# What to Expect in the Aftermath of COVID-19

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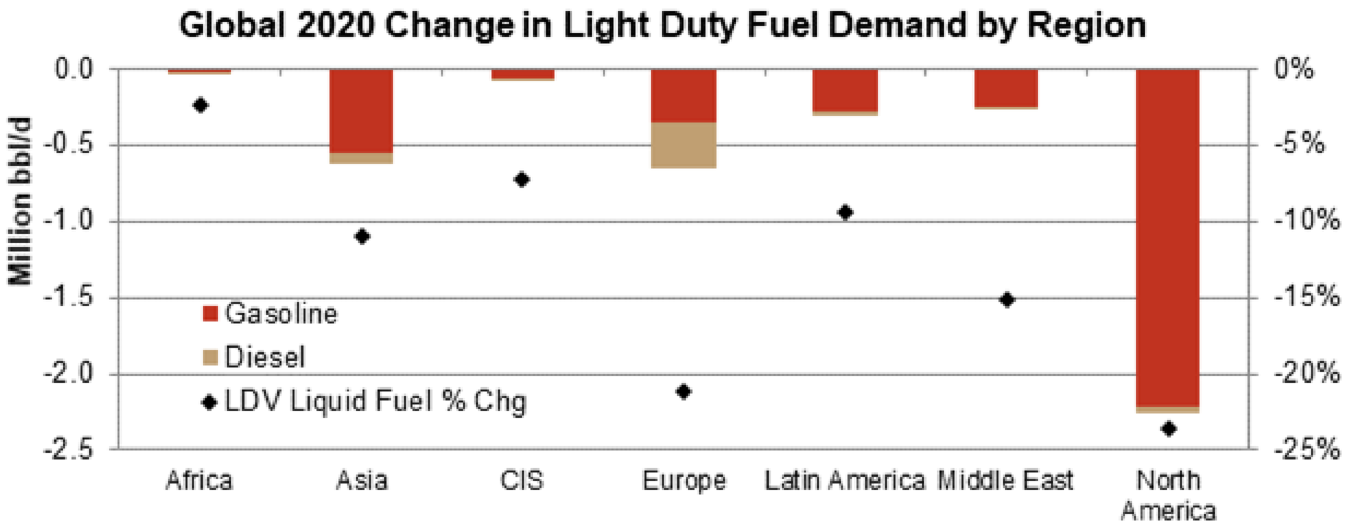
# Initial Impact of COVID-19

# Global Economy

- Stratas Advisors expects that global economic growth declined steeply in Q2 with a global decline of more than 10% and the US decline of 18%...
- …and will remain negative in comparison to 2019 throughout the remainder of the year
- The decline, however, is not as deep as some other forecasts
- In general – we expect that the US will have sharper and deeper drop than the rest of the OECD and then will recover more quickly
- Economies of emerging markets will be negatively affected – but not to the same extend as the OECD – in part, because they did not have the wherewithal to shut down major components of their economies

# Oil Demand Outlook

- In comparison with 2019 – Q2 demand will be down by 13 million BPD
- For 2020 – global demand will be 8.5 million BPD less than in 2019
  - Gasoline reduced by ~3.7 million BPD (-14.1%) -- impacted significantly by “social distancing”
  - Diesel reduced by ~1.7 million BPD (-6.2%) -- less impacted by “social distancing” but impacted by downturn in economic activity – and reduced global trade
  - Jet fuel reduced by ~2.0 million BPD (-29.4%) -- most impacted by “social distancing”
  - Other products make up the remaining decline of 1.1 million BPD
- Demand in 2021 will recover – but for the year – will be 2 million BPD less than in 2019





