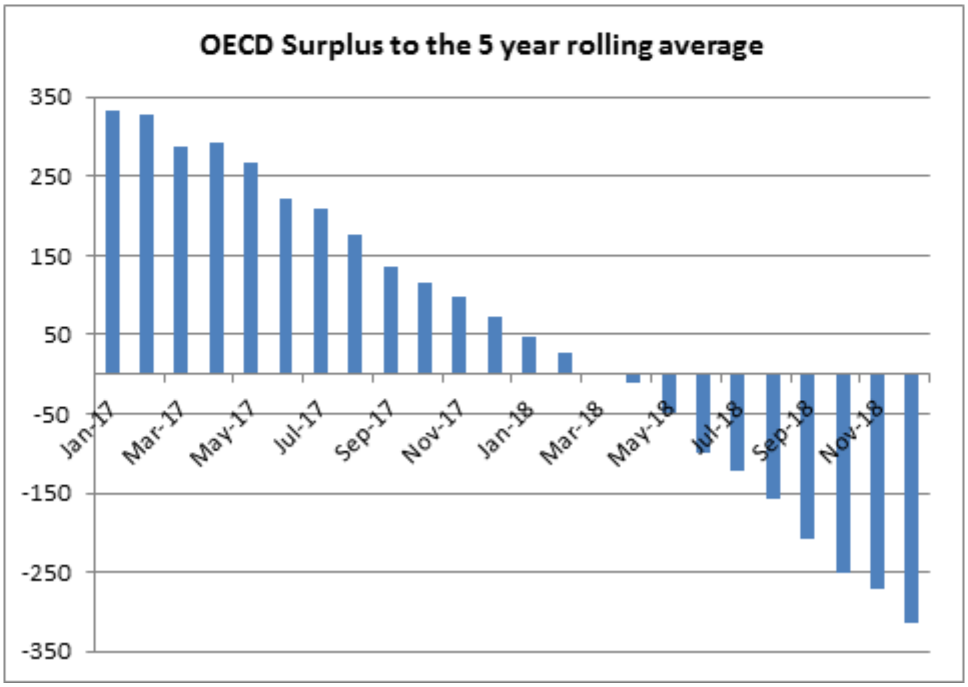
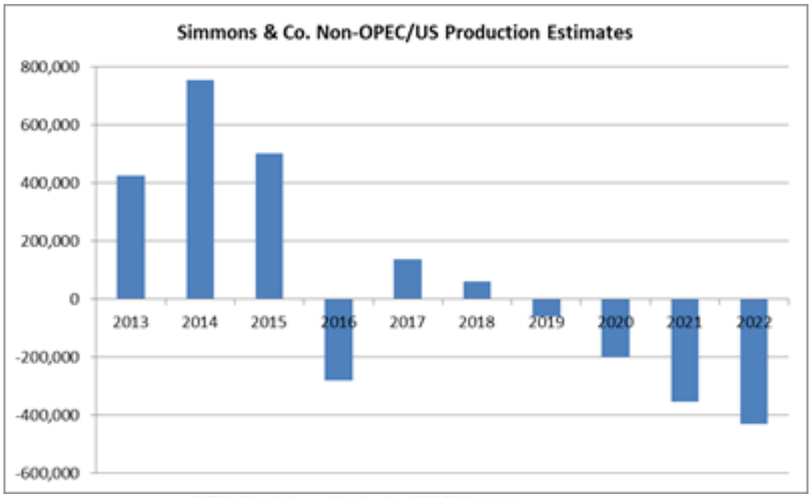
<u>Colour Comment from Eric Nuttall – May 25th 2018:</u>

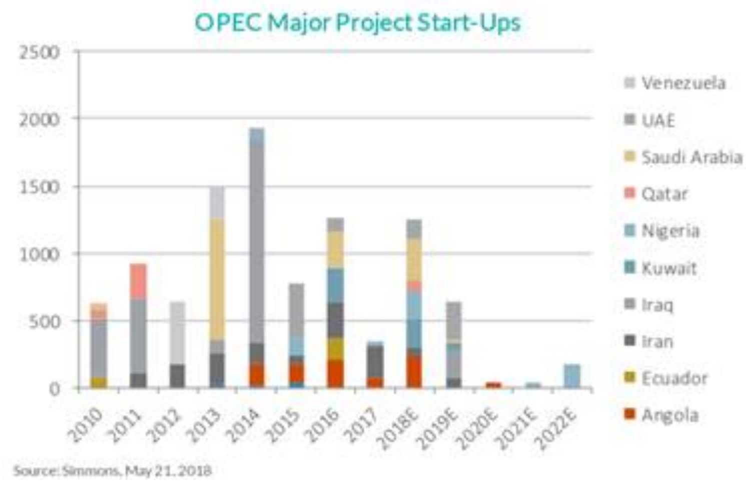
Oil is down 2% this morning on headlines that OPEC production could be increased in the 2H of 2018 (to be formalized at the next OPEC meeting on June 22nd). Is this surprising? Not entirely. The production cut put into place in 2016 has been extremely effective at eliminating the 300MM bbl oil glut as of March of this year (fastest decline in inventory levels in history) and as a result the price of oil (Brent) has rallied to a recent high of $80/bbl (still below Saudi Arabia's $85/bbl fiscal break-even level). Is this the end of the oil rally?



