



JUNE APPEARS TO HAVE MARKED A PIVOT FOR DEMAND

Apparent Demand "Math" for 2Q '17 Million barrels per day

World supply	96.77
Commercial stock change	0.01
Emergency stock change	-0.12
Global Apparent Demand	96.88
2Q 2016 Demand	95.58
Y/Y growth based on our analysis	1.30
Y/Y growth of forecast	1.63

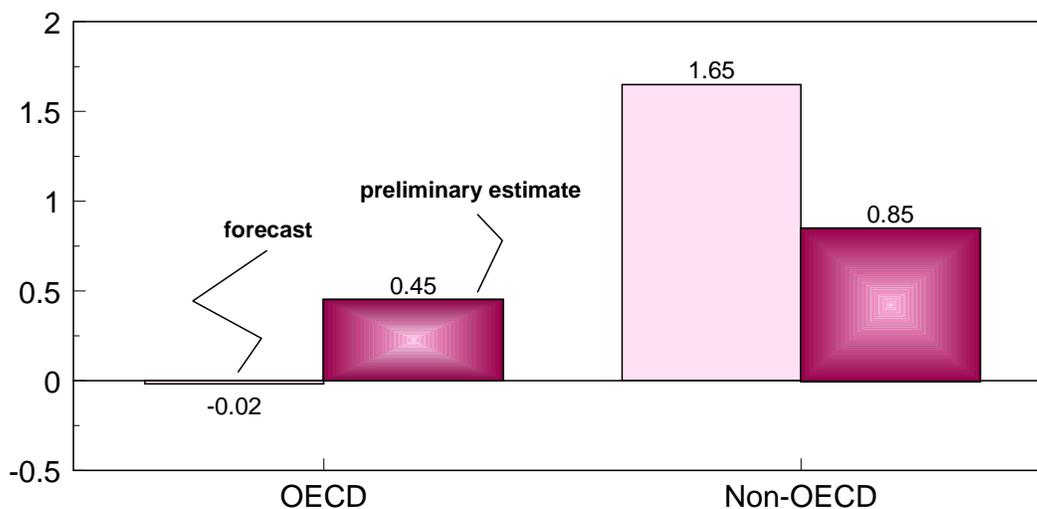
While our figure is preliminary and subject to revision, we estimate that global apparent demand averaged a wee less than 96.9 MM b/d in the 2Q period. This rate translates into a year/year gain of 1.3 MM b/d which, while shy of our forecast, represents a relatively healthy pace of demand growth – and a much stronger picture than what we witnessed in this year's 1Q period. Frankly, the finding was not evident to us until we crunched the data last night. The actual pivot appears to have taken place in June. The commercial oil stock draw we

estimated for the month coupled with the overall draw on emergency oil inventories (all of which was from the US SPR) swung the quarter's figure higher.

In terms of the breakdown between OECD and non-OECD demand growth, like the 1Q period the OECD came in stronger than forecast with the non-OECD weaker than forecast, as we detail below. We're not sure what the log jam was, but we will note that the 2Q showing for the emerging markets was notably firmer than the 1Q showing. We'll also note that China was not the issue, as discussed further on the following page. One key takeaway is that the figure for global demand growth for 2Q leaves us feeling comfortable with the demand forecast we have for the 3Q and 4Q periods which suggest much larger stockdraws as we move forward.

Preliminary Demand Growth in 2Q 2017

Year/year change, Million barrels/day



CHINA CHINA CHINA

Our reckoning of the preliminary Custom's data suggests China's oil demand grew by 1.04 MM b/d in June (year/year) lifting the 2Q rate as a whole to 12.26 MM b/d. Our preliminary figure for the quarter indicating a growth rate of about 6.5% is nearly double the rate largely assumed by the consensus – which was also the case for the 1Q 2017 period. Though China is the proverbial “poster boy” for the emerging market demand story, the finding for 2Q combined with our analysis on the preceding page suggests there is some sort of weakness collectively taking place in the rest of the non-OECD.

Our "Quick & Dirty" Apparent Demand Math for China

Million barrels per day

June

	June '17	June '16	y/y % chg
Net Crude Imports	8.79	7.45	17.9%
Net product imports (our est.)	-0.32	-0.18	77.6%
Domestic Oil Production	3.93	4.09	-3.9%
Apparent Demand	12.40	11.36	9.1%