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# Oil Supply Outlook

**OPEC+ Deal Announced in April**

- Each producer reduced by 23% from reference production of October 2018
- OPEC+ cuts amount to 9.7 million BPD
- Saudi Arabia and Russia each reduced by around 2.5 million BPD (with resulting production for each to be 8.5 million BPD), in terms of October 2018 production levels of 11.0 million BPD for both countries
- Other non-OPEC not included in the OPEC+ agreement cut production by another 4.7 million BPD
- OPEC+ cuts will remain though April of 2022 – with cuts of 7.7 MPD for July – December of 2020, and cuts of 5.7 million BPD for January 2021 – April 2022

**OPEC recently announced that the cuts of 9.7 MPD will be extended through July**

**The additional cuts of 1.0 MPD by Saudi Arabia will end this month**





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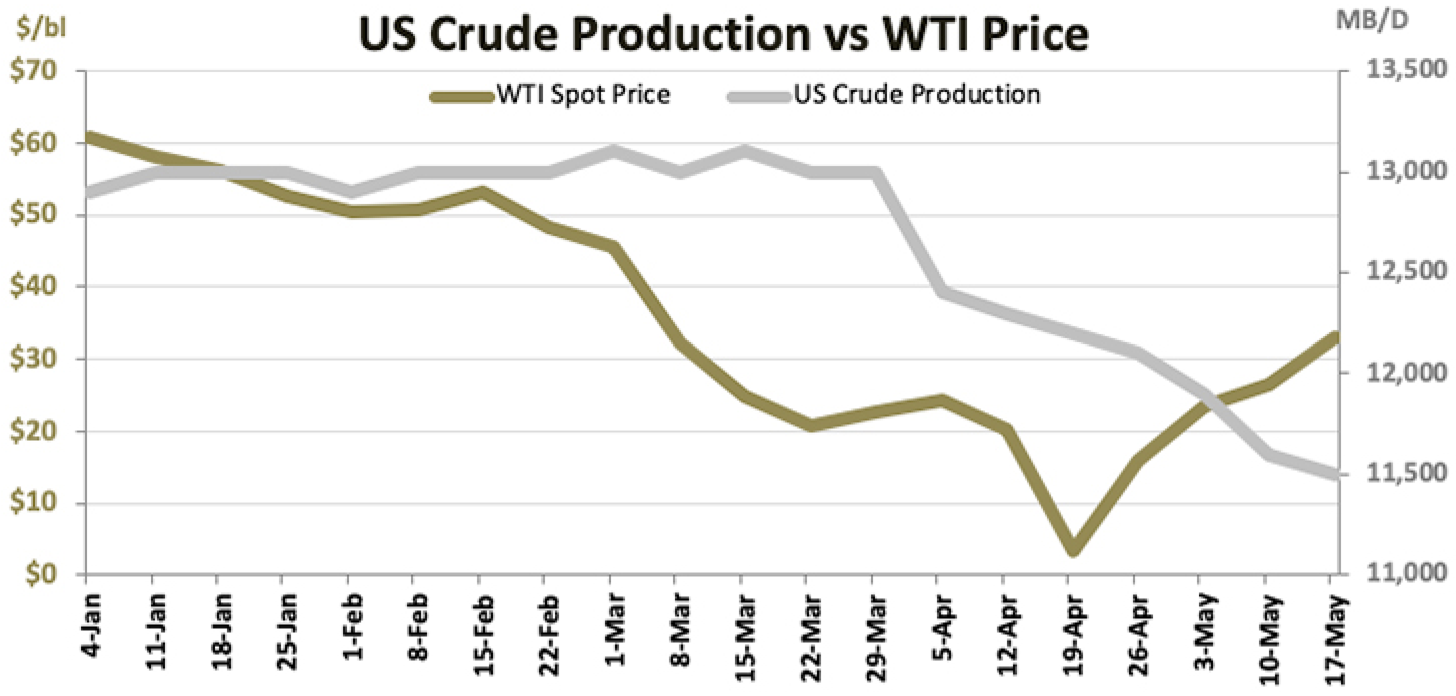
# US Production Outlook

- US crude production has declined significantly since the beginning of March…
- …from 13.1 MBD to less 11.5 MBD
- Stratas Advisors expects production to decline by 3.0 MBD with declines continuing into 2021



