

## **Shifts in the Geopolitical Landscape and Their Impact on Petroleum Sector Capex Strategies**

Golden, CO  
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Figure 1

# Chaos Prevails

*"Venezuela Data Shows World's Top Inflation"*

*"Putin's Targeted Strike – The Meaning of Russia's weapons sales to Iran"*

*"Russia Wins Policy Points. Now What?"*

*"China Defends Efforts to Create Official Islands in Disputed Seas"*

*"Obama Courts Chaos with His Taliban Fantasy"*

*"Europe's Energy Escape Valve: U.S. Gas"*

*"Rise Of The Regional Hegemons - Russia, Iran and China are Advancing as The U.S. Retreats"*

*"Moscow Acts to Unblock China Financing"*

*"Uncle Xi's Bear Market"*

*"Al Qaeda helps Pro-Saudi Forces in Yemen"*

*"Saudi Arabia Won't Come to Oil's Rescue"*

*"What's Lost in Iranian Nuke Deal – Middle East Nations are Arming to Kill with Conventional Weapons"*

## Expect the Unexpected

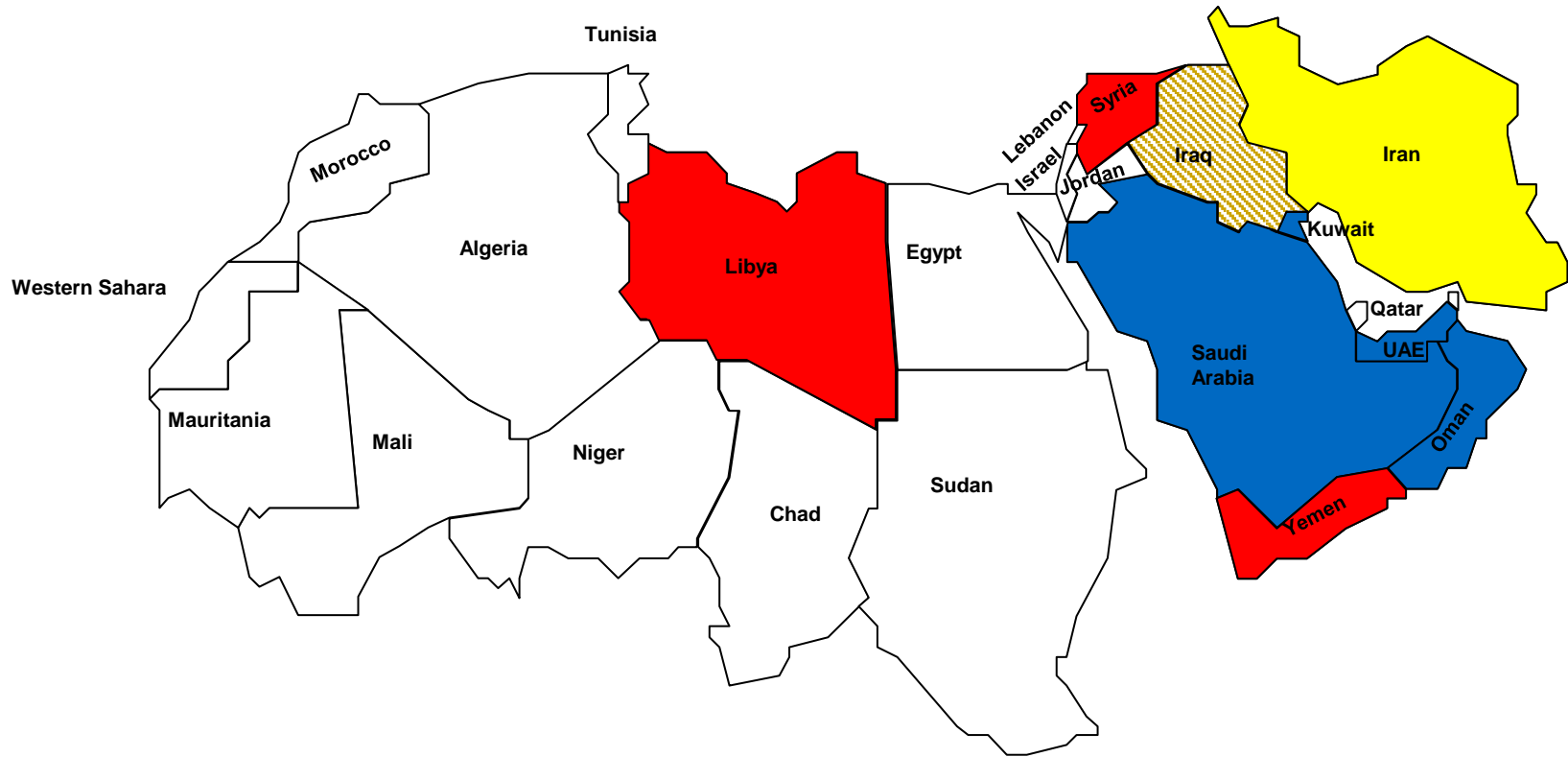
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- ❖ China chills German economy (et al)
- ❖ Venezuela assembly head pulls no punches (nor does Maduro opposition)
- ❖ Russia disrupts (Baltics, Ukraine, Syria, IPO's, etc.)
- ❖ Saudi Aramco actually launches its IPO (upstream? downstream? petrochemicals?)
- ❖ Rapprochement between Iran and Saudi Arabia in 2016 (subject to five very unlikely conditions)
- ❖ WSJ Oil poker: "Why Saudi Arabia won't fold" (yet?)
- ❖ Iran's influence over Iraq escalates significantly

