

The Outlook For Energy

Matt Hougan, *Moderator*

President, ETF Analytics, IndexUniverse

David Greely, *Panelist*

Chief Commodities Strategist & Head, Energy
Research, Goldman Sachs

Ashmead Pringle, *Panelist*

President & Founder
Greenhaven Commodity Services

Sal Gilbertie, *Panelist*

President & Founder, Teucrium Trading LLC

- What is the short-term outlook for oil?
- What is the long-term outlook for oil?
- When will natural gas get off the mat?
- Where does the Brent/WTI spread go from here? Is WTI still relevant?
- What about gasoline and heating oil?
- What are the main upside and downside risks to various energy scenarios?
- What about alternatives?
- What about coal?

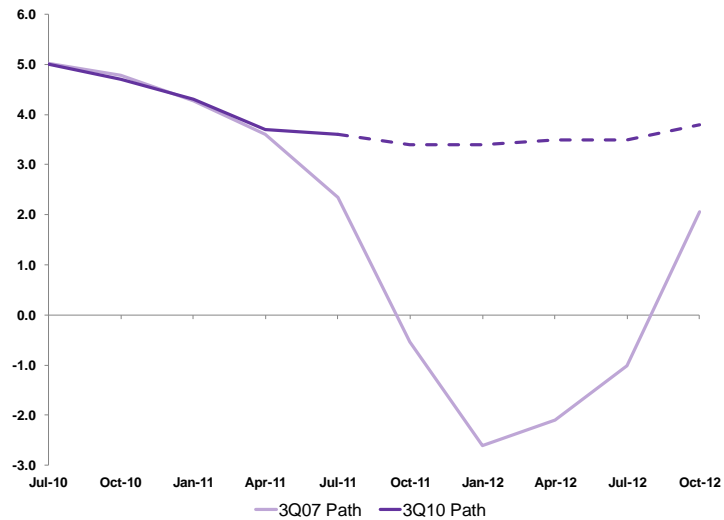
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David Greely, *Panelist*

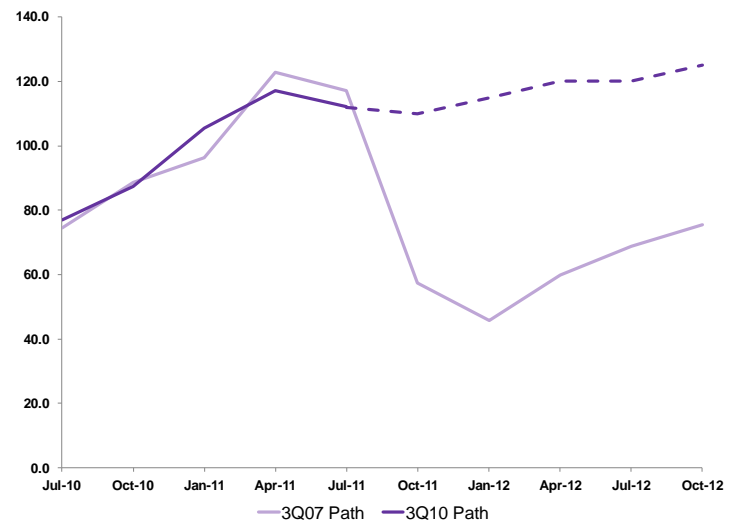
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World economic growth and oil prices have followed paths similar to 2007-08, raising the question: Will history repeat itself?

Global GDP growth, % change yoy

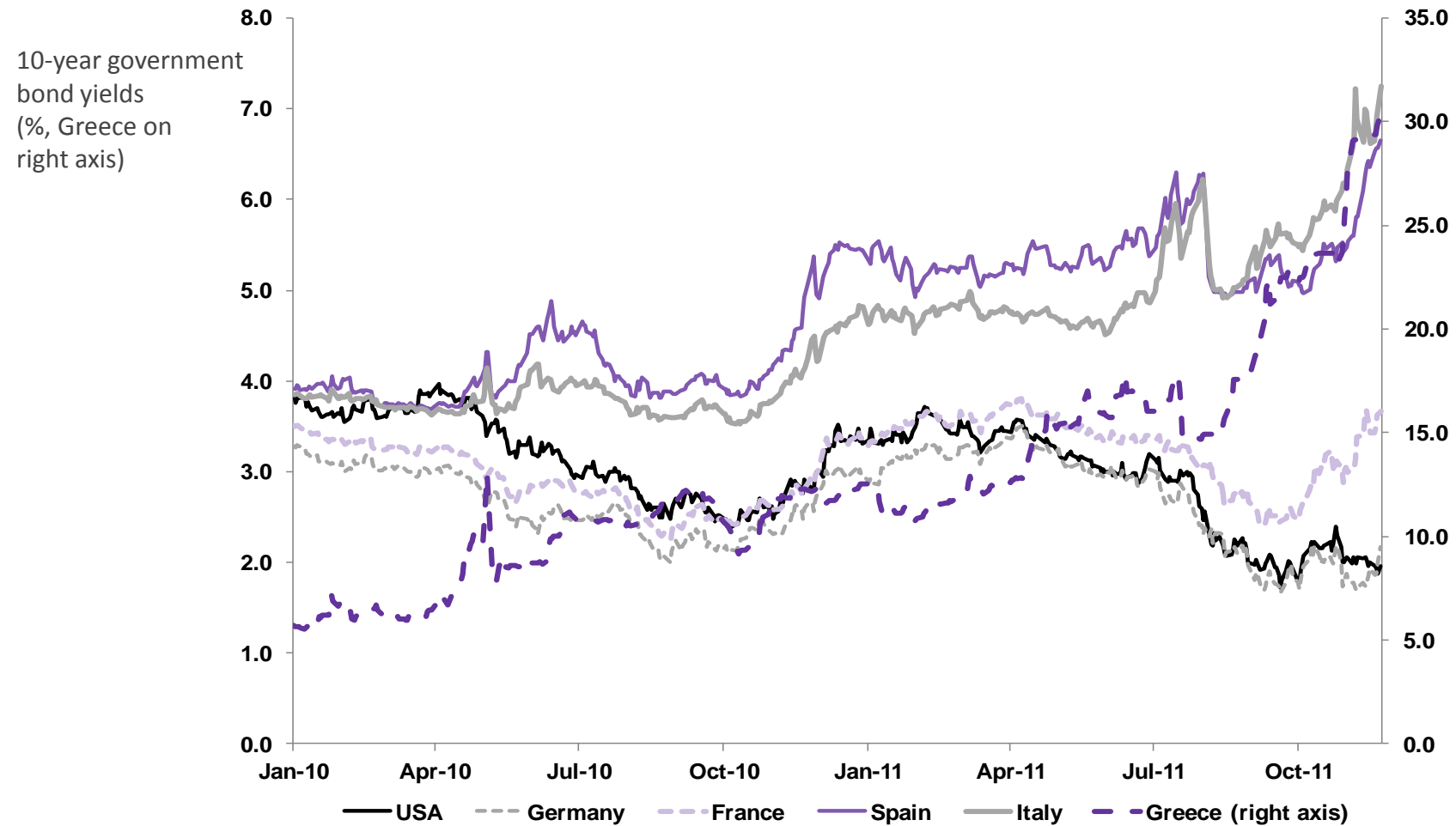


Brent crude oil price, \$/bbl



Source: NYMEX, GS Global ECS Research.

European borrowing costs have risen as the European debt crisis entered a dangerous new phase...