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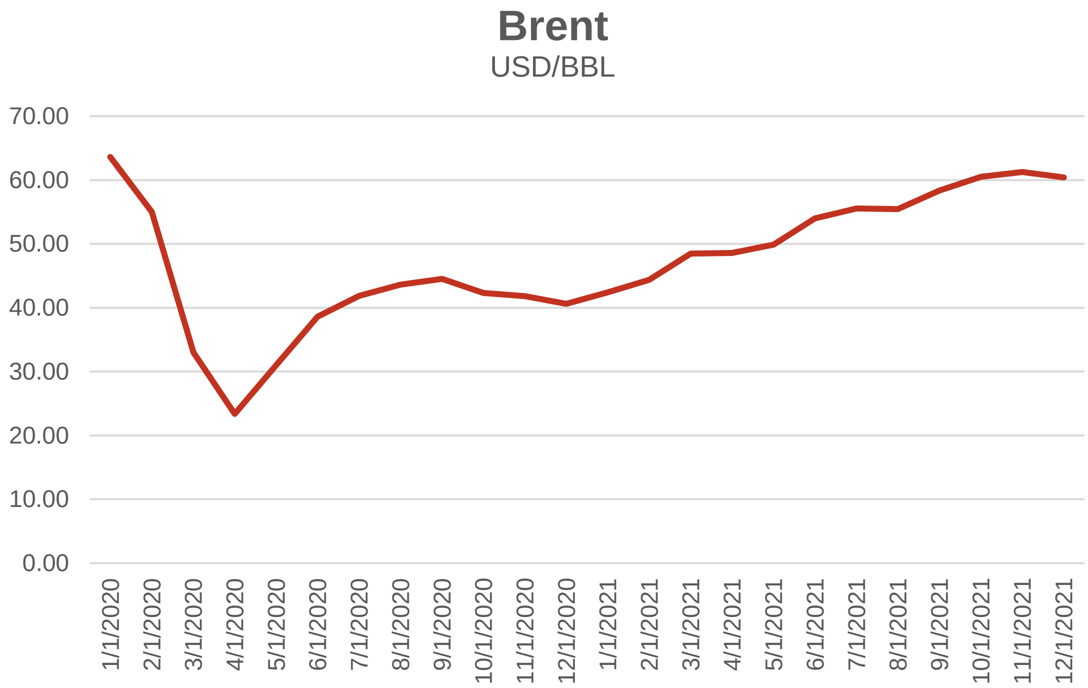
# Oil Prices

- Crude inventories will continue to build through the first half of 2021 and then start to decline afterwards
- Even with the supply cuts we expect that the price of Brent crude will struggle to remain above $40.00 until May of 2021
- The production cuts, however, are helping to stabilize the price of Brent crude -- and will allow prices to move gradually upwards as demand ramps up in the second half of this year





