



**CORNERSTONE
ANALYTICS**

POST-OPEC CLIENT BRIEFING

MARCH 19, 2010

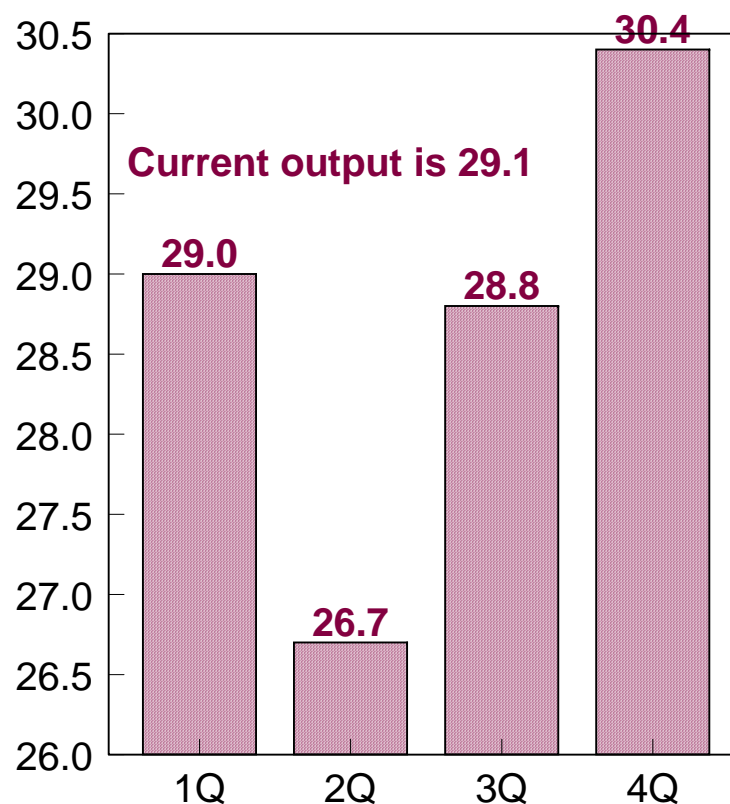
**MICHAEL ROTHMAN
PRESIDENT
CORNERSTONE ANALYTICS, INC.
MIKE@THECORNERSTONE.US.COM
+1 908-573-5870**

ON THE SURFACE, A HO-HUM CONFERENCE

- ▲ It was a given quotas would be "rolled over" before first delegates arrived in Vienna. More time spent on 50th anniversary celebration than oil market assessment.
- ▲ Cartel not being blamed for current oil prices and also not struggling to defend sub-\$50 level. Situation reflected by Saudi minister's comment "oil prices are great" -- naimi said it 7 times on Wednesday.
- ▲ Language in final communiqué accurate in conveying concerns about state of world economy and risks to oil demand. OPEC's internal supply/demand balance sees prospect for large stockbuild in 2Q. Private comments from Gulf delegates noted potential for oil to "fall for brief time" to \$40/barrel -- level of conviction not high, but comment still notable.
- ▲ Iraq production growth viewed as eventuality, but key contacts very skeptical about meaningful volumes coming soon -- most felt "several years" away.