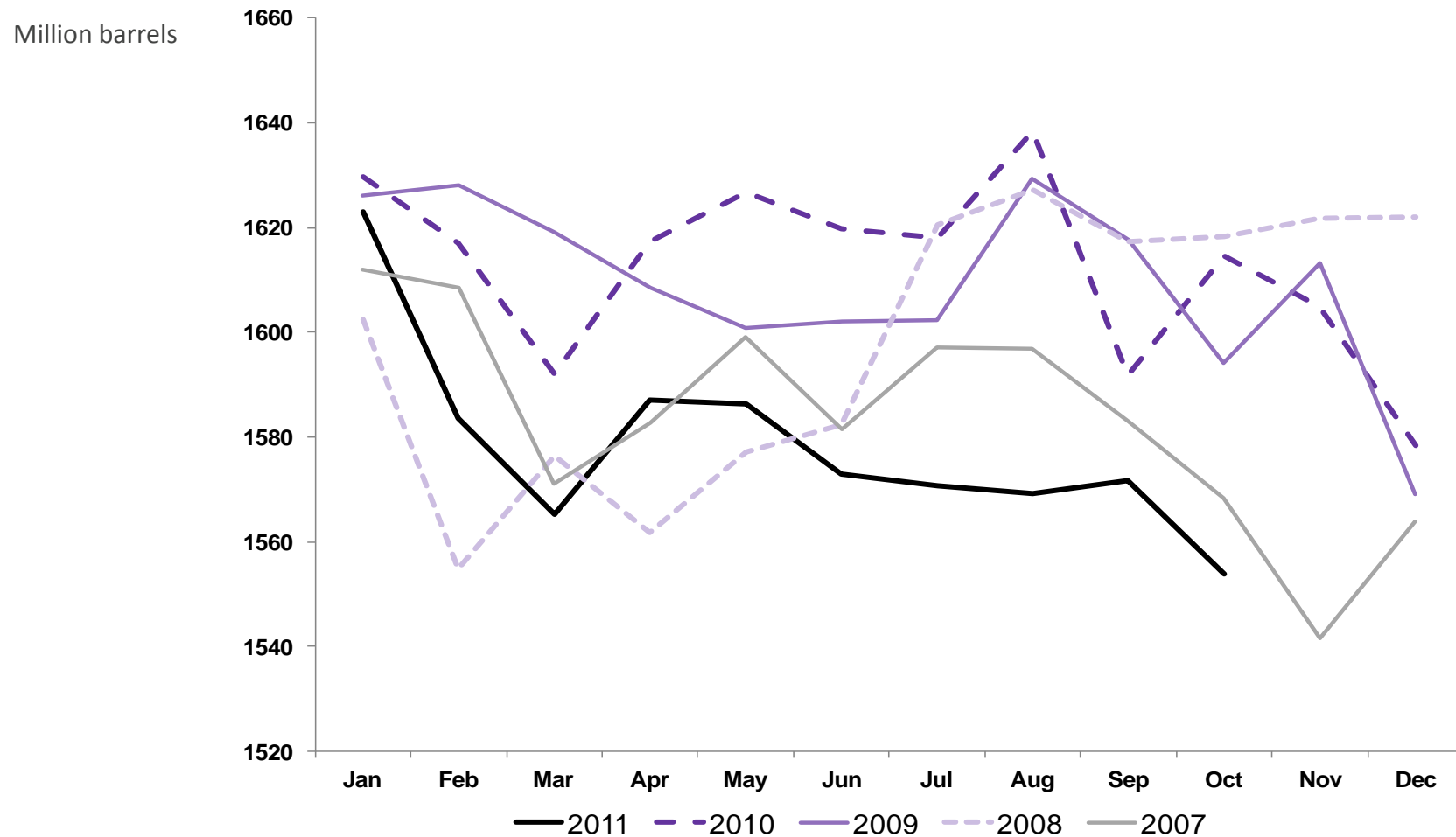
Source: Goldman Sachs.

...with the survival of both the euro and the euro area being increasingly called into question



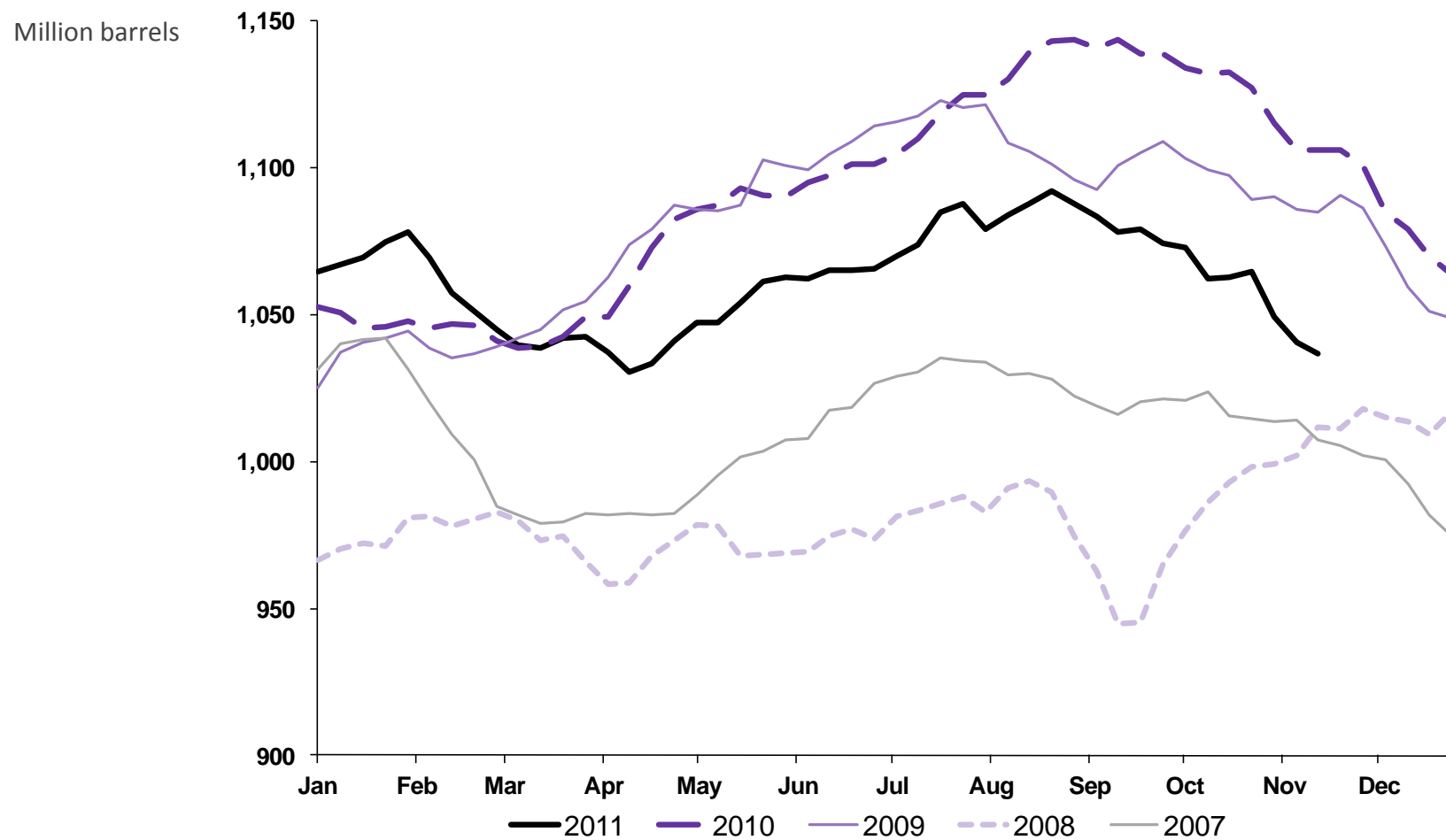
Source: Goldman Sachs.

OECD total petroleum inventories outside of the United States are at exceptionally low levels...



Source: IEA, DOE and Goldman Sachs Global ECS Research.

...and US total petroleum inventories have been drawing rapidly



Source: IEA, DOE and Goldman Sachs Global ECS Research.

