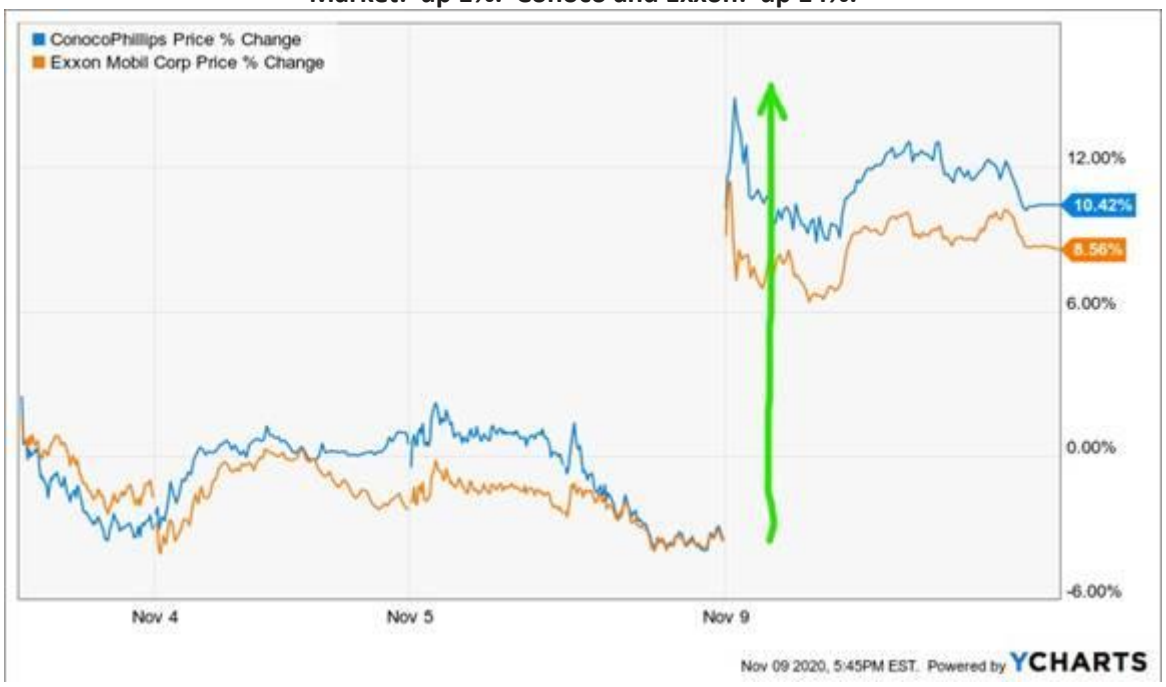
The Outlook: Nov. 9, 2020

Conoco and Exxon: the fog begins to lift.

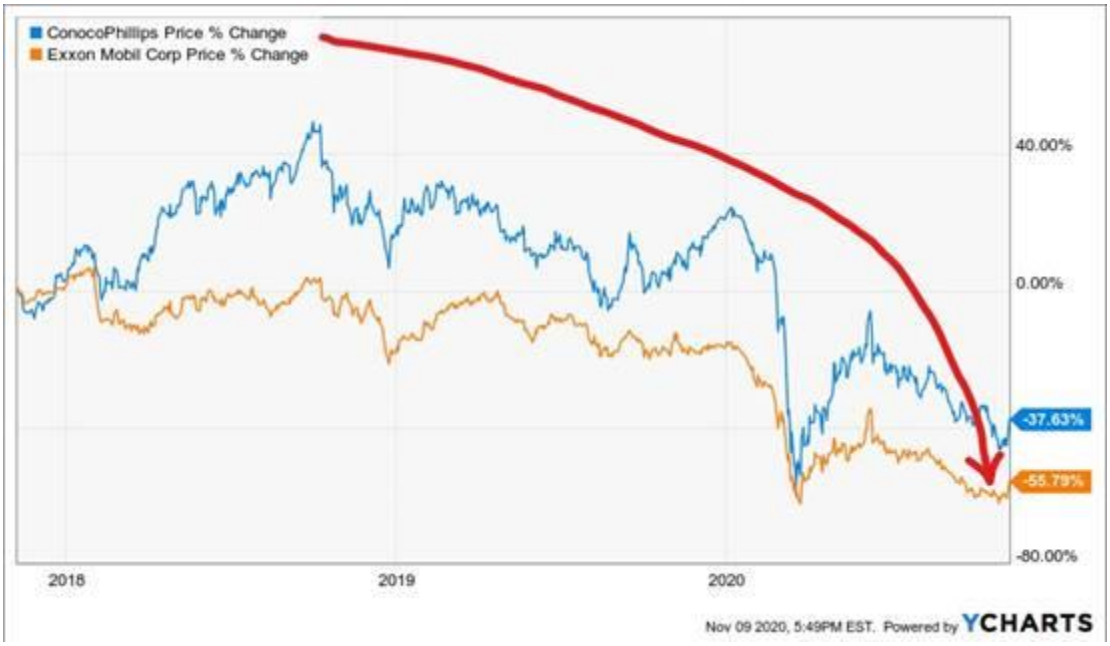
Shocking days in the market are always "interesting"—whether they're screaming cliff-dives or rockets toward the moon—but it's a lot more pleasant to philosophically ponder a "rocket up" day than a "plunging down" day, isn't it? The market spent the day trying to decide if Pfizer's virus vaccine was worth 1500 points or only 800, and ended up settling on the lower number and, no doubt, congratulating itself on its prudence and caution. We'll see about that, starting tomorrow. But the really interesting thing about today was this kind of picture:

