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The Global Energy Tug of War

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Crosswinds Galore

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For the Bulls:

- No recession; modest GDP slowdown
- Chartist astrology
- SPR gambit
- The Fragile Five producers
- OPEC+ underperformance
- 8-billion mark in population
- Rig Count rigor mortis
- Hurricane threats
- Collateral damage MW/Ngas
- Power problem potential
- Vladimir Putin

For the Bears:

- Deeper recession or even a collapse; banana worries
- Demand destruction
- Thread the needle in Tropics
- Russian persistence
- Chinese shift export policy
- Middle Eastern breakthroughs
- Peace talks?
- Normalizing mid-cycle refinery returns

Crude Oil Prices Reached Multi-Year Highs

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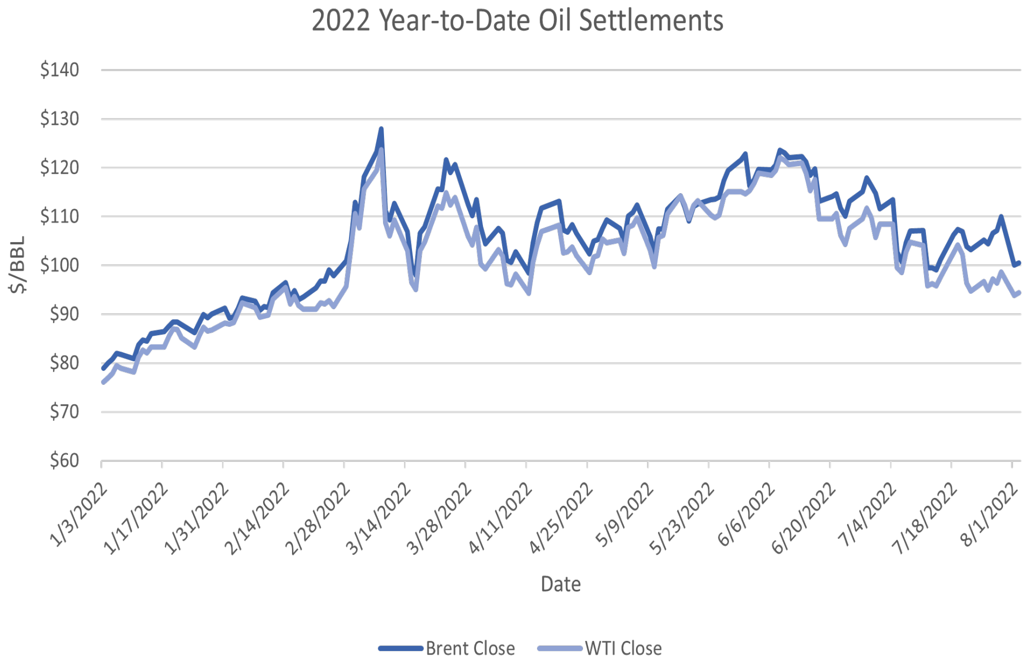
- Oil demand recovers from depressed levels
- Production has simply not kept up. In 2021, deficit was ~2.5 million b/d
- Replacing lost Russian oil
- OPEC+ has restored the 2020 production cuts…sort of



Downstream US Refined Products

2022 is a “gap year” that may extend into 2023, but some huge foreign refiners come onstream in the next two years.

Keep an eye on the subtractions and additions to US refining capability. Lyondell, St. Croix in play; additions at Paulsboro, NJ and other locations may have some impact.

Some Items to Watch After the "Driving Season"

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- Incredibly prosperous returns for US refiners resulted in typical maintenance being postponed until autumn. Rates of 95% could fall dramatically in September, October and November.
- Diesel inventories are well below normal in North America and on virtually every other continent.
- US imports of diesel will be negligible because of sky-high power and natural gas prices in Europe and elsewhere. Privileged continent.
- Exports are likely to push over 1.5 million b/d of distillate overseas.
- We could see diesel fetch $75-$125/bbl over crude oil values in 4Q22 and 1Q 2023.
- What if investors and speculators come back into oil? Goodbye 60/40 and hello 50/30/20.
- Rack prices are no longer a reflection of replacement costs plus a modest mark-up. There's a reason why Wall Street screwed up earnings' expectations.
- IMO was the dog that didn't bark in 2020 and 2021. It is a howling wolf these days.
- Finally, is there anything that coastal Atlantic markets can do in a cold winter, where fuel might go to power plants or industry and result in shortages?