OPEC's Own Call on Its Crude

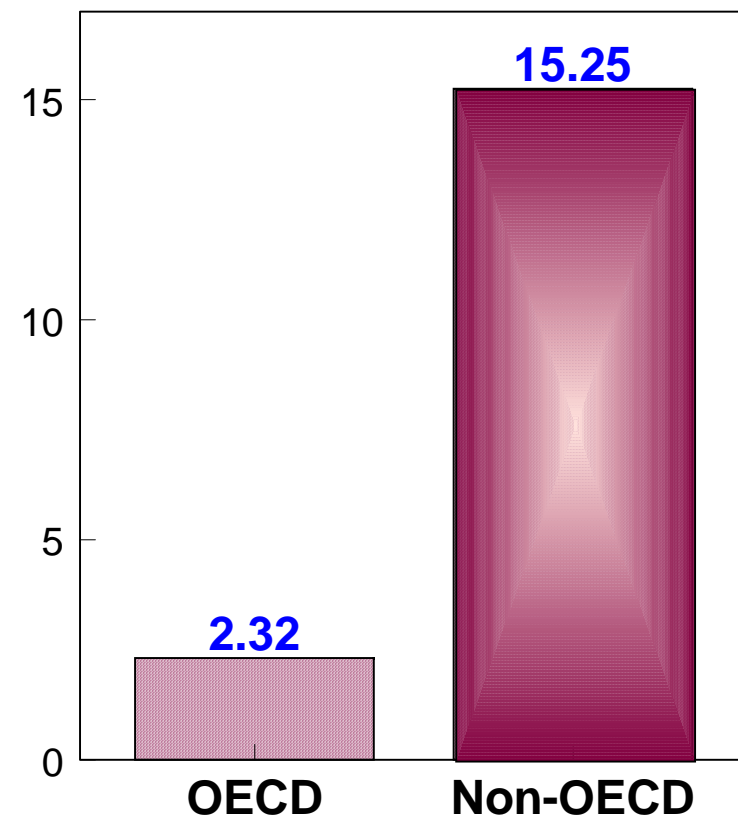
Assumes normal stock changes, Mm b/d



OIL DEMAND GROWTH - NON-OECD STILL KEY

- ▲ Discussions about oil demand with delegates confirmed the obvious. Growth being dominated by emerging markets for the better part of two decades is expected to remain the pattern.
- ▲ Questions about underlying cause of oil demand increase for non-OECD countries during '09. Broad agreement among our contacts that in the case of China, last year's numbers reflected some hoarding.
- ▲ Views expressed about non-OECD demand gains in '09 probably aided by government stimulus, effects of which likely fade in 2010.
- ▲ Concerns evident that higher oil and commodity prices over past year could derail global recovery. There was no stomach, however, to do anything more than lament such prospects. Feeling we sense is OPEC will deal with double-dip recession only after effects become evident.

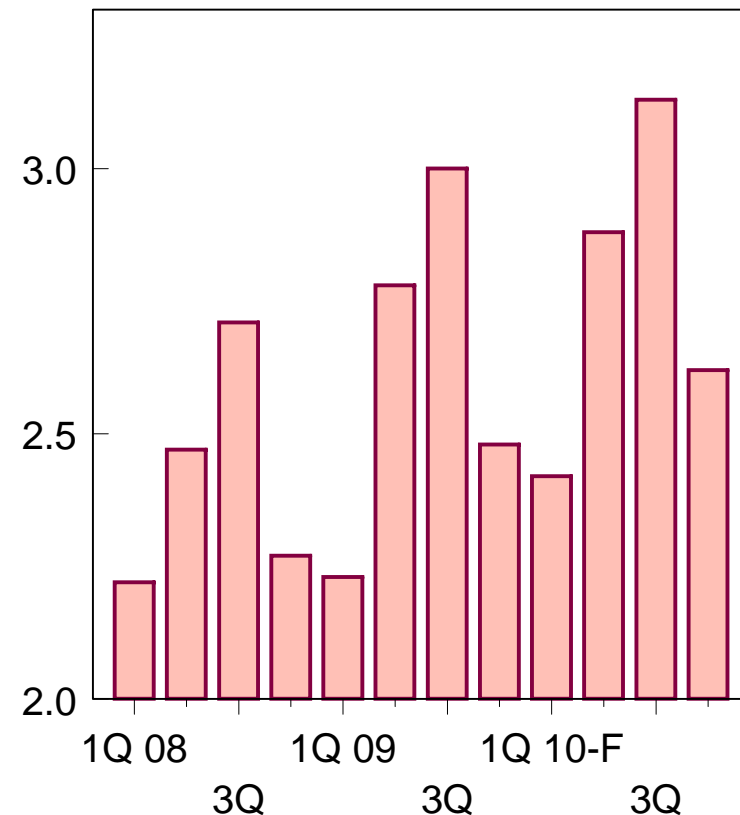
Total Oil Demand Gains since '93
OECD vs. Non-OECD, MM bbl/day



NATURAL GAS ISSUE IN SAUDI ARABIA

- ▲ Saudi power generation growing 6-7% per year, according to private sources.
- ▲ Estimated that 600,000-700,000 b/d of crude burned directly for electric gen. Very sensitive subject for Aramco and oil ministry.
- ▲ Gains in natural gas output haven't kept pace with electric power needs. Sabic has long running dispute with Aramco about "ownership" of Kingdom's gas. Indications surfacing about gas allocation issue in 12-18 months.
- ▲ Sabic intent on being world's largest petrochemical producer. Places it at odds with Aramco commitments to supply gas for power generation and desalinization.
- ▲ Specific comments made about Saudi oil output having to meet growing internal demand. Concern about cutting into export earnings. Some sense this may be contributing factor to hawkish oil price position. Delegates still talk about market able to bear \$90-\$100 oil when economy recovers.

