Natixis Oil Research

Natixis Oil & Oil products research focuses on fundamental analysis of global oil markets and using these analyses to put forward recommendations and strategies on oil & oil products. It produces a weekly commodities report, providing a regular insight into the key developments taking place across the commodity markets, as well as in-depth analyses of the commodity markets on a bi-annual basis.

Dr Abhishek Deshpande
leads the oil and oil products research at Natixis.

Abhishek is providing price forecasts, trading strategies and fundamental analysis of the global oil and oil product markets. Prior to joining Natixis, Abhishek worked as a management consultant for two years.

Abhishek has a doctorate in Chemical Engineering from Cambridge University and holds Chartered Engineer status with the Institute of Engineers, UK.

While pursuing his degree, he spent time working for Indian Oil Corporation Limited.

Abhishek has appeared on CNBC, Bloomberg TV, presented at Oil & Gas conferences and is quoted regularly by financial media globally. He has also published articles in financial journals such as Petroleum Economics.

Nic Brown
is head of commodities research at Natixis.

Nic began his career at the Bank of England, contributing to the Bank's Quarterly Bulletin before managing the Deutschmark portfolio in the Bank's reserves management team. After three years on the proprietary trading desk at BNP Paribas, Nic joined Natixis in 2001 as a global-macro hedge fund manager. Following a further stint as a fixed-income proprietary trader, Nic joined Patrick Artus' Economic Research team in 2009 as Head of Commodities Research.

Nic has a prominent media profile, appearing regularly on Bloomberg TV and at numerous conferences around the world, and is regularly quoted by the financial media.

A leading bank in Global Energy & Commodities

Natixis is a leading bank in global energy & commodities finance, with recognized arranging and underwriting expertise, providing a platform of ideas and financing solutions to assist clients in achieving their financial goals. With a 30-year commitment to the natural resources sector, Natixis ranks among the top 10 financial institutions providing a global package of commodity services in the energy, metals and mining and soft sectors. It provides a full coverage of the value chain, ranging from upstream to downstream players: producers, processors, importers, traders and service providers.
A dedicated team of 125 industry-specialized relationship managers and senior bankers worldwide is able to perceive market specificities and address clients' global needs. It provides a global coverage of all geographic areas (CIS, Central and Eastern Europe, Latin America, Africa, North America, Asia) through 10 specialized offices (Paris, New York, Houston, Moscow, Singapore, Hong Kong, Shanghai, Ho Chi Minh, Sao Paulo, Buenos Aires, Dubai, Almaty).
Natixis offers comprehensive and innovative coverage of energy and commodities financing, ranging from Pre-export financing, Commodity Trade finance, Corporate acquisitions facilities, Borrowing based lending or Reserve based lending, to Repos and Revolving Credit Facilities. In addition, Global client coverage is ensured thanks to a large choice of complementary financial products, such as trading & hedging solutions, bonds & equity mutual funds, asset management and equity derivatives.

Global Markets Commodities business line

Natixis, via its Global Markets Commodities business line, itself part of the Global Markets department within Wholesale Banking, provides clients with a comprehensive range of commodity risk management services through over-the-counter derivatives through three main areas: energy, base and precious metals, and bespoke products.
In energy, GMC operates on crude oil, refined products, US natural gas, and carbon, offering the full range of OTC products to a wide customer base, comprising:

- energy producers, for example oil and gas exploration and production companies or refiners, seeking to hedge the future production of commodities and;
- energy consumers such as airlines or other industrial companies that need to hedge the future cost of purchases of energy to support their business.

GMC also works alongside national energy companies that need to hedge the future cost of imports of energy to support the national infrastructure.