A QUICK LOOK AT RETAIL

Retail Gasoline Prices Hit New All-Time Highs

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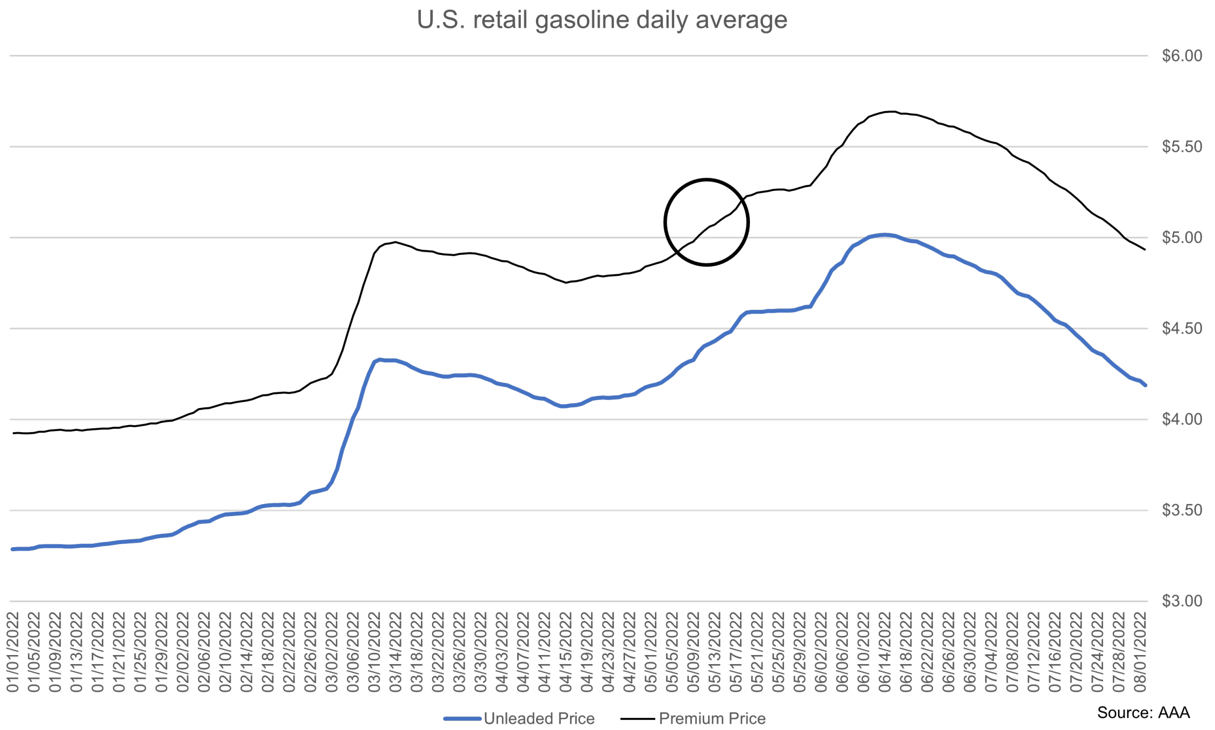

Source: AAA

The Same with Diesel…

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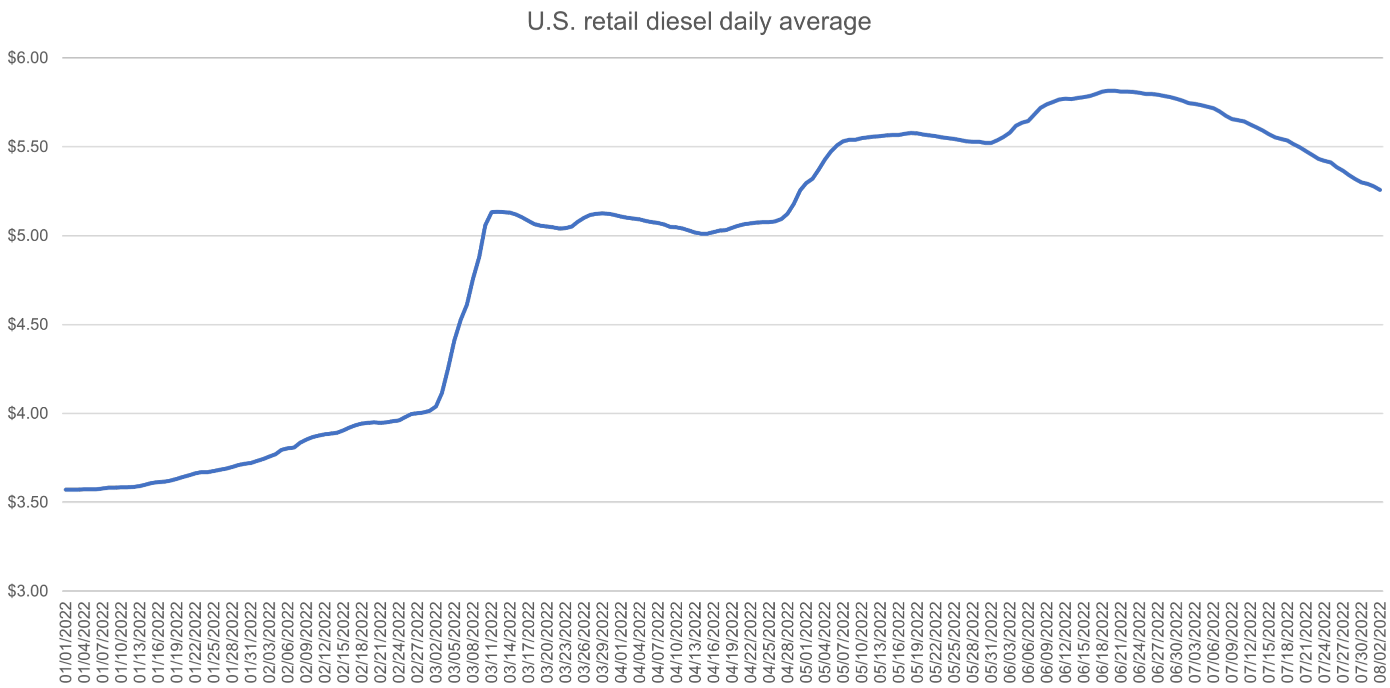

Some Final Thoughts

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- Beware the Energy Transition – transitions can be problematic these days and Europe in winter 2021-2022 is a prime example
- Take some solace in North American refining capability. The middle of the barrel represents the scarcest molecules in the North Atlantic and the entire Western Hemisphere
- Scale is really an advantage
- Watch for the loss of logistics. Central Atlantic and New England and California are prime examples
- Follow the money. Investment flows have stalled but that could change drastically
- Beware of this autumn. Pit stops are needed
- Speaking of pit stops…

Thank you…any questions, comments?

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