**The possible positives could translate into another self-defeating "V-Shape" recovery**

Figure 3

## “Arab Spring” Has Morphed Into “Winter”



**A virtual Cold War condition now exists between Saudi Arabia and Iran**

Figure 4

## Overlapping Energy Power Triangles

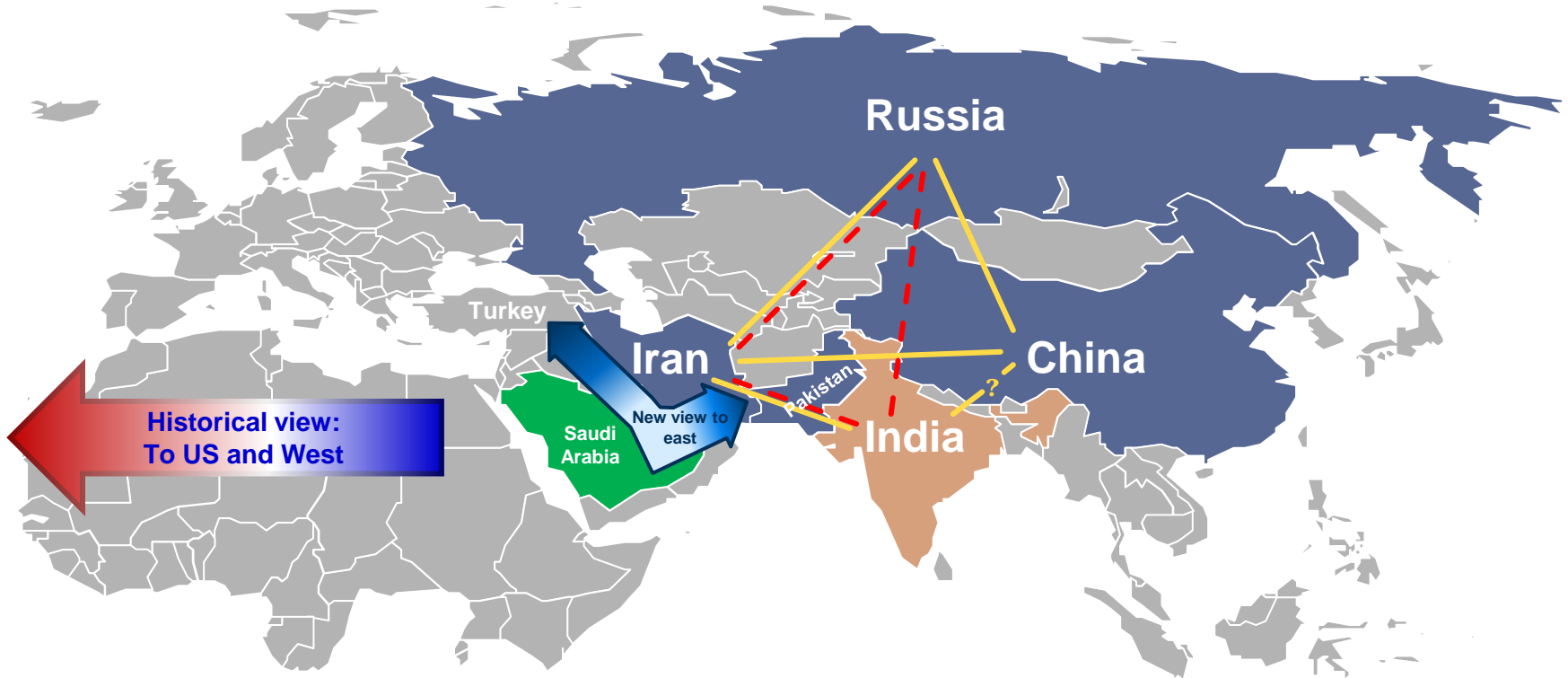
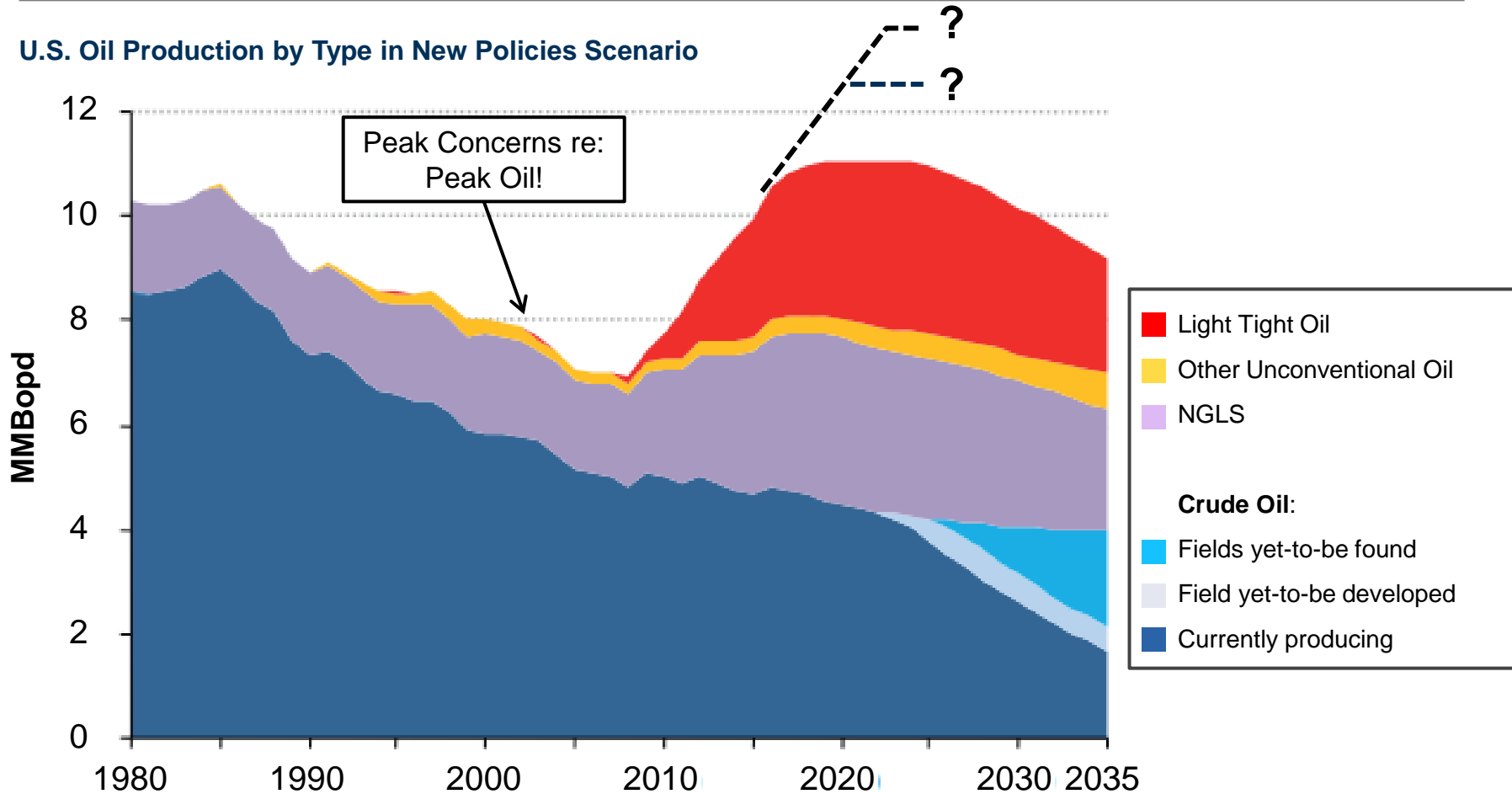


