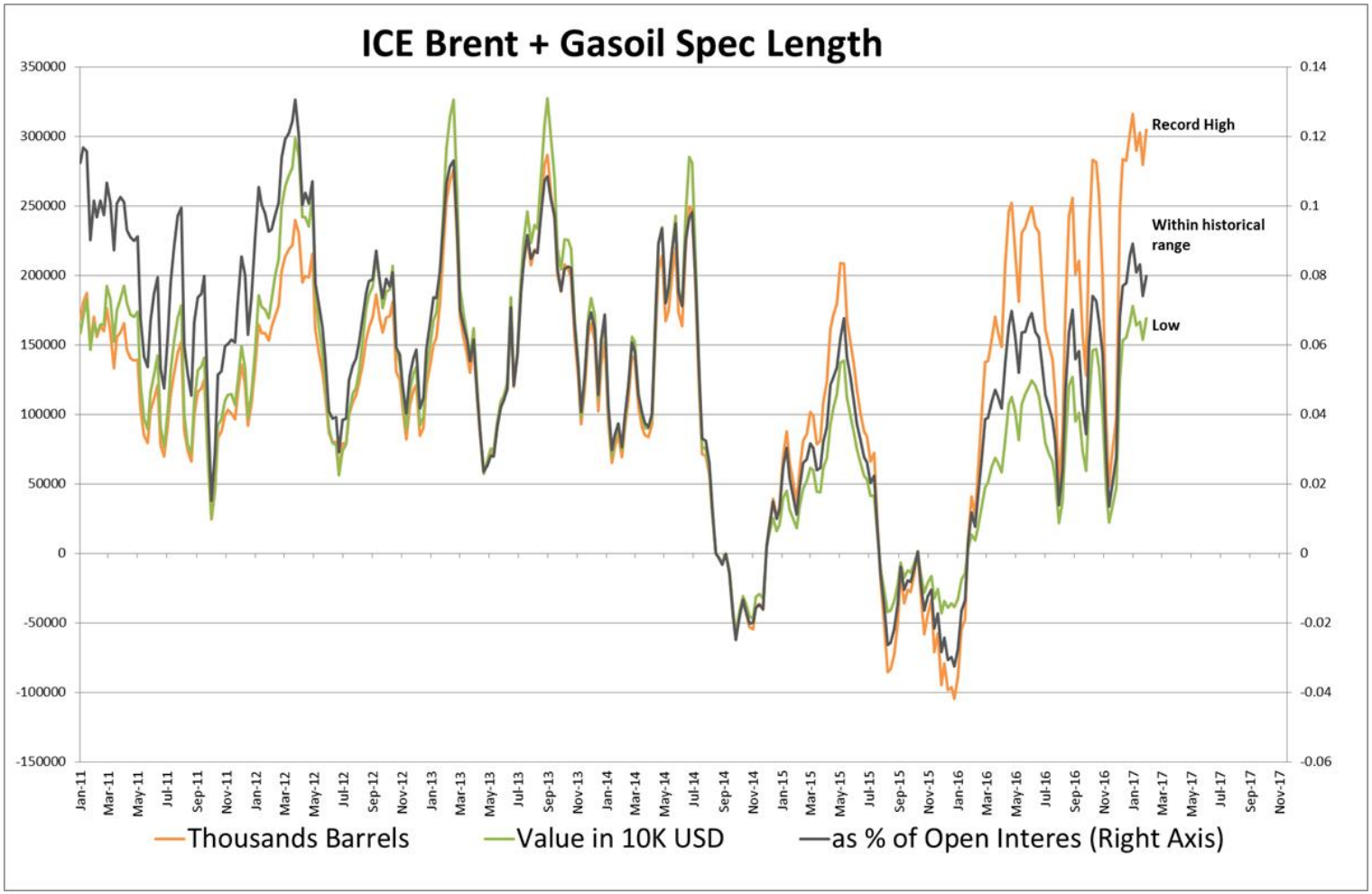


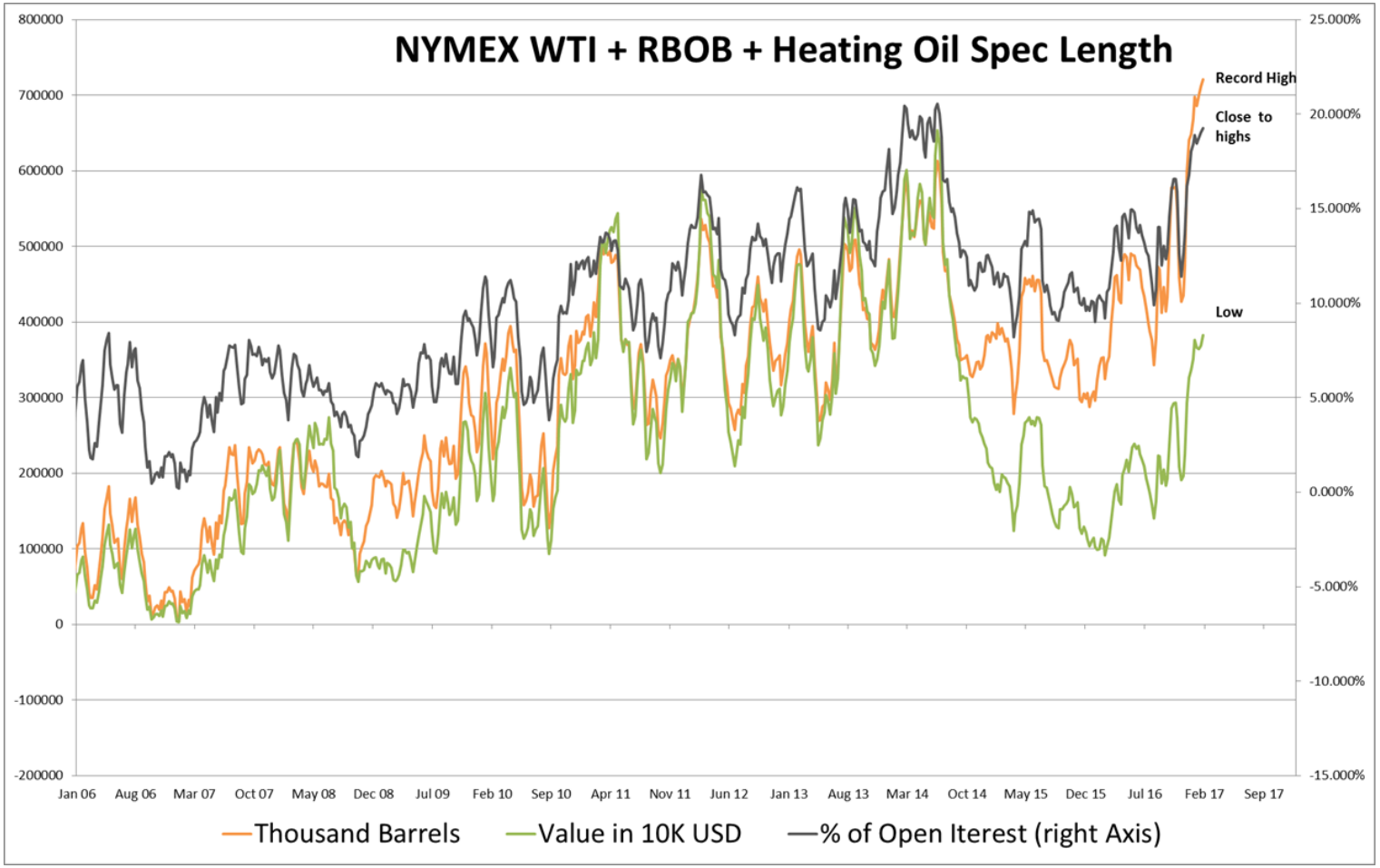





Curvature is historically correlated with stock changes
250000
200000
150000
100000
50000
0
-50000
-100000
-150000
-200000
-250000
-0.07
-0.05
-0.03
-0.01
0.01
0.03
0.05
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Sep-08
Jan-09
May-09
Sep-09
Jan-10
May-10
Sep-10
Jan-11
May-11
Sep-11
Jan-12
May-12
Sep-12
Jan-13
May-13
Sep-13
Jan-14
May-14
Sep-14
AB_STOCKS
Flies


Curvature is historically correlated with stock changes
250000
200000
150000
100000
50000
0
-50000
-100000
-150000
-200000
-250000
-0.07
-0.05
-0.03
-0.01
0.01
0.03
0.05
Jan-01
Jun-01
Nov-01
Apr-02
Sep-02
Feb-03
Jul-03
Dec-03
May-04
Oct-04
Mar-05
Aug-05
Jan-06
Jun-06
Nov-06
Apr-07
Sep-07
Feb-08
Jul-08
Dec-08
May-09
Oct-09
Mar-10
Aug-10
Jan-11
Jun-11
Nov-11
Apr-12
Sep-12
Feb-13
Jul-13
Dec-13
May-14
Oct-14
Mar-15
Aug-15
Jan-16
Jun-16
Nov-16
AB_STOCKS
Flies


ICE Brent + Gasoil Spec Length