Natixis, the corporate, investment and financial services arm of Groupe BPCE

Natixis is the corporate, investment and financial services arm of Groupe BPCE, the 2nd-largest banking group in France with 21% of total bank deposits and 36 million clients spread over two networks, Banque Populaire and Caisse d'Epargne.
With around 22,000 employees, Natixis has a number of areas of expertise which are organized in three main business lines: Wholesale Banking, Investment Solutions and Specialized Financial Services.
A global player, Natixis has its own client base of companies, financial institutions and institutional investors as well as the client base of individuals, professionals and small and medium-size businesses of Groupe BPCE's two retail banking networks.
Listed on the Paris stock exchange, it has a solid financial base with a CET1 capital under Basel 3[(1)] of €12.4 billion, a Basel 3 CET1 Ratio[(1)] of 9.7% and quality long-term ratings (Standard & Poor's: A / Moody's: A2 / Fitch Ratings: A).

(1) Pro forma of the sale of CCIs - Basel 3 impact will depend on final rules – Fully-loaded except on DTAs
Figures as at June 30, 2013

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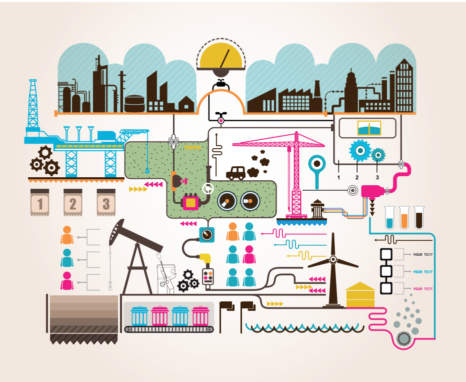
The International Petroleum Week

Natixis Oil Outlook - *2014*



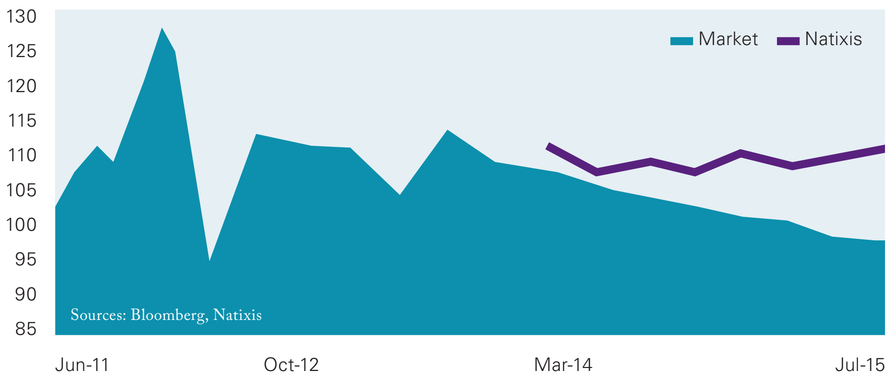
Oil prices in 2013 were driven mainly by the supply side of the equation thanks to strong growth in non-OPEC production, led by the US.

In 2014, although supply will continue to outpace demand, demand is expected to improve as the global economy recovers.

Hence the call on OPEC is expected to fall only marginally, by around 200,000b/d. Brent prices are therefore expected to remain around the top end of OPEC's $100-110/bbl target price range, as political unrest across the Middle East and North Africa continues to restrict expansion in crude output in countries such as Iraq and Libya. The Brent-WTI spread should narrow to around $5-6/bbl based on transportation costs, however this may be delayed if the growth in US oil output still outpaces the growth in pipeline and crude by rail take-away capacity.

US oil prices will also depend on the extent to which the US permits exports of its own oil and at the same time on the reduction in crude oil imports to the US GC. Some of our bullish and bearish scenarios for oil prices in 2014 are discussed below:

Brent price outlook - futures vs Natixis forecast ($/bbl)



» Bullish risk scenarios

Surprisingly strong increase in global demand for commodities, as a synchronous global economic recovery takes root, boosted by robust economic recovery in Europe. Higher European car sales help to boost demand for oil products, on top of surprisingly strong economic growth.

India and China boost global oil demand by adding to strategic stockpiles. This places a floor under oil prices, as well as increasing apparent demand.