Figure 5

## Toward a New Realignment of Interests

U.S. Oil Production by Type in New Policies Scenario



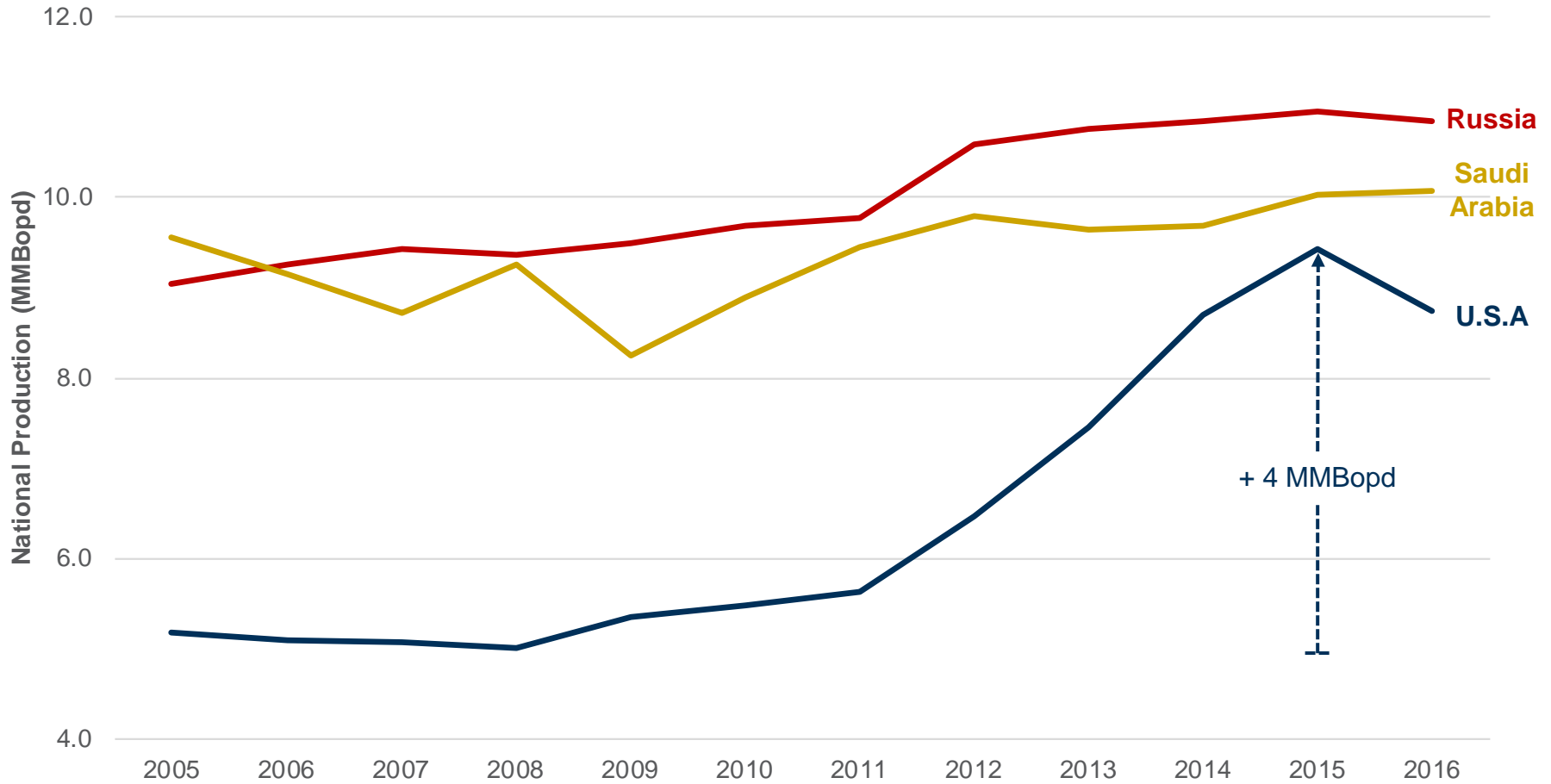
Note: The World Energy Model supply model starts producing yet-to-find oil after it has put all yet-to-develop fields into production. In reality, some yet-to-find fields would start production earlier than shown in the figure.

