2015 World Oil Price Outlook

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William H. Brown III

General Partner

WHB Energy Partners, L.P.

A Personal “Re-engineering” During Oil Market “Turmoil”

- Oil market participants at the margin, and therefore potential new clients, have changed over past several years.
- Easier to make money trading oil than gaining new clients via the “old fashioned” approach of proprietary global fundamental analysis.
- Tired of being a bridesmaid and never a bride.
- Developed combination crude oil options/futures approach that suited personality and risk tolerance.
- Both stumbled and recovered over past two years with own capital as approach was tested and fine tuned. Trend is positive, however.
- Now adding energy equities to the portfolio.
- 2015 will hopefully be marked by attracting outside investors.

Under New “Identity”, How Does Perspective Change During Periods of Extreme Oil Market Volatility?

- Trading approach may be characterized as a chess game: market makes move, a countermove is made if needed, and so on, until “checkmate”.
- Bottom line: make money and/or avoid large drawdowns, irrespective of price level, term structure, and volatility.
- No need to worry about forecast “shelf life”.
- Can turn on a dime, if needed.
- Can and do hedge expectations of market direction, market level, term structure, and volatility.

An OPEC Meeting Perspective

- OPEC meetings had been essentially irrelevant for six years.
- Based on the post-meeting market response to last November's gathering, the consensus was expecting a one-confab wonder.
- Even if one does not believe in the Saudi "conspiracy theories", history reveals that one meeting rarely, if ever, leads to a workable production "cut".
- We put "cut" in parentheses because historically there has been only one time when OPEC "proactively denied" volumes to the market.
- Customarily, even in 2008, OPEC "cuts" merely legitimize lower refiner nominations.
- Next meeting not until June, even if oil prices decline significantly further.

Dissecting the Market's Response to OPEC

- The price response post the November OPEC meeting was ***disproportionately*** negative relative to the change in global commercial stocks following that meeting, based on fundamental trends in 2014:

End Month	Global Commercial Stocks, Days Supply *	Brent Settlement
June	24.1	$112.36
Sept	24.3	$94.67
Dec	24.7	$56.42

- It suggests that either the "neotrader" continues to have undue influence on the market or the market is discounting a larger, more onerous combination of negative factors in 2015 such as a global recession combined with incessant gains in non-OPEC production. i.e. a petroleum industry "Black Swan".

*** Source: Energy Intelligence Group**

CFTC Managed Money data: Still Relevant As a Clue or Not?

- The current futures-only, Managed Money net longs total 204,795 contracts as of January 13 corresponding to a prompt NYMEX settlement of $45.89 per barrel.
- The last time futures-only Managed Money net length stood at roughly this position was on October 28, when the prompt NYMEX crude oil contract settled at $81.42 per barrel.
- We have fully conceded that relating Managed Money net length to price is as much an art as a science, but there has arisen a severe dichotomy-divergence that is unprecedented when looking at the historical data.

A Fund “Multiplier Effect” On the Downside Which Distorted Days Supply vs. Price?

- Funds have been “used to” $100.00 per barrel NYMEX crude and $105.00+ per barrel Brent for almost four years.
- The new, marginal trader has never witnessed a collapse in crude oil or prices, sustainably trading in the $50.00 per barrel range or lower.
- Thus, $75.00 per barrel was viewed as the bargain of the century, as was $60.00 per barrel, as was $50.00 per barrel.
- This perhaps led to Managed Money net length being ***sustained over time*** as prices declined, i.e. funds buying below $100.00 per barrel, subsequently burned, buying at still lower levels, being burned, etc. prolonging and exacerbating the price decline.

Enough of History, Where Are We Going?

- We have always believed that $100.00+ per barrel Brent was too high, and that long-term responses on both the demand and supply side would eventually have their effect.
- We felt that Brent in a range of $65.00-$75.00 per barrel represented reasonable, long-term equilibrium.
- We still do.
- If our thoughts that funds may have “oversold” crude oil relative to fundamentals over the last couple months, then our long-term price perspective is reasonable.

The Saudi Perspective

- We will be so bold as to suggest that Saudi Arabia also believes that such a range is now appropriate.
- Ali Naimi has, over time in dynamic markets, tried to estimate a “nice, perfect” price that was fair to both producers and consumers.
- $100.00 per barrel Brent was the magic “bogie”, perhaps now replaced by $70.00?
- Saudi Arabia does not wish to “condemn” the U.S. shale oil industry, but merely try to ensure that 1) non-OPEC sources of production continue to be developed at a *moderate* pace while 2) providing Saudi Arabia with a “necessary and sufficient” market share to maximize short-term revenue.

The Price Outlook

- While the short-term bottom may not as of yet been firmly established, we are on record as suggesting $45.00 per barrel is “it”.
- Analysts may be worried about a “weak” second quarter, but we are not.
- We look for a sufficient rebalancing in the second half of the year to allow Brent to recover to a $65.00-$75.00 per barrel range, i.e. encompassing our “reasonable” long-term equilibrium price.
- From our trading standpoint, we now have a net positive bias, but will ***always*** remain hedged on the commodity side, with a long bias on the equity side.