Despite a move towards resolution of the Iranian nuclear situation, political instability heightens across the MENA region, with Iraq bearing the brunt of an escalation in sectarian tensions. The situation in Libya fails to improve. In effect, **political instability becomes the new de facto tool for OPEC to restrict output by its member states.** Syrian tensions spread to Lebanon. Egypt teeters on the brink of anarchy.

Tensions spread to countries previously unaffected by political instability. The situation in Turkey spills over from political in-fighting to major demonstrations, transforming Turkey's influence from a stabilising to a destabilising factor in the MENA region.

Conditions in Nigeria deteriorate ahead of 2015 presidential elections. The drop in reserves in Nigeria's Excess Crude Account makes life increasingly difficult for Goodluck Jonathan, curbing his ability to boost government spending as happened ahead of the

Bullish risk scenarios

2011 election, and political rivals gradually ramp up pressure on him ahead of next year's poll. Compared to a 2013 budget of 2.53mn b/d, Nigerian crude supply has already slipped to 1.8mn b/d, and sabotage and piracy in the Niger Delta, as well as growing political tensions within government could push it even lower in the year ahead. While draft Nigerian budget proposals for 2014 are suitably conservative in terms of price ($77.50/bbl), there are clearly risks attached to projected output of 2.39mn b/d.

After years of deterioration, the Venezuelan economy finally collapses, threatening current oil production levels as well as future output. The Maduro government is plunged into crisis, and China is faced with choice of bailing out Maduro or accepting default on its loans to PDVSA.

» Bearish risk scenarios

Increased US oil exports to a select few countries, in addition to higher oil exports to Canada.

Peace breaks out in MENA, allowing Libya, Iraq and Iran to increase crude output by a combined 2mn b/d or more. Geneva deliberations result in a repartitioning of Syria along sectarian lines. Plans for similar deals in Libya and Iraq are put forward. Pressure upon Saudi Arabia and the other GCC countries intensifies as lower output combines with lower crude prices to leave them well below their fiscal break-evens.

Having established that a deal to lift sanctions is imminent, **Iran rewards its global supporters (ie Russia, China) with new export deals,** supported initially by barter terms until full sanctions are lifted. Amid diminishing international cohesion, effectiveness of Iran sanctions begins to disintegrate.

Faced with the prospect of rising interest rates in Anglo-Saxon economies, over-leveraged consumers go into spending lockdown as the need to deleverage household balance sheets intensifies. **A slowdown in consumer spending reduces growth unexpectedly,** even as repayment of debts helps to increase the volume of liquidity circulating in the financial markets. Such a scenario could halt the Fed's efforts to withdraw QE3.

China's efforts to address overcapacity and the deteriorating environment lead to an unexpectedly large slowdown in industrial activity. Demand for raw materials slows sharply.

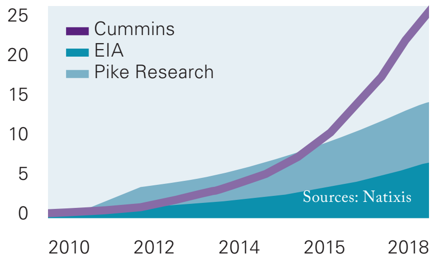
Driving Demand

Article Published in *Petroleum Economist* - *September 2013*

As the US witnesses a shift in the use of alternative fuels, Dr Abhishek Deshpande, oil markets analyst at Natixis, explores the trends that may affect demand for and supply of diesel products over the coming decade.

The US energy industry is undergoing a rapid transformation. This applies not just to the rising supply of oil and gas, but also to changing patterns of demand for energy products. Increased substitution between diesel, gasoline and natural gas dominates the outlook for US fuel demand. This is particularly evident in the transport sector, which comprises more than 68% of current demand for US oil products. Such a trend is in addition to rising costs for vehicle users, higher corporate average fuel economy (cafe) requirements, increased bio-ethanol consumption and stringent emission laws. But as fleet carriers, manufacturers, industries and consumers slowly make the transition towards natural gas, it is now necessary to consider how fast this transition can really take place. And moreover, in view of the current changes in diesel, gasoline and natural gas, evaluate the potential scenarios for the near future.