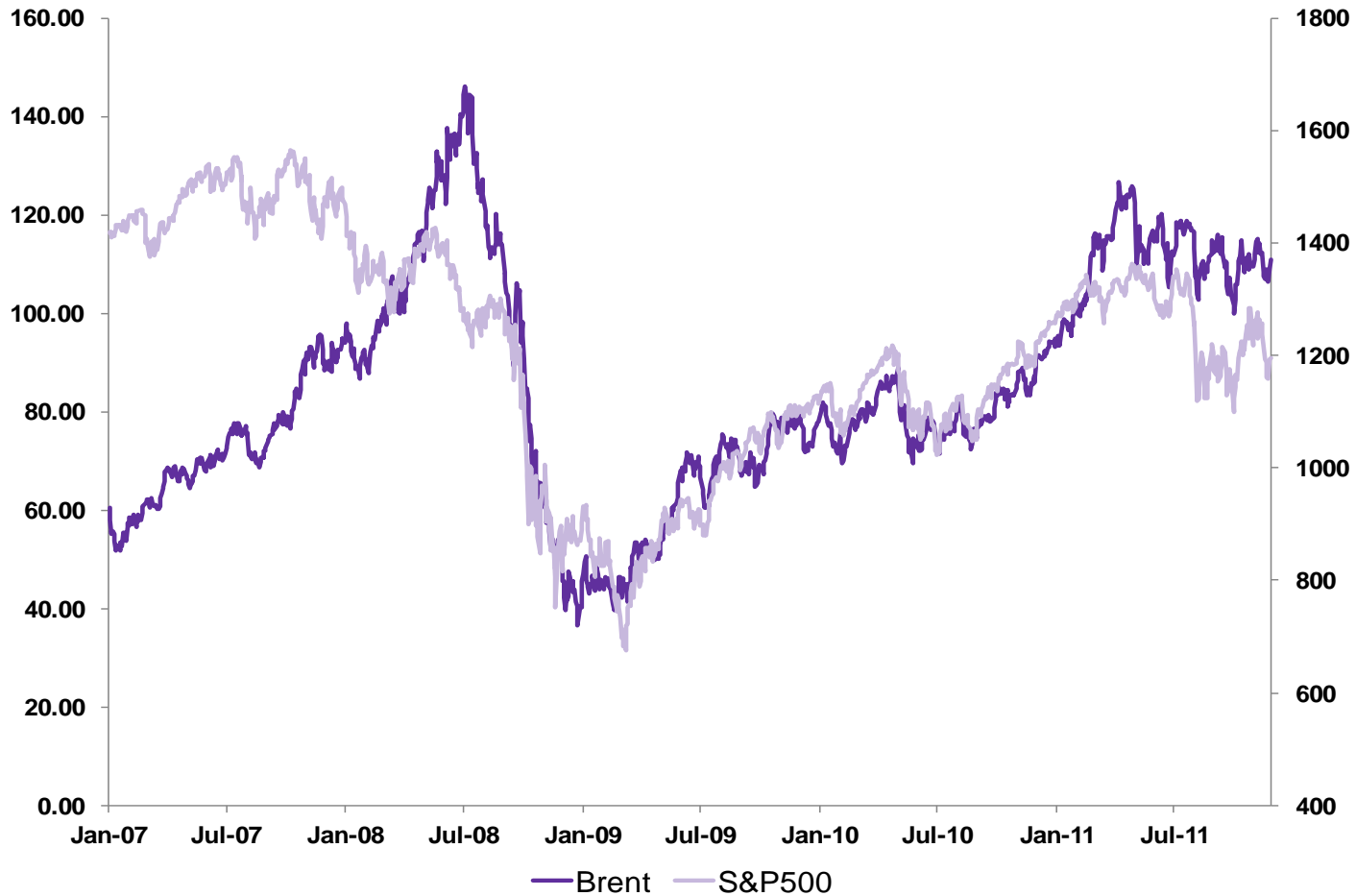
Suggesting the better parallel may be between 2H11 and 2H07, not 2H08

- This increasing tightness in the physical oil markets, suggests to us that the parallel of the current market to 2H08 may be misplaced, and that the more interesting parallel is to the second half of 2007. More specifically, in both the current period and in 2H07:
 - The physical oil markets were extremely tight, as evidenced by both low oil inventories, a tight supply-demand balance, and strong timespreads.
 - A major developed market economy was sliding into recession. In 2007, the US economy fell into recession in December. We expect that the European economy is now moving into recession.
 - Mounting concerns over the stability of the financial system. In 2007 the failure of two prominent hedge funds run by Bear Sterns would come to be seen as the prelude to the broader financial crisis, which came in the second half of 2008.
 - The distillate market had tightened, setting stage for a severe diesel shortage.

Source: Goldman Sachs Global ECS Research.

Oil prices spiked sharply in 1H08 even as equity markets fell with the US economy falling into recession

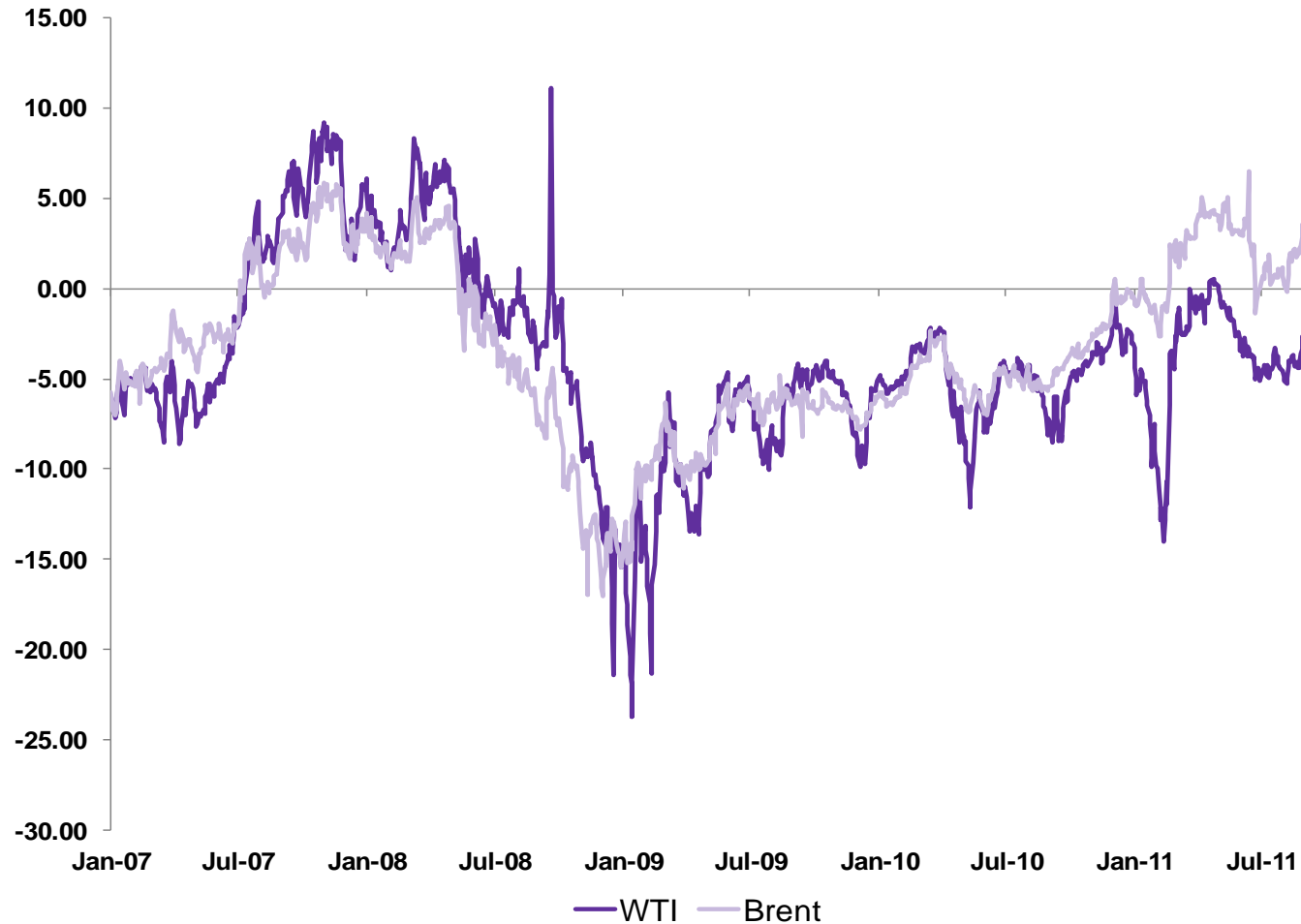
\$/bbl (left axis), Index (right axis)



Source: ICE, Standard and Poors' and Goldman Sachs Global ECS Research.