Saudi Arabia's Oil Demand
2008-2010 forecast, MM b/d

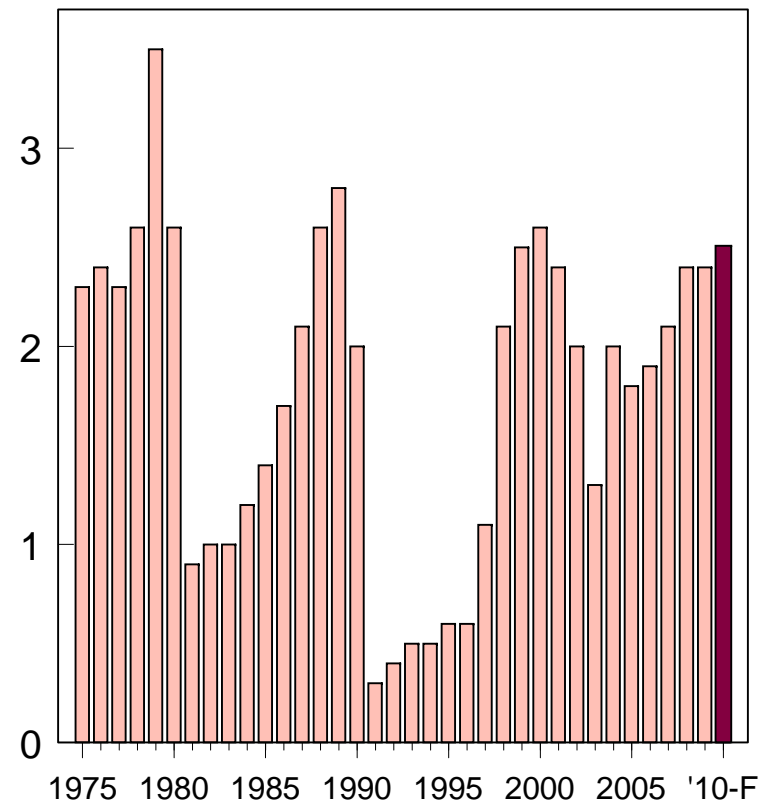


IRAQI OIL SUPPLY GROWTH - "PROBLEMATIC"

- ▲ Opinions from Gulf countries and IOC representatives at OPEC meeting openly skeptical with us about comments made by investment community and oil service companies regarding "rapid and large" growth in Iraq production.
- ▲ Commitment of capital by IOCs an issue given persistent security concerns, lack of clear oil law and related fear cost recoup payments (total ~\$30 bln/year when plateau targets hit) may not get paid by Iraqi government.
- ▲ Issues like soil contamination and land mines in development areas highlighted as concern. Recent limited sabotage in south cited as issue as was potential for Iran becoming "more active" if US troop withdraw.
- ▲ Views shared that Iraq production *potential* quite large but no confidence about timing.