Total diesel fuel displacement by LNG in class 7-8 trucks (1000 b/d)



Sources: Natixis

Note: Displacement of diesel demand by Category 7-8 Trucks shifting to natural gas as fuel. Other trucks and buses are not considered in the demand calculations above as heavy duty trucks contribute 1.6mn b/d out of 2.35mn b/d diesel consumption today.

Full article available on Petroleum Economist Website

Balance of energy

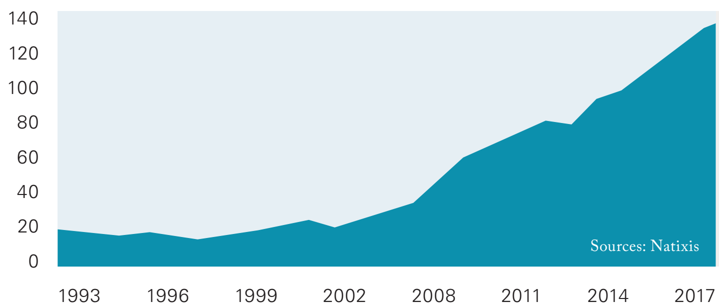
Article Published in *TFR* - *October 2013*

Dr Abhishek Drshpande and Nic Brown share the findings from their new Natixis Oil Review and observe that the pressure on OPEC to produce less has been alleviated by the underperformance of Iraq and Libya.

The *Natixis Oil Review* takes a fundamental approach to both supply and demand in assessing whether the global oil market is likely to be under- or over-supplied over the coming one to two year horizon. With the global oil market still dominated by the OPEC cartel, an assessment of the likely price outlook requires a close look at the inner workings of this organisation. What price range do they want? Can they adjust output, either up or down, in order to achieve this target price?

The Natixis analysts have attempted to answer these questions by looking at fiscal break-even oil prices for the key OPEC producers, as well as the prospective daily call on both OPEC output (see Figure 2) and, within it, output required from Saudi Arabia and its Gulf Cooperation Council (GCC) allies. Within this framework, they try to offer a fundamental perspective on the principal risks to oil prices over a one to two-year horizon. This article is a summary of the key points of their report.

Weighted average oil breakeven ($/bbl)

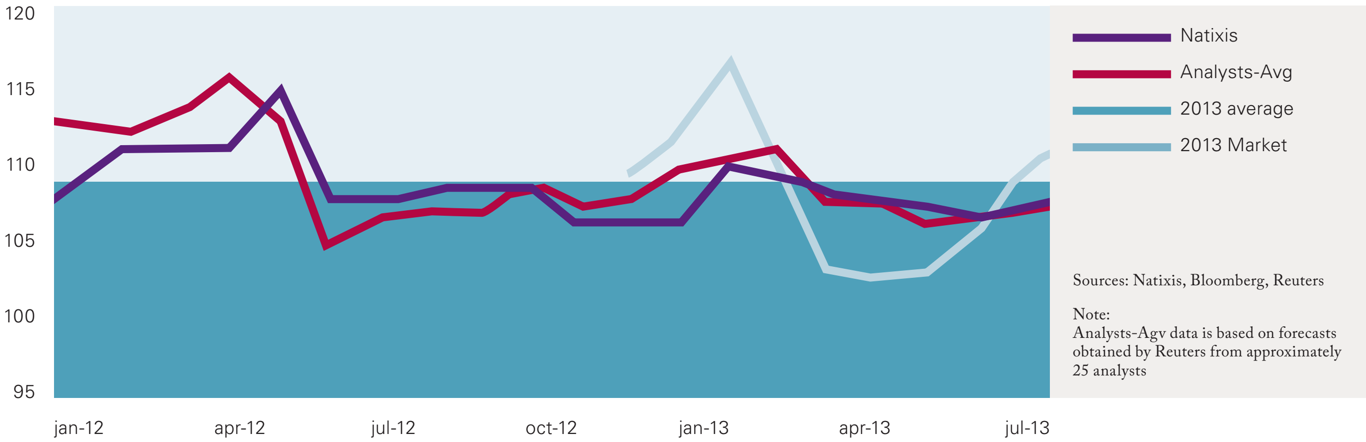


Full article available on TFR Website.