Brent timespreads suggest physical markets are as tight or tighter than in 2H07

% 1st-12th month timespreads



Source: NYMEX, ICE and Goldman Sachs Global ECS Research

Reg AC

I, David Greely, hereby certify that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm's business or client relationships.

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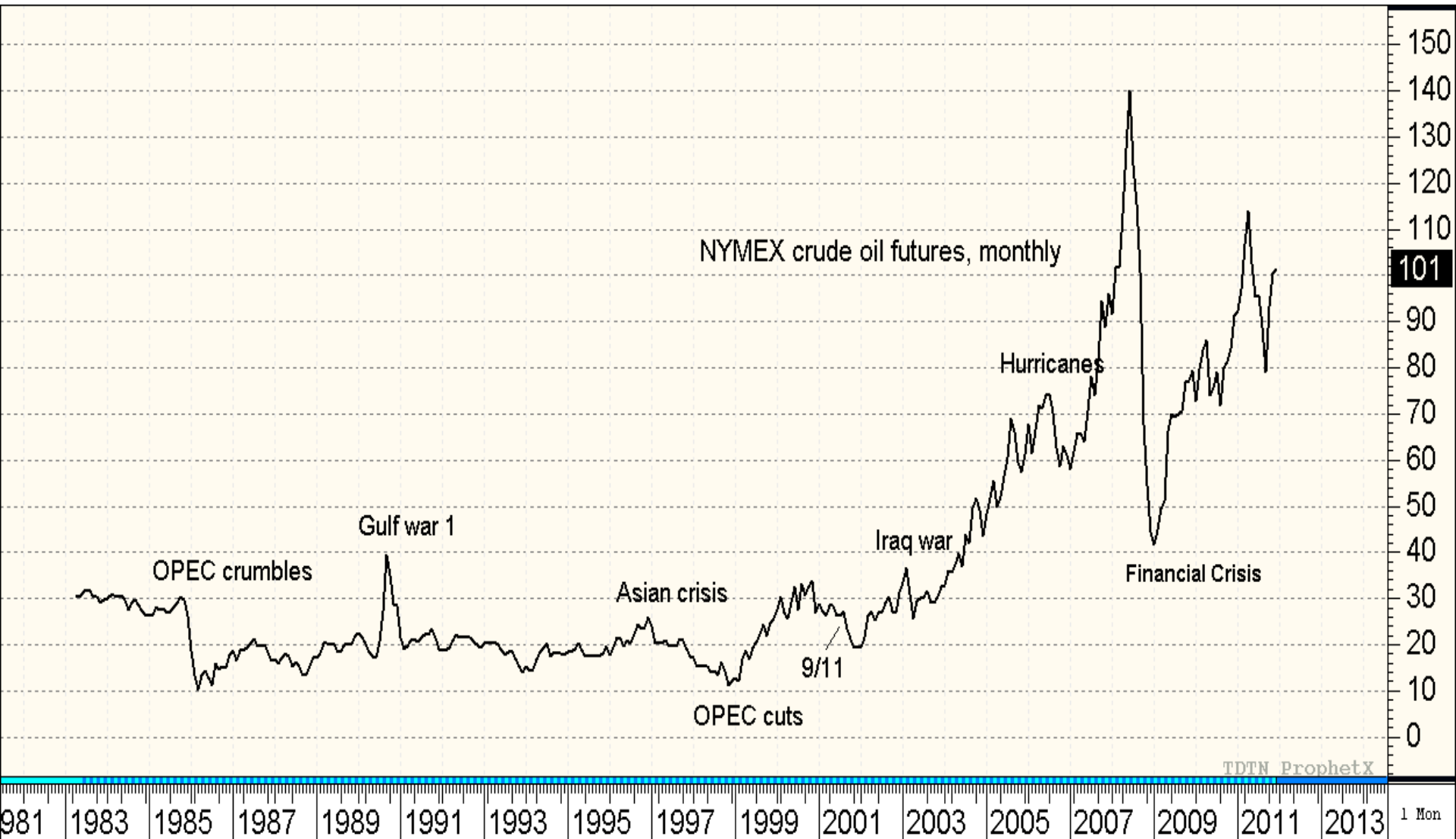
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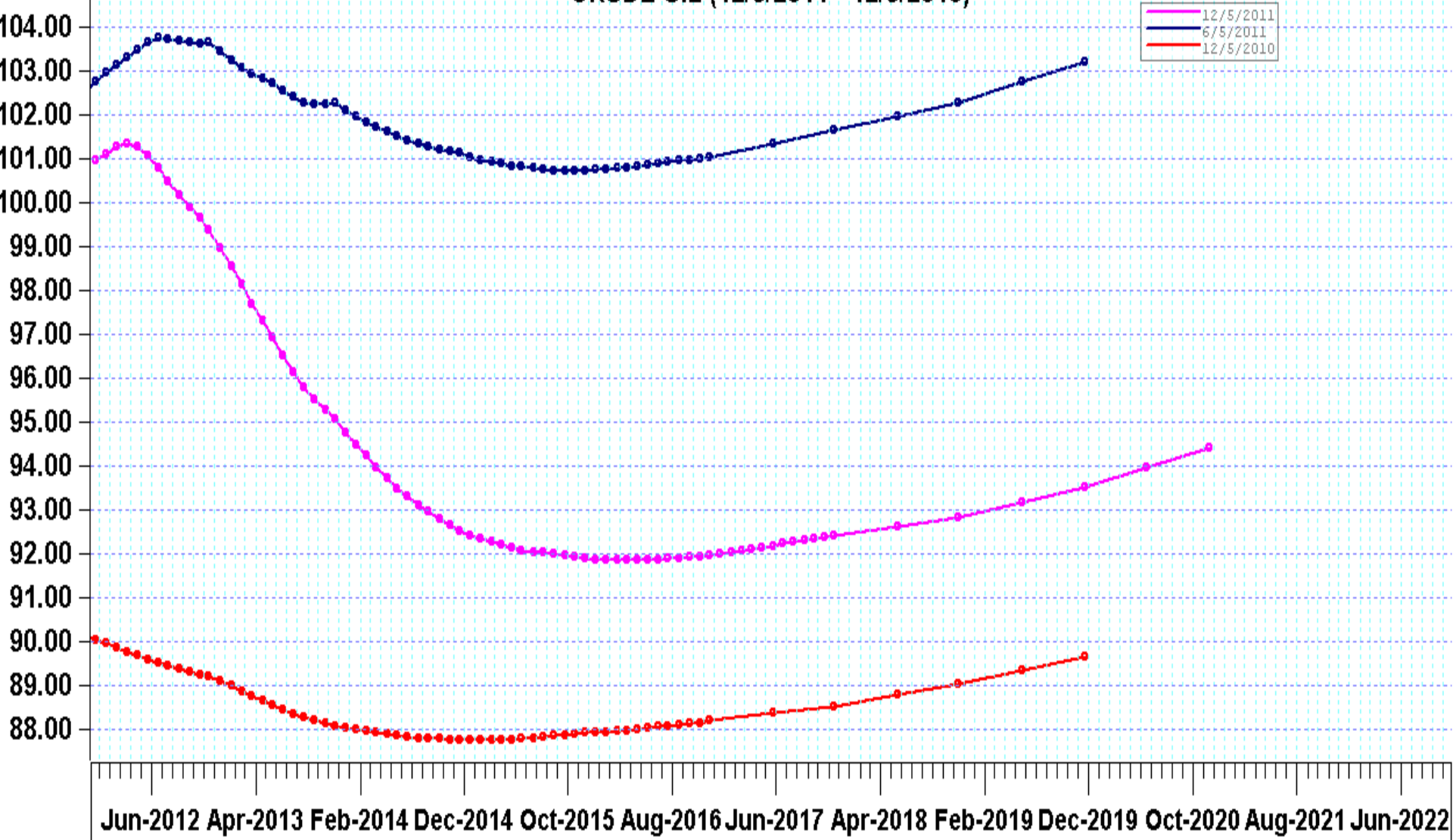
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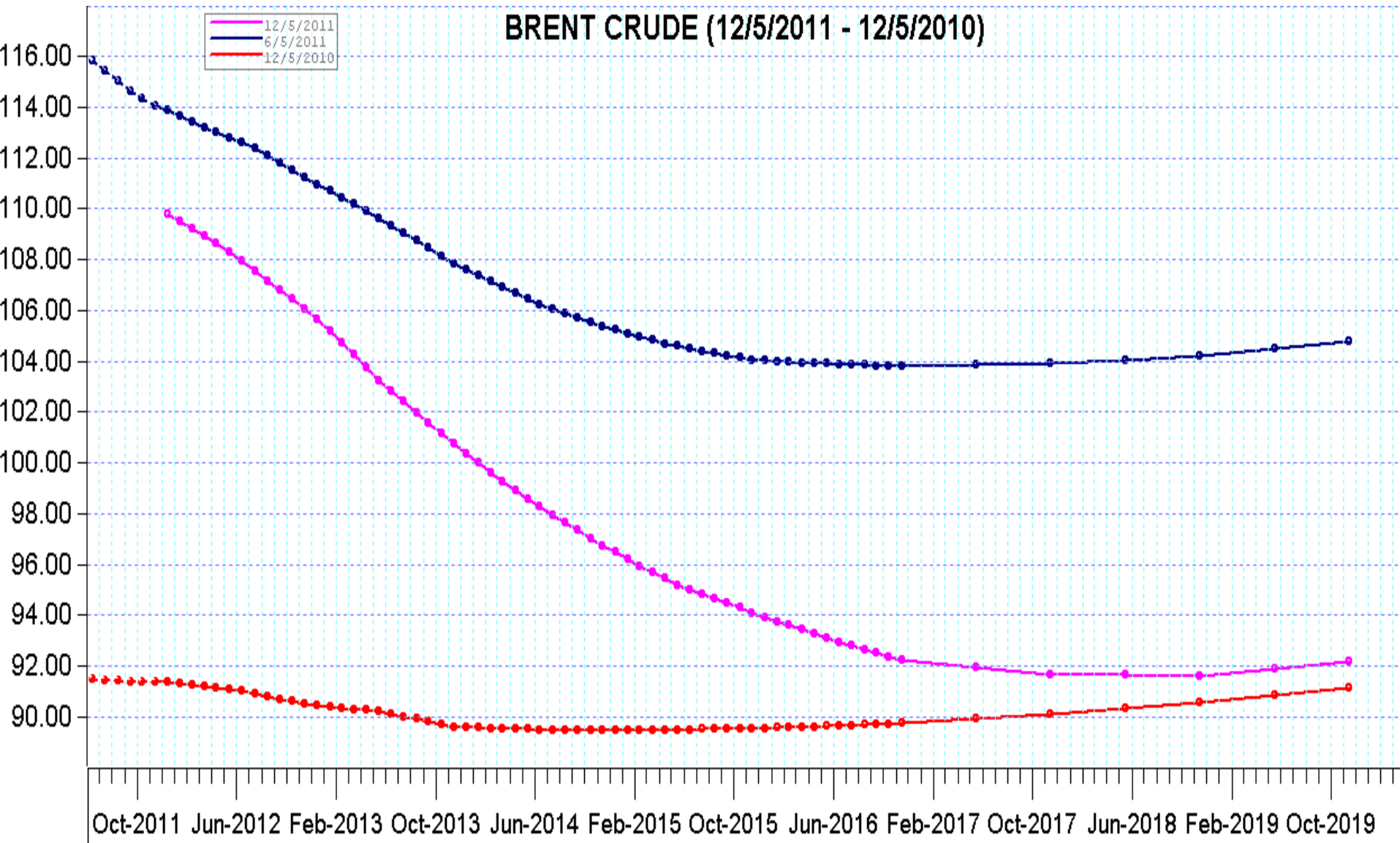
Ashmead Pringle, *Panelist*
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CRUDE OIL (12/5/2011 - 12/5/2010)