Source: IEA, World Energy Outlook 2012.

Figure 6

# Toward a New Realignment of Interests

## Top Three World Oil Producers



Source: EIA. Russia production includes crude oil and other liquids.

Figure 7

# World Events and Oil Volatility – Nominal Pricing (1971 – 2016 YTD)



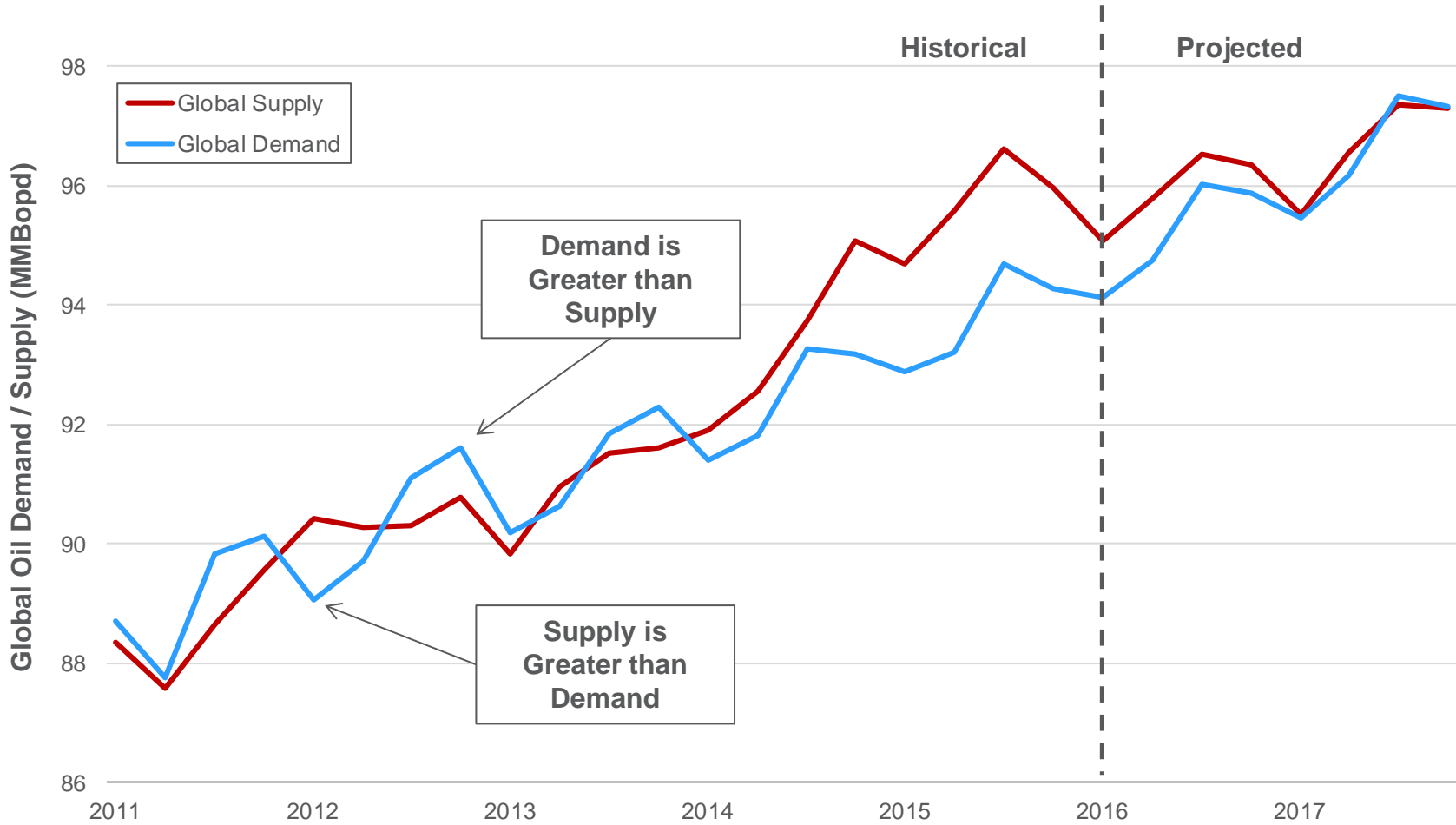
Source: EIA.