Market: up 1%. Conoco and Exxon: up 14%.



Heavy on pictures, light on words today. Here's the first bit of perspective on the "interesting day" for Conoco and Exxon.

Conoco and Exxon: 3 Years of the "Red Arrow of Death"



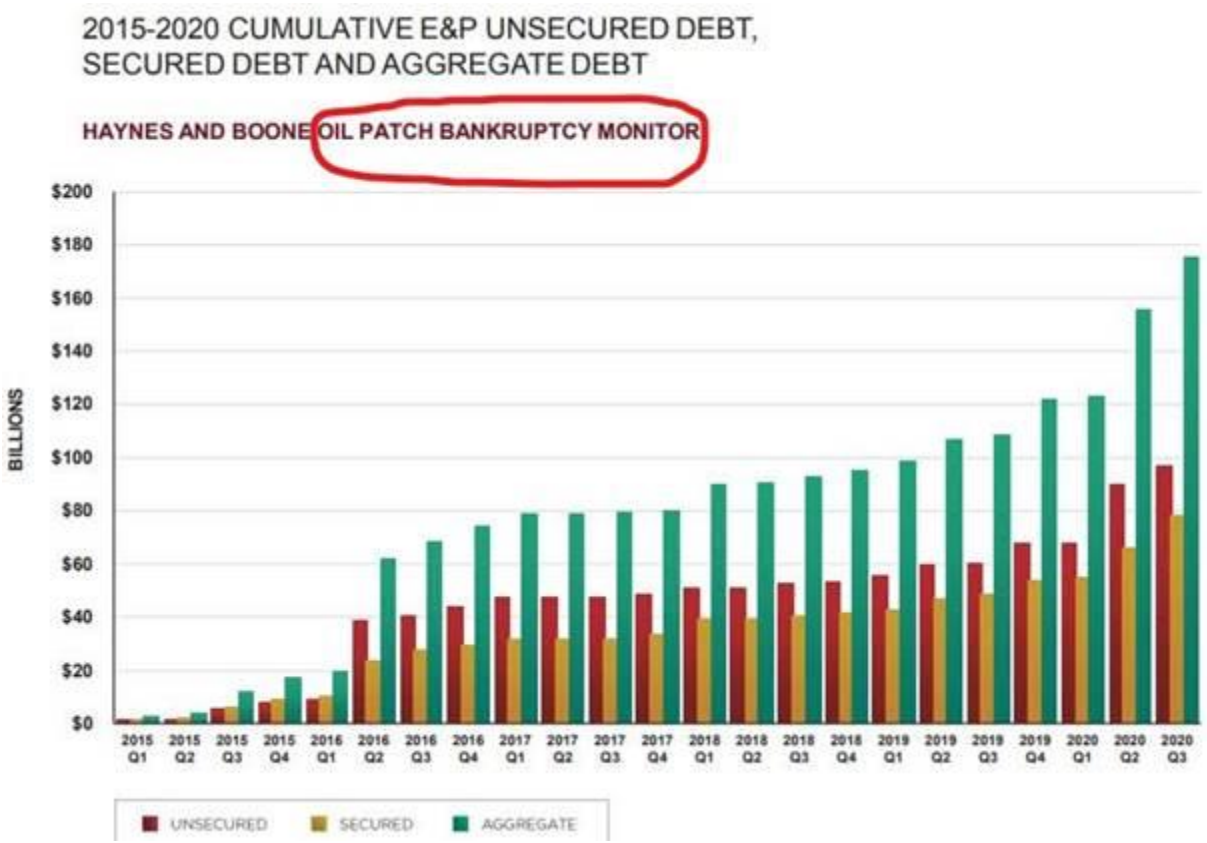
And here's another picture. This one is as "interesting" as they get.