BRENT CRUDE (12/5/2011 - 12/5/2010)



Bearish Macro Factors

- Strong dollar
- Slowing global economy
- Deleveraging
- Deflation
- More efficient autos
- Alternative fuels
- Carbon reduction schemes

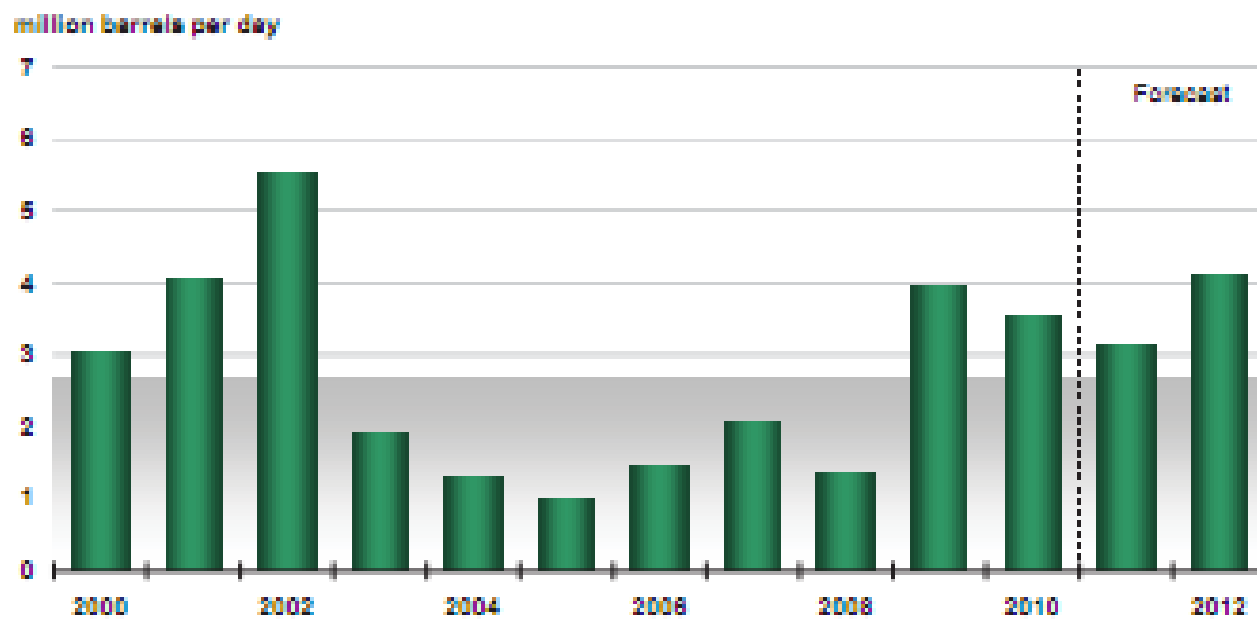
Bullish Macro Factors

- Monetizing of Euro zone debt
- More QE in US and UK, weaker dollar
- Emerging economies continue to grow, even if more slowly, and build more cars.
- Arab spring increases domestic oil demand, social spending and supply risk
- Mideast war premium

Crude Oil Fundamentals

- Diminishing reserves, opaque data from OPEC
- Rising costs of E&P
- Lessening US dependence on imported oil
- Lower OECD inventories.