Natixis Oil Research Performance

Price Forecast Comparison

2013 - Brent Forecast vs Market ($/bbl)



Sources: Natixis, Bloomberg, Reuters

Note:
Analysts-Agv data is based on forecasts obtained by Reuters from approximately 25 analysts

Natixis in Media

Natixis commodities analysts were quoted regularly in financial media throughout 2013, as well as appearing in 23 TV interviews.

They have also presented their research at major conferences around the world.

CRUDE OIL OUTLOOK

High supplies to keep oil prices benign

ABHISHEK DESHPANDE

However, overall demand growth in the second quarter might be dampened by the Cyprus crisis and the indications that Asian economies are not growing that fast

There are two main factors that drive oil prices fundamentals and geopolitical risks. Looking purely at the fundamentals, oil markets are likely to be over-supplied in the near term. Much of this is due to the increases in North American oil production, which is expected to rise by around 800,000 barrels per day (bpd) this year. Despite their recent problems, African supply is expected to rise by at least 100,000 bpd by May, a significant part of that increase coming from Angola and South Sudan.

In the North Sea, where output has dropped significantly in recent years, loadings are expected to recover somewhat in the coming weeks, thanks to increase in oil production and deferrals from previous months. On top of this, physical liquidity in Brent contracts is being boosted by recent changes introduced by Platts, under which additional cargoes of Oseberg and Ekofisk are likely to be delivered into what was essentially a Forties contract.

On the demand side, the situation is less positive than the market was expecting in January. Yes, seasonal demand for crude should rise as refineries in Asia, the US and Europe increase their utilisation rates to stock up ahead of the summer, and demand for oil will also rise in West Asia, as temperatures begin to rise. However, overall demand growth in the second quarter might be dampened by the Cyprus crisis and by indications that Asian economies are not growing as fast as had been expected. Chinese apparent demand fell 3.7 per cent in February versus December's high, while Indian demand for fuel is being compromised by high diesel and gasoline prices, as these products are deregulated. With Japan choosing to continue running its Ohi reactors over the summer months, this reduces potential Japanese demand for crude over the coming months.

In contrast to most other global markets, the supply and demand in the oil market is equilibrated by changes in output by a small cartel of OPEC countries. The question is, therefore, whether the deterioration in supply and demand fundamentals will cause the Organization of the Petroleum Exporting Countries (OPEC) to loosen its grip on prices. Saudi Arabia had indicated last year that it favoured a price range of $100-110/bbl, and after scaling back its output in December, the market took this to infer a preference for the top end of this range. In response to weaker current conditions, the latest pronouncement from Saudi Arabia suggested this week that $100/bbl was a reasonable price for crude.

Ahead of the Iranian elections in June, the tightening of sanctions will further squeeze Iranian exports, potentially pushing these down to 800,000 bpd or less. In the near term, this lack of Iranian crude means Saudi Arabia and the other Gulf Cooperation Council (GCC) countries can easily maintain output at a level that keeps balance in the global market, suggesting that prices will remain within the Saudi target range of $100-110/bbl. If anything, Saudi Arabia is expected to retain, if not increase, its market share of crude oil exports to Asia, which is being challenged by more aggressive pricing from Iraq and is still not subject to OPEC quotas.

All these factors suggest one thing: oil prices will remain relatively weak in the near term. For 2013 as a whole, we forecast Brent to average $109.30/bbl. We also anticipate the Brent-WTI spread will narrow to less than $15/bbl, as US infrastructure expands to take more oil away from Cushing. If there was an early return of Iranian and Syrian oil, we could see Brent prices drop further.

The author is oil markets analyst, Natixis