Source: Ninepoint Partners

We have written extensively about why oil is in a multi-year bull market (http://www.ninepoint.com/commentary/commentaries/042018/energy-strategy-042018/). The basis tenants to this thesis are: 1) US production growth is constrained by pipeline capacity in the Permian in 2019 and spending restraint due to a prioritization of shareholder return of capital 2) continued strong demand growth 3) non-OPEC/US production that is about to go into a multi-year decline beginning in 2019 due to a lack of investment on long-lead projects during the oil bear market and 4) OPEC which post bringing on their shut-in production lacks any spare capacity and has the inability to grow by more than ~ 0.1MM Bbl/d per year until 2023 due to a lack of spending on future projects as they were forced during the oil downturn to sacrifice oil industry investment in lieu of social spending lest they risk revolution.





We believe that OPEC (ie. Saudi) is worried about significantly over tightening the market this year and having a resulting price spike due to the ongoing implosion in Venezuelan production as well as the impending Iranian export restrictions. These amount to 0.7MM Bbl/d of losses from Venezuela and a 0.2-1.0MM Bbl/d impending reduction from Iran. Even without these two politically-induced production reductions we had estimated that OECD inventories would hit a 10 year low and that the market would be undersupplied by 1.1MM Bbl/d by the end of 2018. If the headlines prove to be accurate and OPEC brings on 0.3-0.8MM Bbl/d gradually to offset the Venezuelan/Iranian production loss the market will still remain undersupplied. Further, this will expedite the exhaustion of OPEC's spare capacity which we believe to only be 0.6-1MM Bbl/d.

Global Oil Balances			
	2018	2019	2020
Beginning of year undersupply	0.7	1.1	0.4
Add: Demand Growth	1.8	1.6	1.4
Total amount of required supply growth to reach balance	2.5	2.7	1.8
US Supply Growth	1.2	1.2	1.2
OPEC+Russia Supply Growth	0	1.2	0.3
Non-OPEC/US Supply Growth	0.2	-0.1	-0.2
Total estimated supply growth	1.4	2.3	1.3
End of year market balance	-1.1	-0.4	-0.5
Units: MM Bbl/d; Source: Ninepoint Partners			

The narrative of ongoing inventory drawdowns is unchanged by OPEC increasing production this year (we had estimated that the full 1.2MM Bbl/d of supposed productive capacity would come online fully in 2019). Our call for $80/bbl oil in 2019 and the likelihood of $100/bbl oil in 2020 stands. OPEC/Russia will not do anything stupid to have the price of oil collapse after enduring the worst sell off in the history of oil over the past several years. Weakness in energy equities should (and we think will) be bought. From current levels we estimate 41% Fund upside using $70/bbl and 86% upside using $80/bbl (and these number will likely increase today). We remain in a multi-year bull market for oil.

Eric

**FALIH: LIKELY TO BE A GRADUAL OIL SUPPLY BOOST IN SECOND HALF*
**FALIH: SMOOTH RELEASE IS NEEDED TO AVOID SHOCKING THE MARKET*
**FALIH: LIFTING OIL SUPPLY WILL BE A GRADUAL PROCESS*
**FALIH: `WE WILL DO WHAT IS NECESSARY IN JUNE' OPEC MEETING*
**AL-FALIH: LOOKING AT VARIOUS SCENARIOS FOR BOOSTING SUPPLY*
**FALIH: ANXIETY LEVEL OF CONSUMERS NOW `IS A CONCERN TO US'*
**AL-FALIH: WE WILL BE CONSULTING ALL COUNTRIES IN NEXT WEEK*

Source: Bloomberg

OPEC Monthly Production (MBpd)

