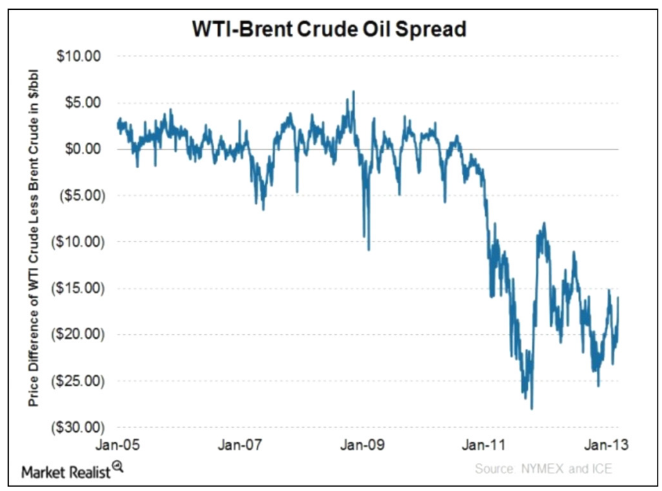
Monthly Market Thoughts - (05/08/2013)
By Zack Kays

For this month's article we wanted to summarize the most recent Spears and Associates report for those who do not have time to read the publication. Global oil demand is predicted to be up 1.2% in 2013 to a total of 90.2/mbpd. This upward revision from last year is led by the non-OECD countries whose consumption is estimated to grow by another 3% this year. Of course, China leads the way with higher than expected manufacturing indexes. (*Currently China consumes 12% of the world's production*.) OECD countries are expected to continue consuming less - down 0.6% - due to the slowing European economy. However, the recent stimulus packages announced by the Japanese government are expected to hold their demand constant through 2014.

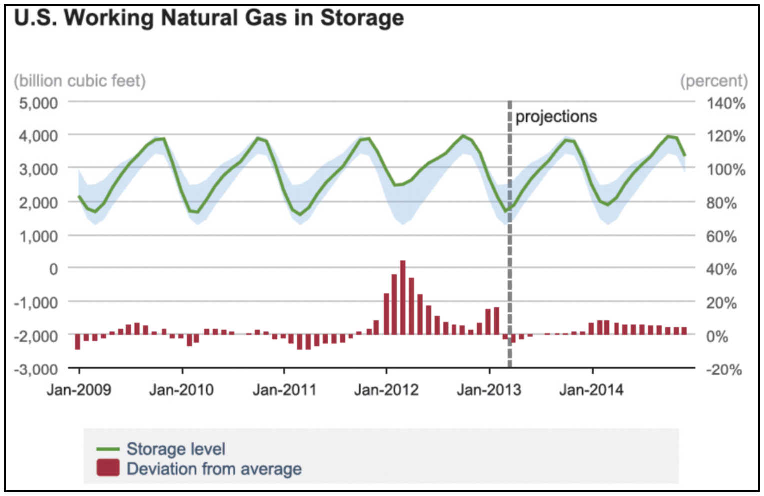
OPEC output is expected to be lower this year. Saudi and others have announced as much as 350,000/mbpd cut in production in 2013. These cuts caused a spike in prices in Q1. However, the announced reductions may be offset by the end of 2014 with new projects expected to come online in Nigeria, Angola, and Iraq. OPEC is expected to go from 91-92% of total production capacity down to 89-90% by the end of 2014.



Non-OPEC production is expected to increase by as much as 1.1/mbpd during 2013. Most of this growth can be attributed to tight oil plays in the US, which will boost output from 6.4/mbpd to 7.2/mbpd. Transportation issues associated with this upsurge may finally meet some relief with six major pipelines coming online to help convey 3.0/mbpd of crude to Gulf Coast refineries. This should further relieve the Brent vs. WTI spread. WTI was trading at as much as an $18/bbl deficit in 2012, but Spears has estimated this to be as low as $5/bbl by 2014.

US gas production is expected to increase from 65.7/bcfd in 2013 to 66.3/bcfd in 2013. There has been quite a disparity in geographic gas production with states like Wyoming dropping as much as 10%, while Oklahoma has increased output by7%. The continually growing output of NG in the US has led to a 51% decrease in imports over the course of 2012.

With the global imbalance in NG prices we see companies positioning themselves to take advantage of the depressed prices in the US. As many as 15 LNG exportation facilities have been announced to come online in the US by 2015. The hope would be to sell into markets that have linked oil



and gas prices on an energy equivalent basis. However, these ties could be severed leaving the newly formed export business in a tight spot.

Gas prices in the US are expected to average around $3.35/mmbtu during 2013. This assumes we exit the year at approx. 2,000-2,100/bcf in storage. Spears foresees an increase in the price of NG, predicting a $3.75/mmbtu average price in 2014. This trend is simply a reflection of a strengthening US economy. (If coal continues to trade at $58-60/ton power switching would be induced at the $2.40-2.50/mmbtu NG price.)