OPEC Surplus Crude Oil Production Capacity

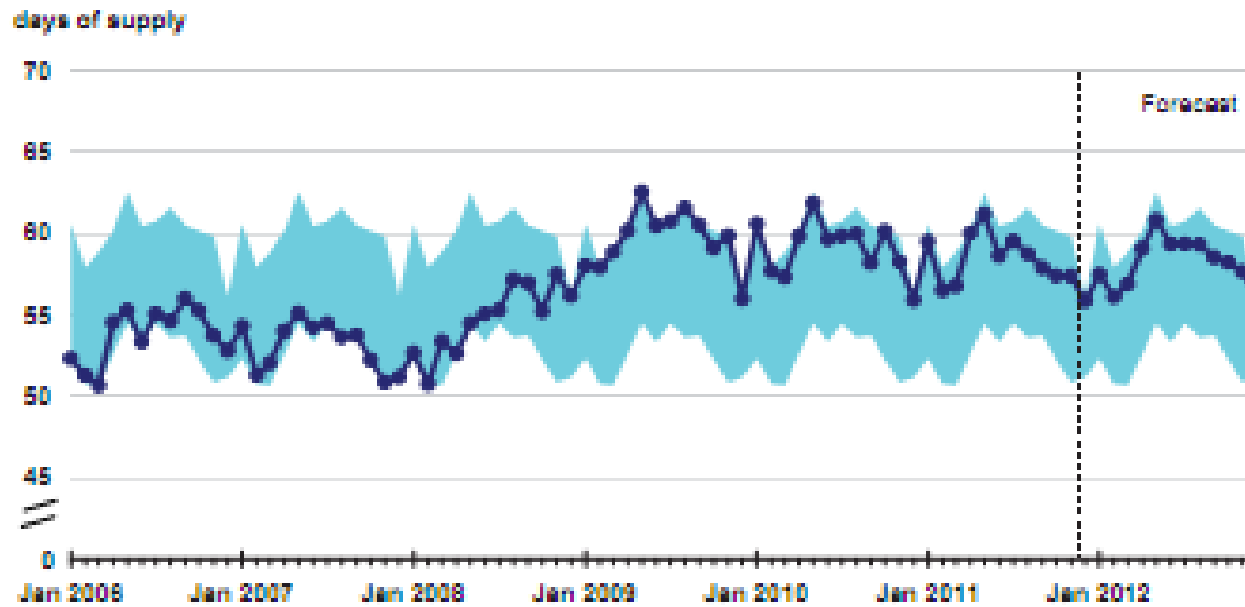


Note: Shaded area represents 2000-2010 average (2.5 million barrels per day)

Source: Short-Term Energy Outlook, December 2011



OECD Commercial Oil Stocks



Note: Colored band represents the range between the minimum and maximum observed inventories from Jan. 2006 - Dec. 2010.

Source: Short-Term Energy Outlook, December 2011



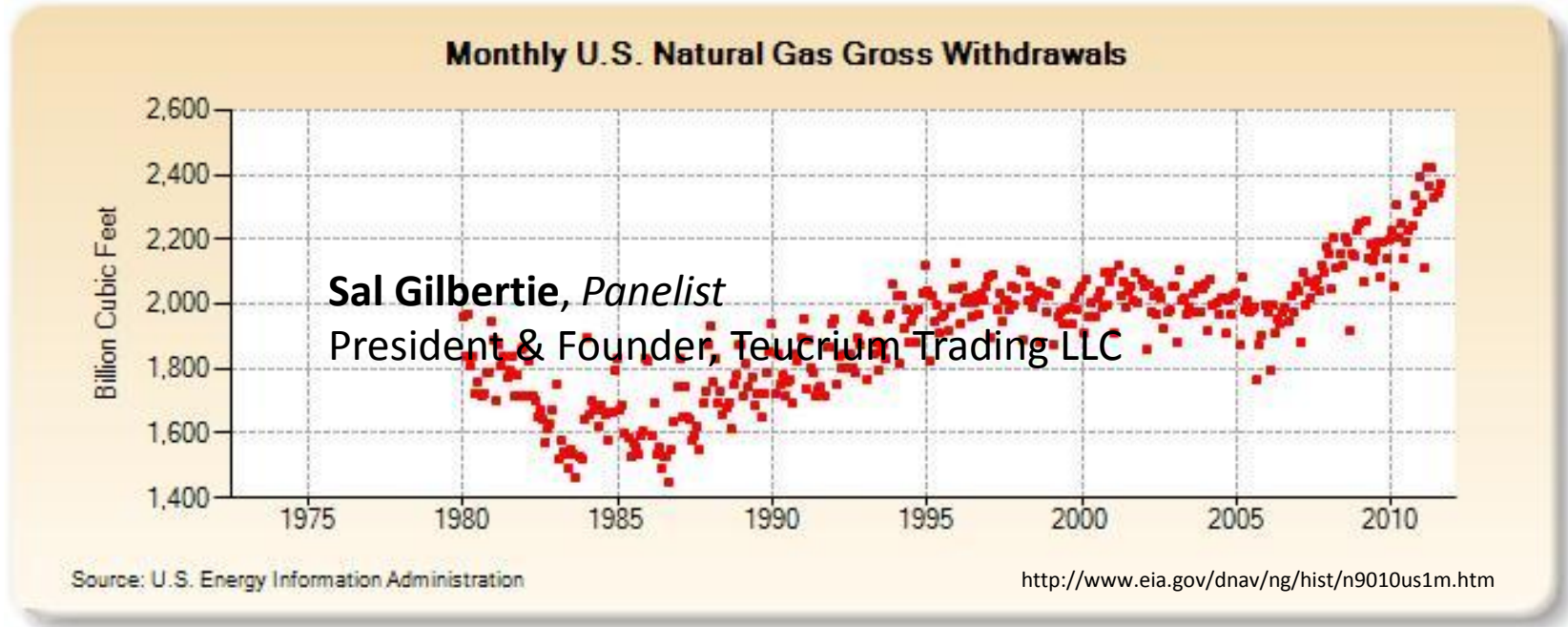
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- Shell estimates the plant will reach full production next year, converting 1.6 billion cubic feet of natural gas a day into 140,000 barrels of liquid fuels like kerosene and base oil in addition to 120,000 barrels of other products, such as condensate and liquid petroleum gas.

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Sal Gilbertie, *Panelist*

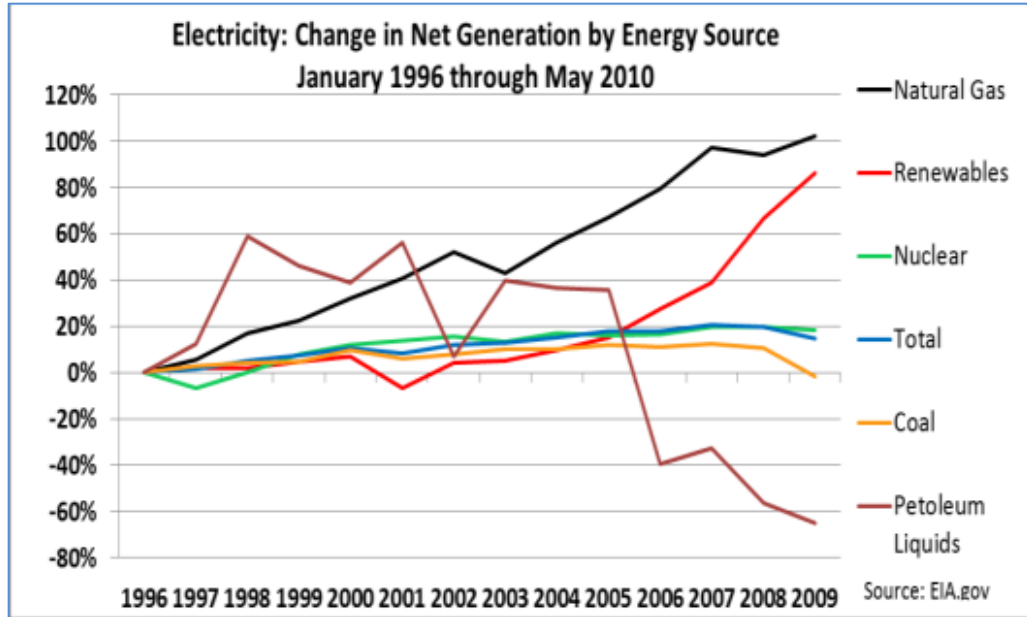
President & Founder, Teucrium Trading LLC