Figure 8

# Toward a New Realignment of Interests

## Oil Supply Overhang in Perspective

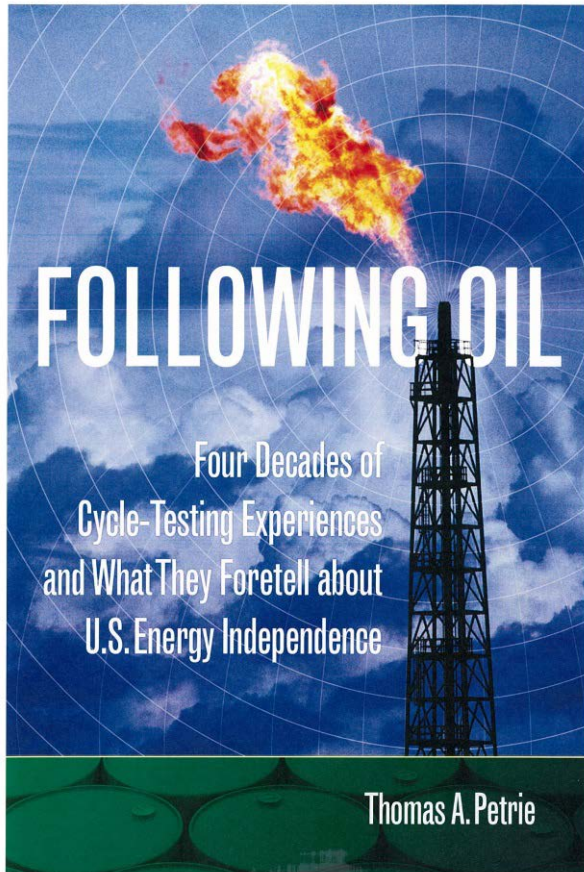


Source: EIA.