350000
300000
250000
200000
150000
100000
50000
0
-50000
-100000
-150000
0.14
0.12
0.1
0.08
0.06
0.04
0.02
0
-0.02
-0.04
-0.06
Record High
Within historical range
Low
Jan-11
Mar-11
May-11
Jul-11
Sep-11
Nov-11
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Nov-12
Jan-13
Mar-13
May-13
Jul-13
Sep-13
Nov-13
Jan-14
Mar-14
May-14
Jul-14
Sep-14
Nov-14
Jan-15
Mar-15
May-15
Jul-15
Sep-15
Nov-15
Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Nov-17
Thousands Barrels
Value in 10K USD
as % of Open Interes (Right Axis)


NYMEX WTI + RBOB + Heating Oil Spec Length
Record High
Close to highs
Low
800000
700000
600000
500000
400000
300000
200000
100000
0
-100000
-200000
25.000%
20.000%
15.000%
10.000%
5.000%
0.000%
-5.000%
-10.000%
-15.000%
Jan 06
Aug 06
Mar 07
Oct 07
May 08
Dec 08
Jul 09
Feb 10
Sep 10
Apr 11
Nov 11
Jun 12
Jan 13
Aug 13
Mar 14
Oct 14
May 15
Dec 15
Jul 16
Feb 17
Sep 17
Thousand Barrels
Value in 10K USD
% of Open Iterest (right Axis)