	Algeria	Angola	Ecuador	Iran	Iraq	Kuwait	Qatar	Saudi Arabia	U.A.E	Venezuela	OPEC Production ex. Libya and Nigeria	MOM Difference	Libya	Nigeria
Apr-18	990	1,500	520	3,750	4,430	2,700	610	9,900	2,860	1,550	28,810	-63	990	1,810
Mar-18	1,000	1,570	513	3,810	4,430	2,700	610	9,870	2,860	1,510	28,873	-150	990	1,850
Feb-18	1,040	1,600	513	3,830	4,430	2,700	620	9,880	2,800	1,610	29,023	-220	1,050	1,800
Jan-18	1,020	1,620	513	3,830	4,430	2,710	600	9,960	2,850	1,710	29,243	-107	980	1,800
Dec-17	1,030	1,640	520	3,800	4,420	2,690	610	9,950	2,880	1,810	29,350	-40	970	1,820
Nov-17	1,010	1,610	520	3,820	4,390	2,700	600	9,970	2,910	1,860	29,390	-130	1,000	1,750
Oct-17	1,020	1,710	530	3,810	4,350	2,750	570	10,010	2,910	1,860	29,520	-230	980	1,750
Sep-17	1,040	1,640	540	3,830	4,470	2,720	610	10,000	2,930	1,970	29,750	10	920	1,770
Aug-17	1,060	1,660	530	3,790	4,490	2,710	610	10,000	2,920	1,970	29,740	-40	890	1,750
Jul-17	1,060	1,680	530	3,790	4,500	2,700	610	10,030	2,910	1,970	29,780	60	1,010	1,710
Jun-17	1,060	1,670	530	3,760	4,480	2,710	620	10,020	2,900	1,970	29,720	240	840	1,750
May-17	1,040	1,630	530	3,760	4,420	2,710	620	9,930	2,860	1,980	29,480	-65	760	1,700
Apr-17	1,040	1,660	530	3,760	4,410	2,700	615	9,950	2,900	1,980	29,545	(40)	550	1,600
Mar-17	1,040	1,630	530	3,785	4,430	2,705	610	9,940	2,915	2,000	29,585	(150)	620	1,550
Feb-17	1,040	1,690	535	3,780	4,440	2,710	620	9,940	2,950	2,030	29,735	30	700	1,680
Jan-17	1,040	1,670	530	3,800	4,490	2,710	615	9,870	2,950	2,030	29,705	(1,095)	690	1,640
Dec-16	1,110	1,670	550	3,730	4,630	2,860	620	10,480	3,070	2,080	30,800	(170)	630	1,500
Nov-16	1,120	1,690	550	3,750	4,620	2,910	620	10,530	3,060	2,120	30,970	60	580	1,650
Oct-16	1,130	1,520	560	3,680	4,590	2,960	620	10,580	3,130	2,140	30,910	(150)	**520**	**1,600**
Sep-16	1,110	1,730	560	3,630	4,540	2,940	640	10,600	3,110	2,200	31,060	80	340	1,500
Aug-16	1,110	1,770	550	3,620	4,480	2,930	660	10,640	3,030	2,190	30,980	240	260	1,390
Jul-16	1,080	1,760	550	3,560	4,410	2,860	660	10,660	3,000	2,200	30,740	280	300	1,570
Jun-16	1,080	1,750	550	3,530	4,350	2,900	660	10,470	2,920	2,250	30,460	400	320	1,590
May-16	1,090	1,740	550	3,500	4,370	2,830	650	10,260	2,860	2,210	30,060	(10)	280	1,440
Apr-16	1,100	1,800	560	3,500	4,420	2,770	670	10,200	2,800	2,250	30,070	509	310	1,610
Mar-16	1,100	1,780	551	3,200	4,150	2,860	650	10,190	2,760	2,320	29,561	(52)	330	1,720
Feb-16	1,110	1,801	551	3,100	4,200	2,850	650	10,200	2,820	2,331	29,613	(128)	370	1,889
Jan-16	1,100	1,751	534	2,860	4,510	2,860	650	10,200	2,930	2,346	29,741		370	2,028
Avg. of first 6 months of 2016	1,097	1,770	549	3,282	4,333	2,845	655	10,253	2,848	2,285	29,918		330	1,713
First 6 month avg vs. peak month	13	(40)	11	348	207	95	(15)	347	262	(85)	1,143		10	(213)
Diff. now vs. peak month	(120)	(230)	(40)	120	(110)	(240)	(30)	(700)	(250)	(650)	(2,250)		650	350

Source: Bloomberg

Eric Nuttall Partner, Senior Portfolio Manager