Figure 8\*

## Toward a New Realignment of Interests

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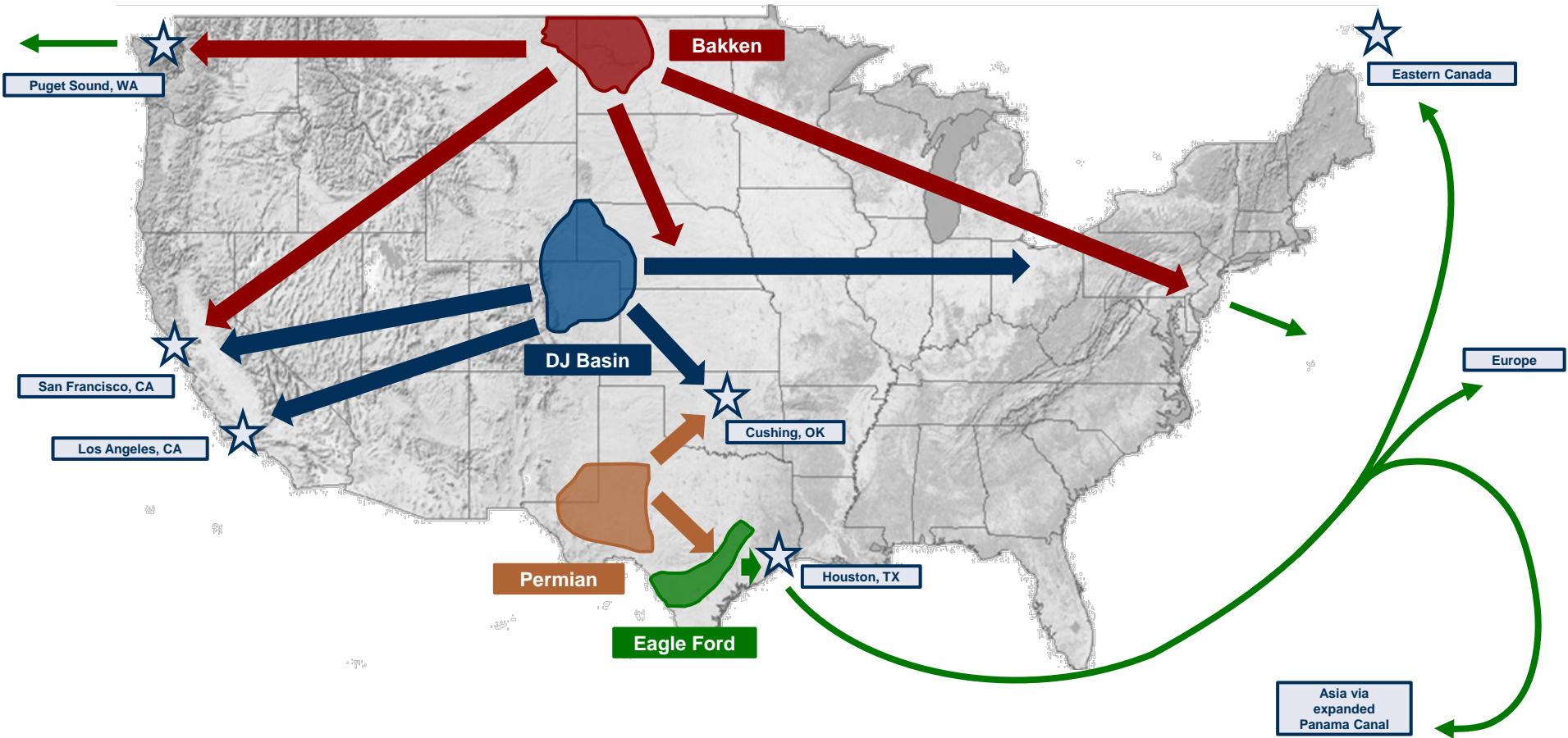
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Figure 9