Natural Gas – The Big Supply

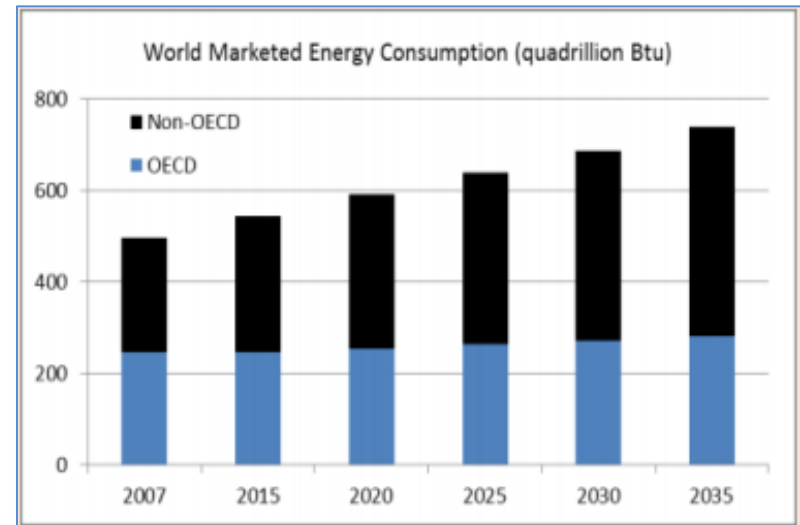


Natural Gas Gross Withdrawals: Full well-stream volume of produced natural gas, excluding condensate separated at the lease.

Natural Gas – Electric Demand



Consumption by non-OECD countries in 2035 will be 63% higher than that of developed nations by 2035; it was at parity in 2007

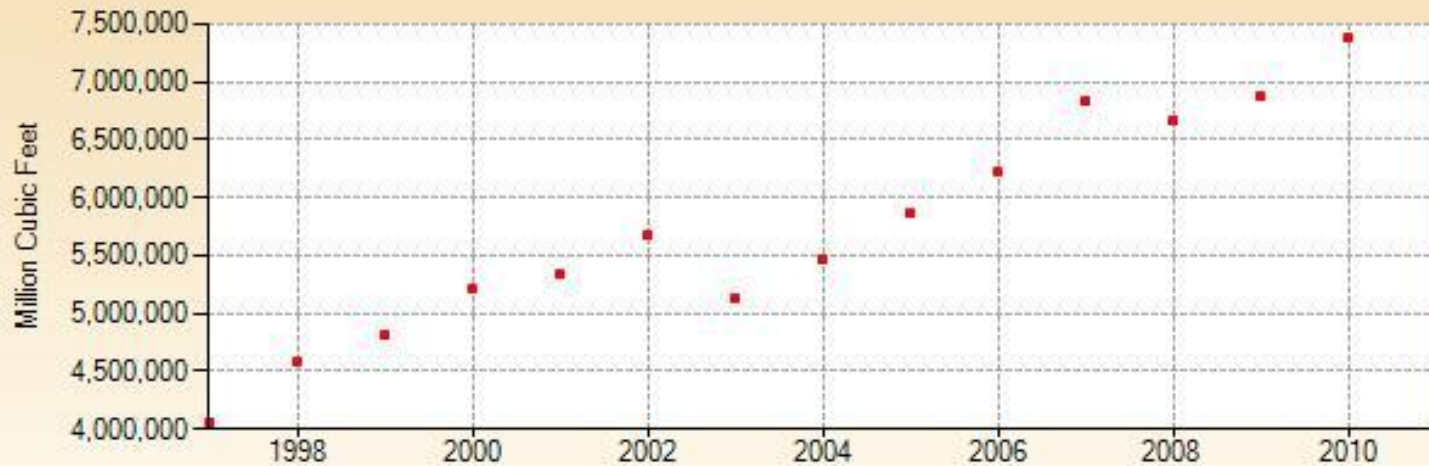


source: www.eia.doe.gov/oiaf/ieo/highlights.html

90% of the next 1,000 power plants built in the U.S. will use natural gas

Natural Gas – The Big Supply

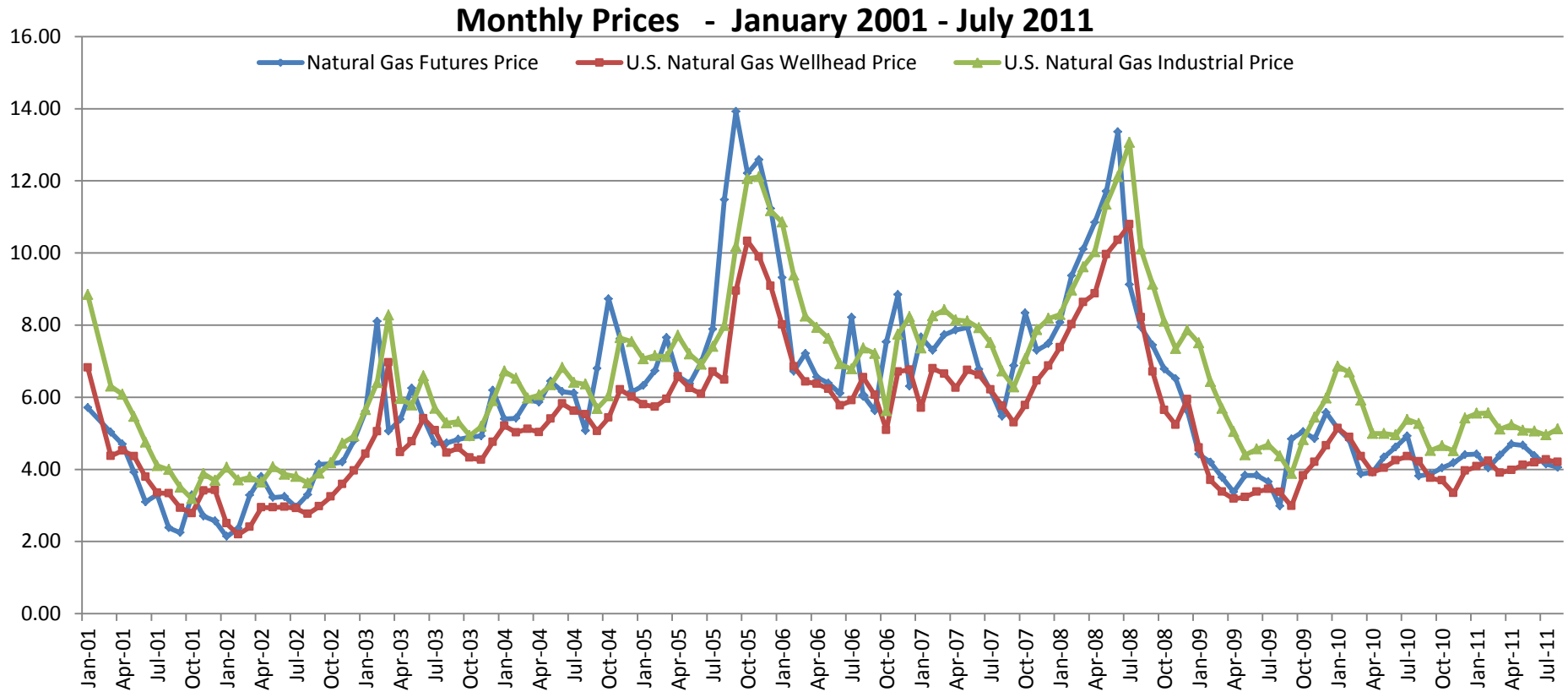
Annual U.S. Natural Gas Deliveries to Electric Power Consumers