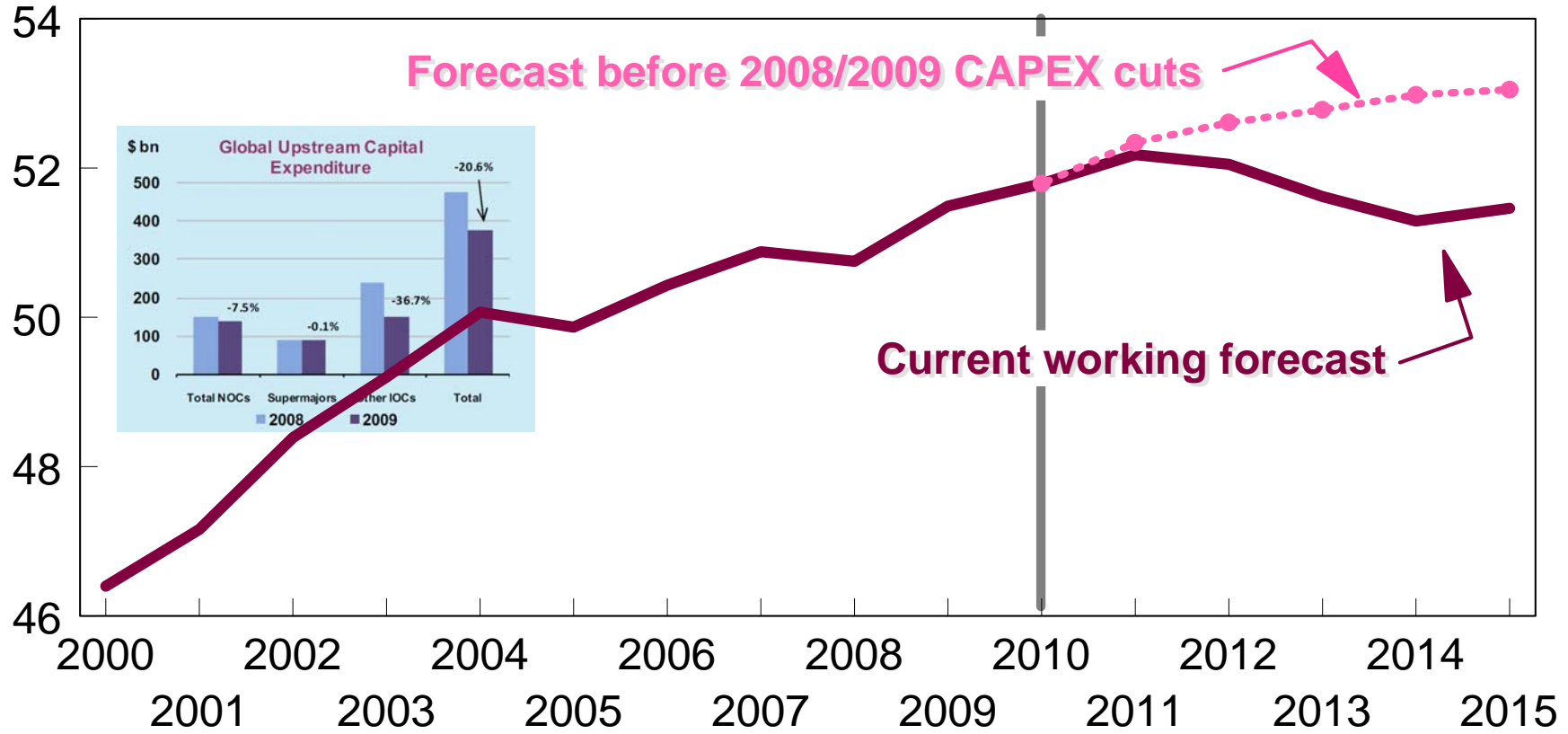
Iraq's Crude Oil Output

Annual average, Mm b/d



MANY DELEGATES SHARE OUR VIEW THAT NON-OPEC SUPPLY GROWTH "CHALLENGED"

Non-OPEC Supply: Historical and Forecast
Million barrels/day



BASE CASE SEES OPEC SPARE CAPACITY GETTING CHEWED DOWN OVER INTERMEDIATE TERM

- ▲ Table below represents 1st time we're publishing our base case oil balance thru 2015.
- ▲ Demand modeled with moderate gains of ~1.2%/annum.
- ▲ Non-OPEC supply trend remains mediocre.
- ▲ OPEC capacity additions stunted.

Supply/Demand Projections Through 2015 and Effect on OPEC Spare Capacity

	<u>'10-F</u>	<u>'11-F</u>	<u>'12-F</u>	<u>'13-F</u>	<u>'14-F</u>	<u>'15-F</u>
World demand	86.33	87.36	88.41	89.47	90.54	91.63
Non-OPEC Supply	51.79	52.18	52.05	51.62	51.29	51.46
OPEC NGLs/cond.	5.38	5.60	5.80	6.10	6.30	6.50
Assumed Stock Change	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
"Call on OPEC Crude"	29.17	29.58	30.56	31.76	32.96	34.18
OPEC Spare Capacity	4.77	4.36	3.38	2.98	1.78	0.56

CONCERNS PRIVATELY RAISED ABOUT POTENTIAL FOR OIL DISPLACEMENT IN ENERGY MIX

- ▲ While not factor for the near-to-intermediate term, discussions with delegates raised about specter of potential oil displacement in energy mix.
- ▲ Our view shared that oil used to make plastics (petrochemicals) and transportation fuel is very sticky for forecastable future.
- ▲ Over longer term, if political will exists, there's believed to be potential for wind power to be exploited for transport use if battery technology keeps advancing.
- ▲ Also some discussion about possible exploitation of natural gas for transport fuels given emergence of shale resources. Word "possible" emphasized owing to uncertainties about exploitation of such reserves being able to occur and whether production costs and environmental restraints allow for large scale production and "molecule conversion."

Global Energy Use
In oil equivalents