# Toward a New Realignment of Interests

## U.S. Positioning for Oil Exports

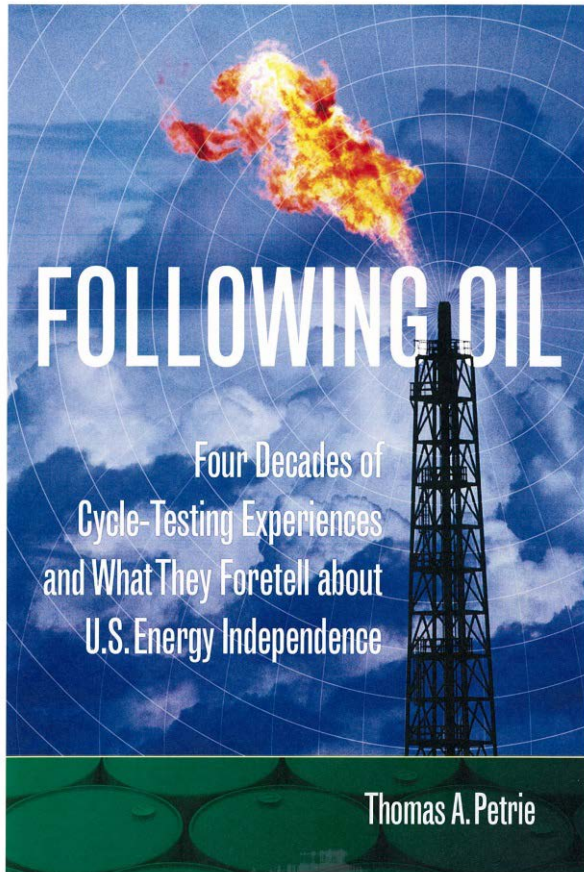


Elimination of the ban on U.S. oil exports is ultimately a development with price containing potential

Figure 9\*

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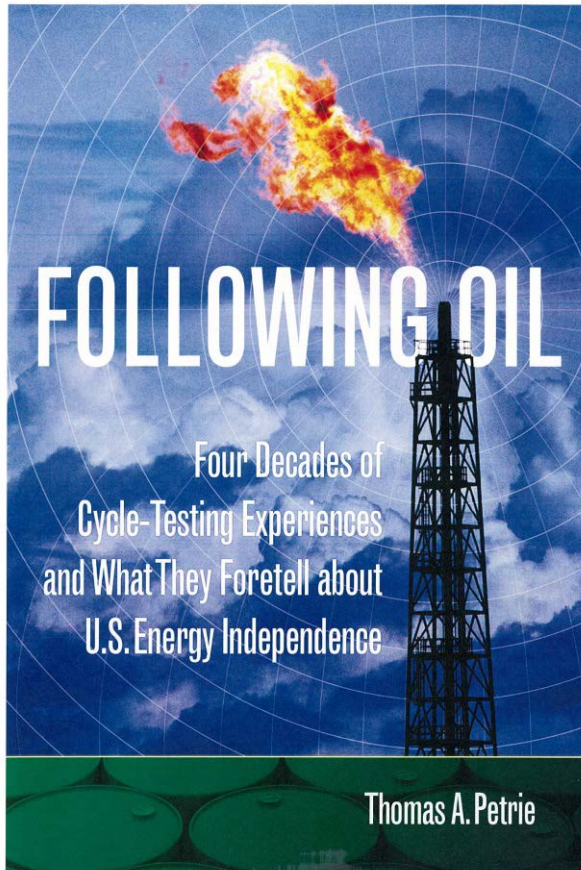
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Figure 10

## “Following Oil” – Key Lessons Learned

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- ❖ Markets continuously endeavor to work, but in their own time and at their own pace
- ❖ Flawed economic and policy incentives ultimately cause or exacerbate supply shortfalls (or sometimes even create undesirable surpluses)
- ❖ Black swan events entail especially noteworthy risks
- ❖ It is often darkest just before the dawn
- ❖ Powerful regenerative economic forces result from the application of well-incentivized capital focused on high-priority societal problems or needs
- ❖ Periodic consolidation and reorganization (via mergers and sales) are integral to the evolving natural order of the petroleum-sector economy
- ❖ Shifting global macro-economic drivers can overwhelm even a well-executed plan and thus necessitate midcourse adjustments in strategy for both corporate players and national entities
- ❖ Old geopolitical grudges tend to reemerge, often at inopportune times and with adverse consequences (Ukraine, Syria, South China Sea, China/Japan)