Source: U.S. Energy Information Administration

<http://www.eia.gov/dnav/ng/hist/n3045us2a.htm>

Natural Gas Price History

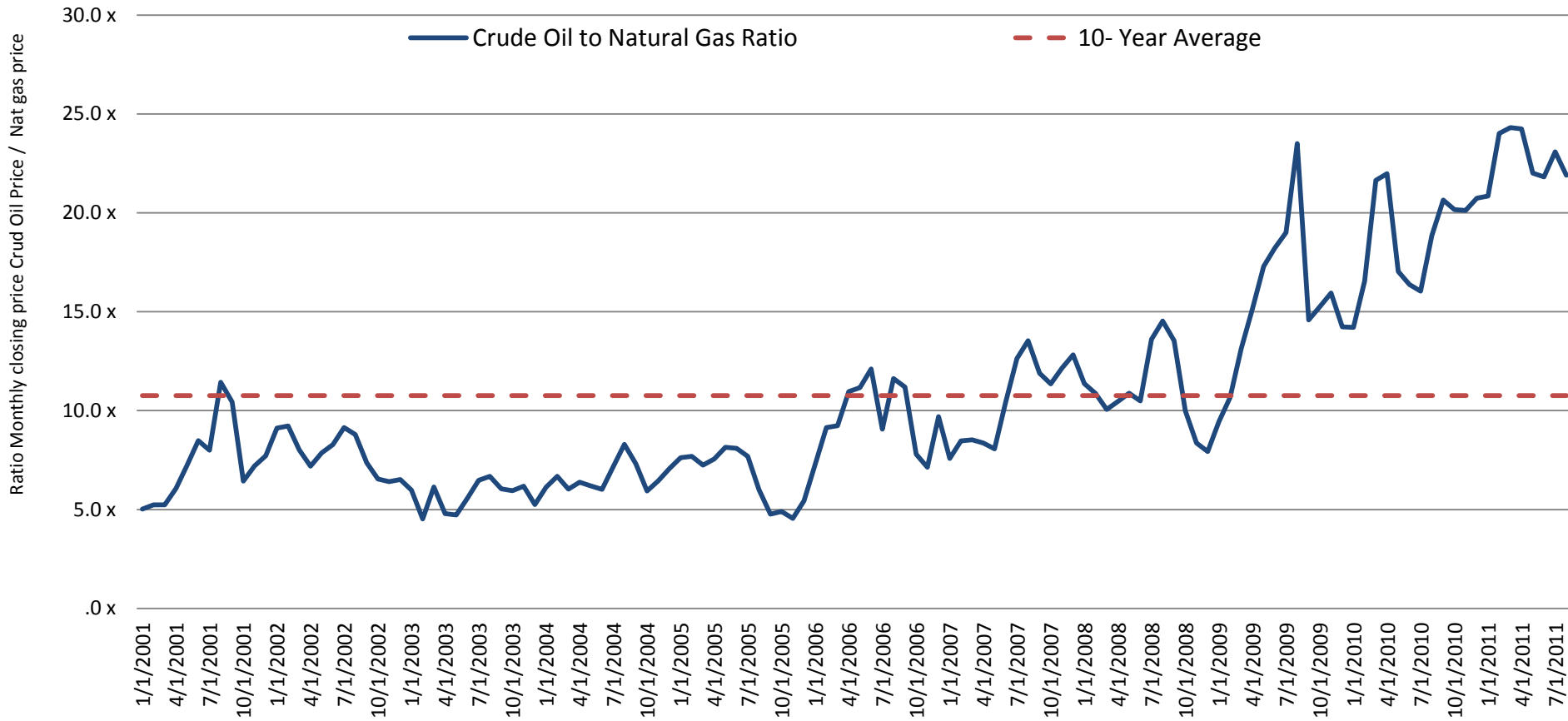


Data Source: Bloomberg

Graph by: Teucrium Trading, LLC

Natural Gas

Crude Oil to Natural Gas Ratio January 2001 - July 2011



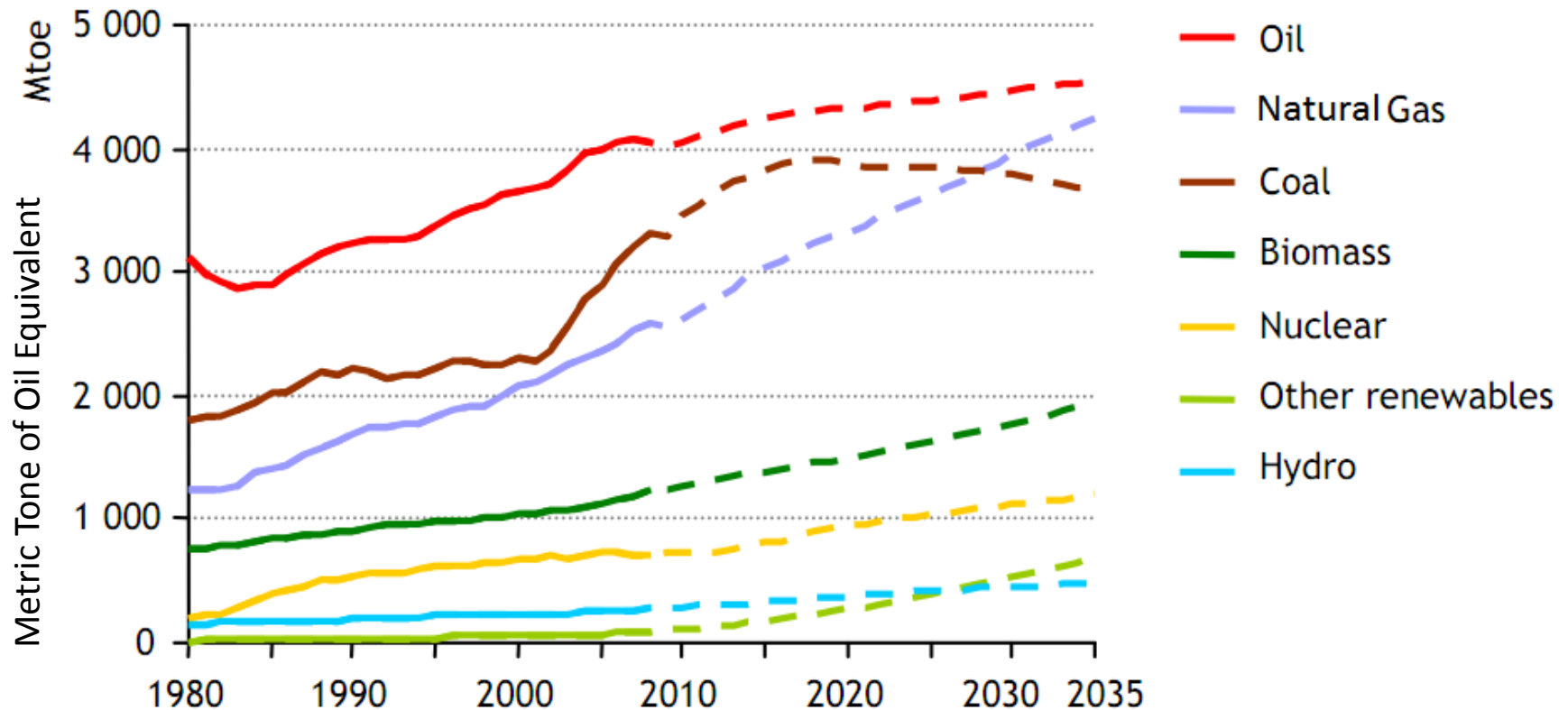
Data Source: Bloomberg

Graph by: Teucrium

(Ex. 5.0X = Nat gas 5 times the price of equivalent amount of crude oil)

Natural Gas Projected Demand

World primary energy demand by fuel in the GAS Scenario



Source:
http://www.iea.org/weo/docs/weo2011/WEO2011_GoldenAgeofGasReport.pdf
page 19

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