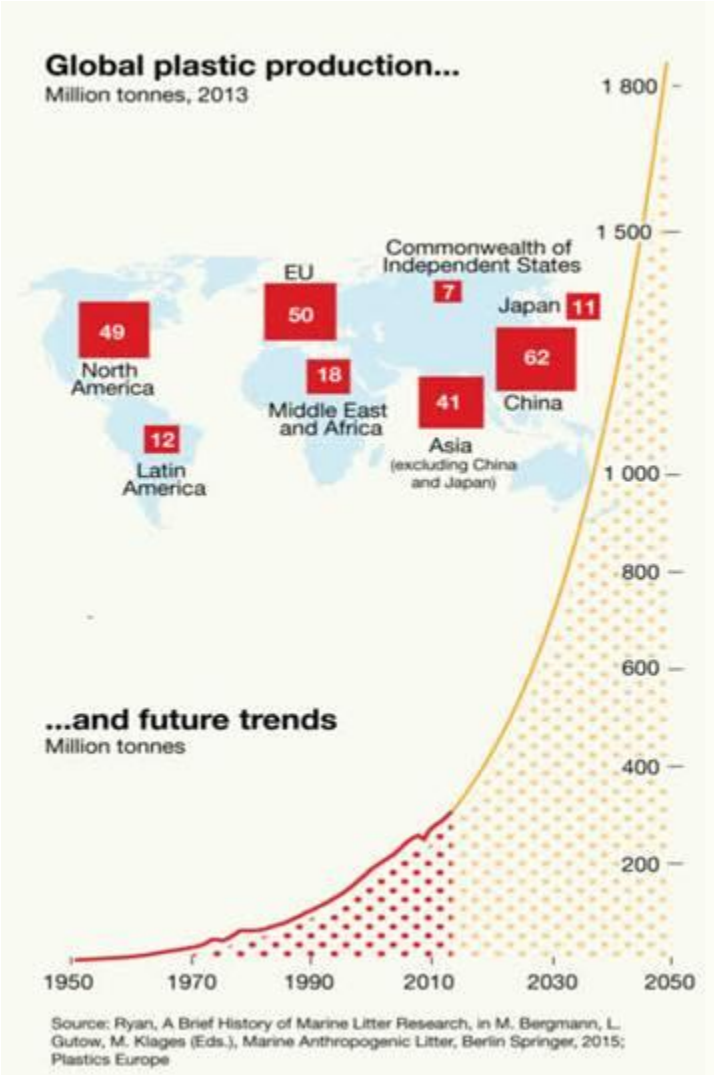
"JP Morgan Predicts $190 Oil by 2025!" That's a headline to warm an oil investor's heart, isn't it? JP Morgan made this forecast earlier this year. (Morgan called it "one of the possibilities," being a little prudent and cautious itself.) But at Outlook we give plenty of credit to any eminent voice on Wall Street bold enough to make a forecast which, at the time, looked downright silly to the market and most of the investment world. (And still does, many would say.) Just because a forecast "feels" impossible does not mean it will come true . . . but the "impossible" happens so often, in the investment world, that we

investors ought to treat it with prudence and caution, ourselves, rather than laughing at it. Here's how the Morgan folks explained their impossible forecast:

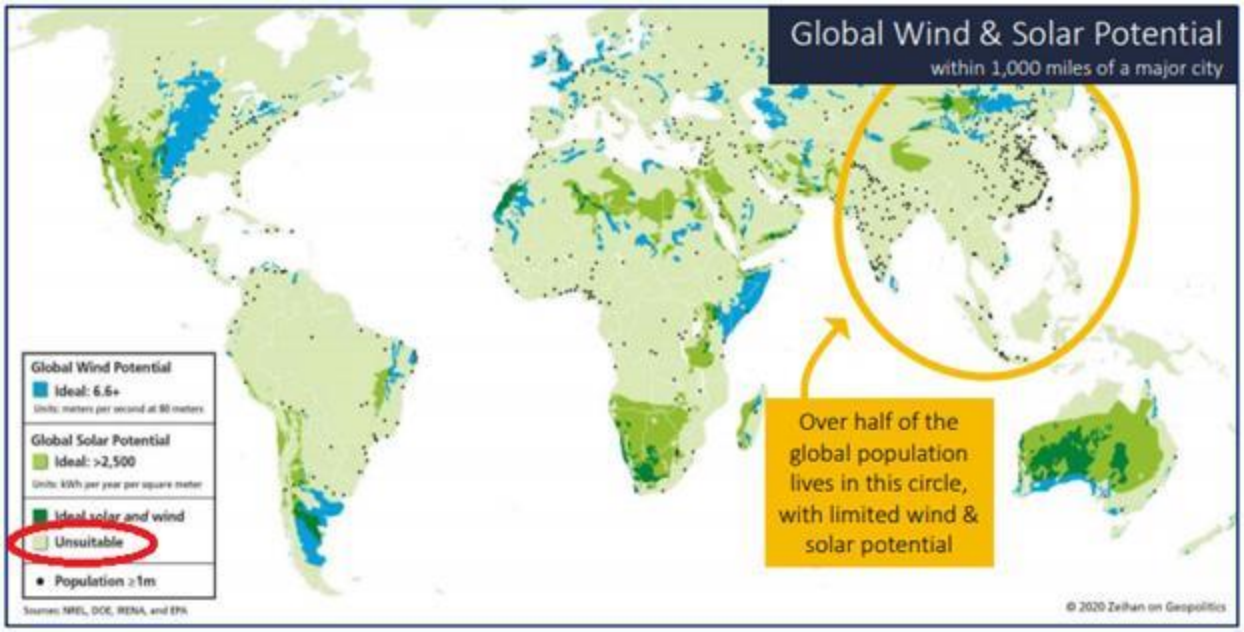
> *"The combination of (future supply and demand forces) suggests that the global oil market could move into large and sustained deficits past 2022, reaching an extreme 1.7 mbd by 2025. Running this scenario through our pricing model suggests these balances would lead to Brent oil prices rising steadily from 2022 onwards, averaging around $80/bbl in 2023, $100/bbl in 2024 and $190/bbl in 2025."*

"Supply and demand forces." Outlook's clients and friends have heard that a few times, regarding oil. Here are a couple of other pictures, touching the kinds of things JP Morgan (and Outlook) mean by "supply and demand forces:"





Source: Ryan, A Brief History of Marine Litter Research, in M. Bergmann, L. Gutow, M. Klages (Eds.), Marine Anthropogenic Litter, Berlin Springer, 2015; Plastics Europe



Top: Shale companies are going bankrupt, in crowds. It's about time. It's been a long wait.

Middle: The world runs on oil, period. As hopeful as the "green energy" movement may be about eliminating it, oil and its products are the foundation of the modern world *because* they're so much cheaper and energy-efficient than anything else. There are a good many facts which politicians ignore in the interest of their favorite causes. But some facts are simply impossible to ignore. This "plastics" chart is just an example of that kind of fact.

Bottom: As the yellow square explains, wind and solar energy are interesting energy sources . . . but it would be a <u>tall order</u> (speaking politely) for them to significantly replace oil in the near future.

There are more "demand and supply forces" than we can shake a stick at, in the oil market—and in most markets, when we get down to it. Every one of those forces has a different nature. Some are fast, some slow; some are powerful, some weak; most of them take their sweet time behaving "logically:" that is, with a common-sense reaction to either very high or very low market prices. But eventually they do behave just as common sense tells us they should. Low prices discourage supply and trigger demand; high prices do the opposite. So "the cure for low prices is low prices," and vice versa. The hard thinkers at JP Morgan came to their conclusion, no matter how clever their "model", simply by watching oil supply forces behaving sensibly, and having confidence that oil demand would do the same, no matter the delays created by Virus Lockdowns. The last few years of plunging red arrows for oil stocks has made it very hard, as always, for investors to "feel" that supply and demand would indeed behave exactly as they always do, eventually—regardless of the obvious supply-shrinking forces seen by Morgan (and anyone else who wished to look.) But the fog lifts suddenly, pretty often. With today's "Pfizer Vaccine!" news, the notion that oil demand just might behave logically and sensibly, as always, suddenly began to "feel" like a fact, rather than a far-out forecast. At Outlook we think it's as hard and cold a fact as they come . . . and we're glad to own Conoco and Exxon.

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