New record high

Our "Quick & Dirty" Apparent Demand Math for China

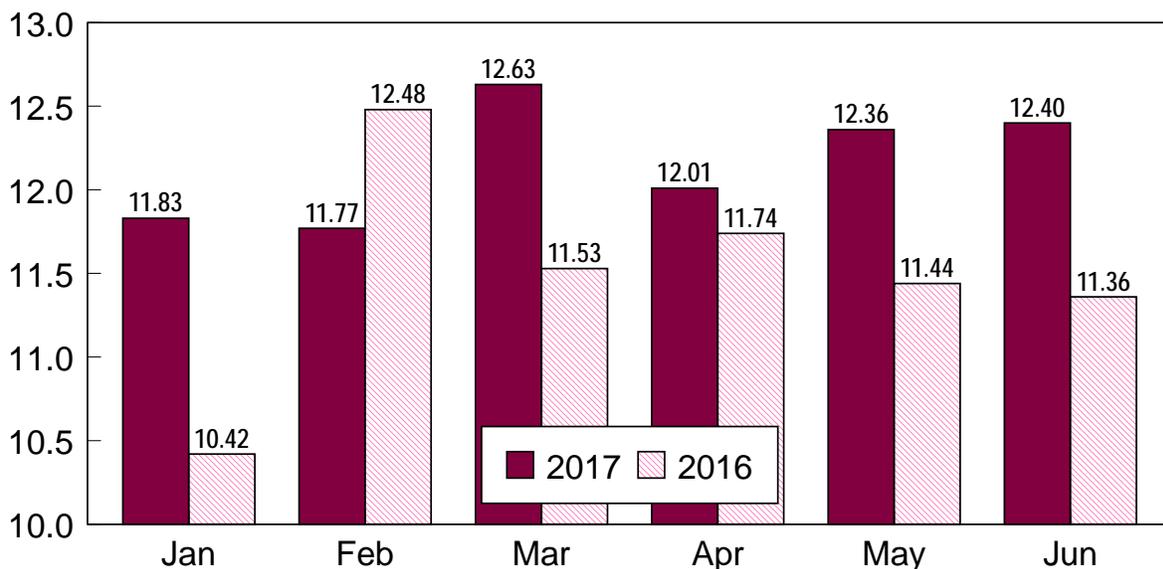
Million barrels per day

	2Q 2017	2Q 2016	y/y % chg
Net Crude Imports	8.64	7.66	12.8%
Net product imports (our est.)	-0.29	-0.21	41.0%
Domestic Oil Production	3.92	4.07	-3.7%
Apparent Demand	12.26	11.52	6.5%

2Q

China's Apparent Oil Demand

Monthly average, Million b/d

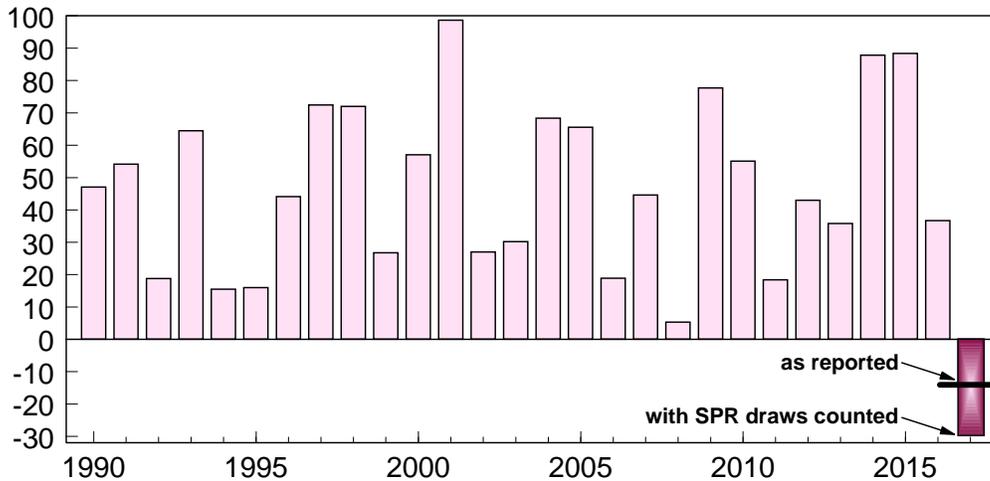


IT'S ACTUALLY HISTORIC

Most of the global oil inventory overhang created in the aftermath of OPEC's *Thanksgiving Day Massacre* in November 2014 was concentrated in the US, and at last year's November meeting there were specific comments about the quota cuts targeting US inventories. Looking at what has happened since the actual production cuts started to manifest in the global supply chain (end-February), we wanted to see how US oil inventories fared. As shown below, we analyzed the data back to 1990 to assess how inventories changed and 2017 marks the only occurrence in 27 years where total petroleum stocks drew down. For crude oil only (which typically builds over the period), 2017 marks the largest *draw* we recorded --- both of which are exacerbated when we account for the 16 million barrels of crude that have been discharged from the SPR.

US Inventory Change: End-February to 1st Period of July

Crude and all refined products including pet-chemicals and biofuels, MM bbls



US Inventory Change: End-February to 1st Period of July

Crude oil only, MM bbls