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# Implications for Refiners

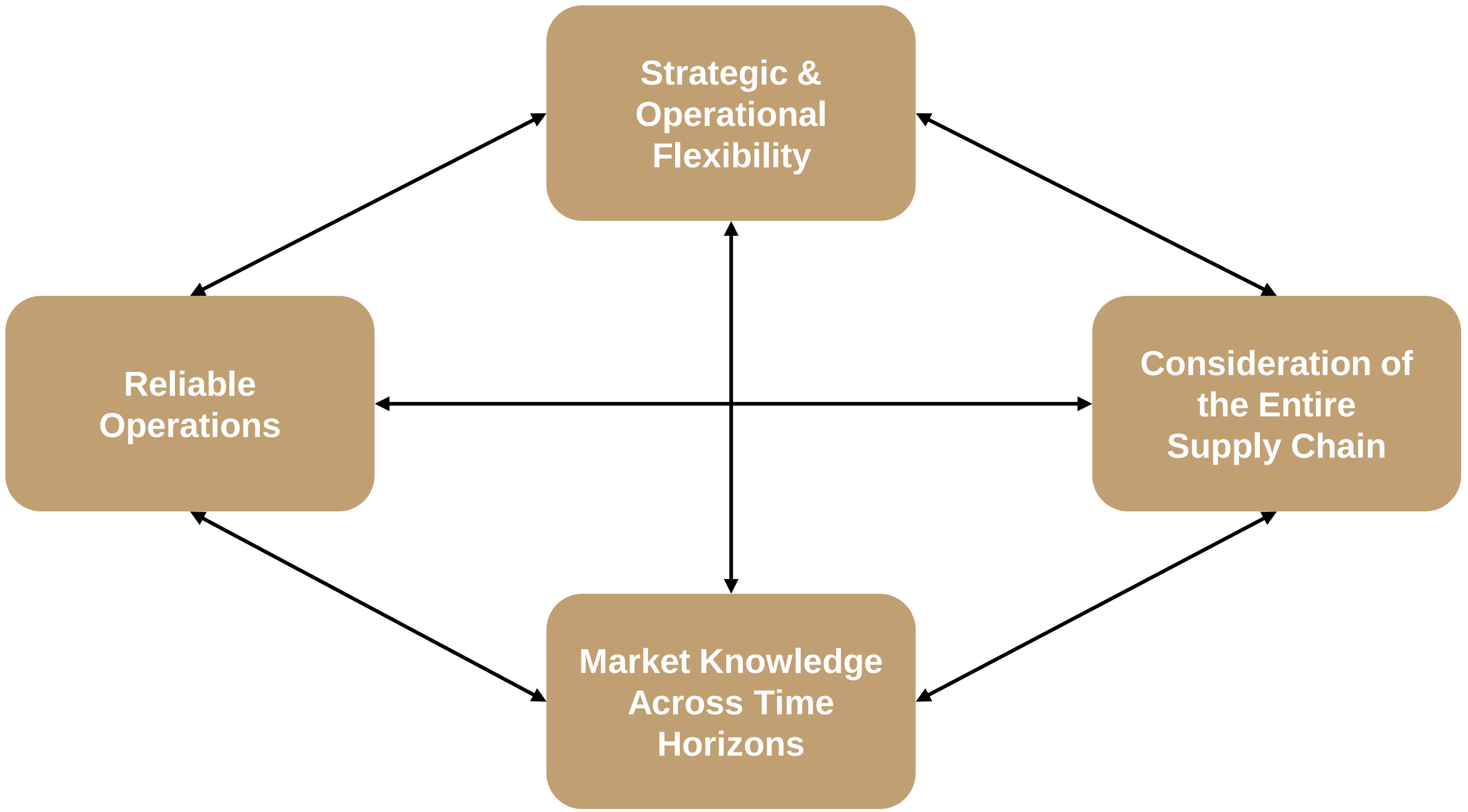
# Short-term Impact

- Refining profitability will be dampened by the need to operate at reduced utilization rates
- Production cuts will provide upward support for crude prices – further weakening refining margins
- Gasoline demand will bounce back from the very low levels – but will remain below the trend level before COVID-19
- Jet fuel will lag in terms of recovery – as air travel comes back slowly
- Diesel demand – while not as affected by COVID-19 – will be negatively affected by the weak economic growth – and the increased trade friction

# Mid-term Impact

- Crude prices will be kept at more moderate levels because of excess supply capacity
- Light-heavy differentials will be narrower because of reduced supply of heavier crudes and the availability of light crude – coupled with the amount of available conversion capacity
- Demand growth will be less than in the past because of structural changes -- including the penetration of electric vehicles and alternative fuels
- There will be continued push to move towards cleaner fuels – and the required investment by refiners will be a costs of doing business – not a major opportunity for additional profits
- Opportunities for product exports will be less available and more competitive
- There will be increased pressure on refineries with weak structural attributes – including lack of scale, limited complexity and poor logistics

# Keys to Success



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