Downstream Industry

Supply Shifts, Refining Tightness, and the Future of Margins

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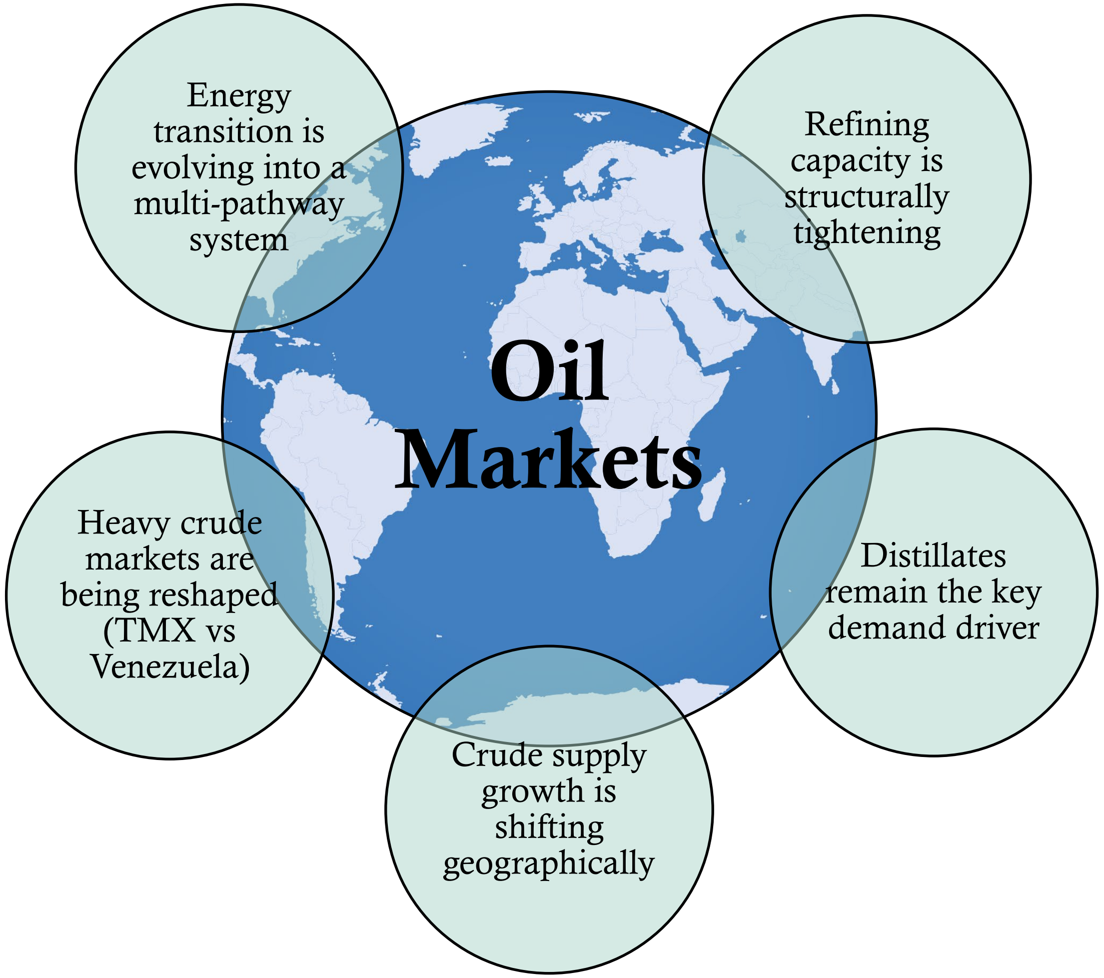
Five Forces Shaping Oil Markets



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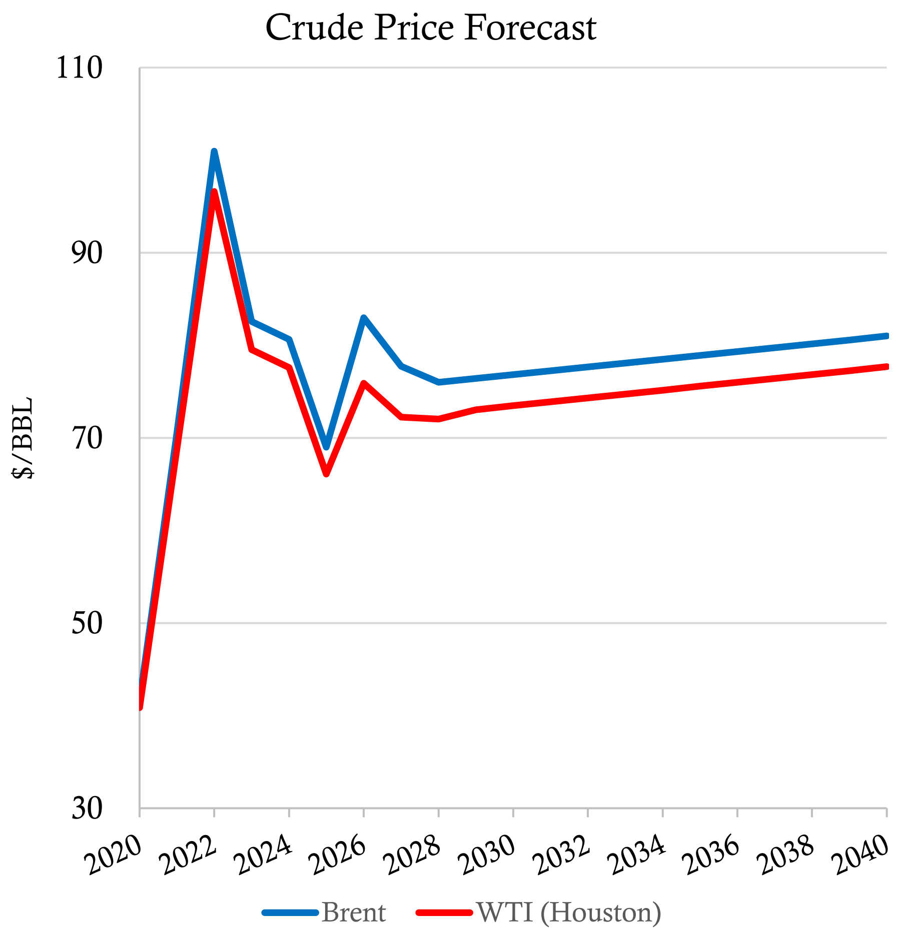
Short-Term Noise, Long-Term Fundamentals



- Geopolitical disruptions driving near-term volatility
- Trade flows and logistics increasingly impact pricing
- Crude oil prices remain supported by geopolitical disruptions, with gradual rebalancing as global supply and trade flows adjust
- Medium to long-term outlook driven by supply-demand fundamentals
- Long-term crude prices are expected to rise gradually post-2030, supported by increasing upstream costs and rising marginal supply costs

Trade Flows Have Structurally Shifted

Then: More Stable System

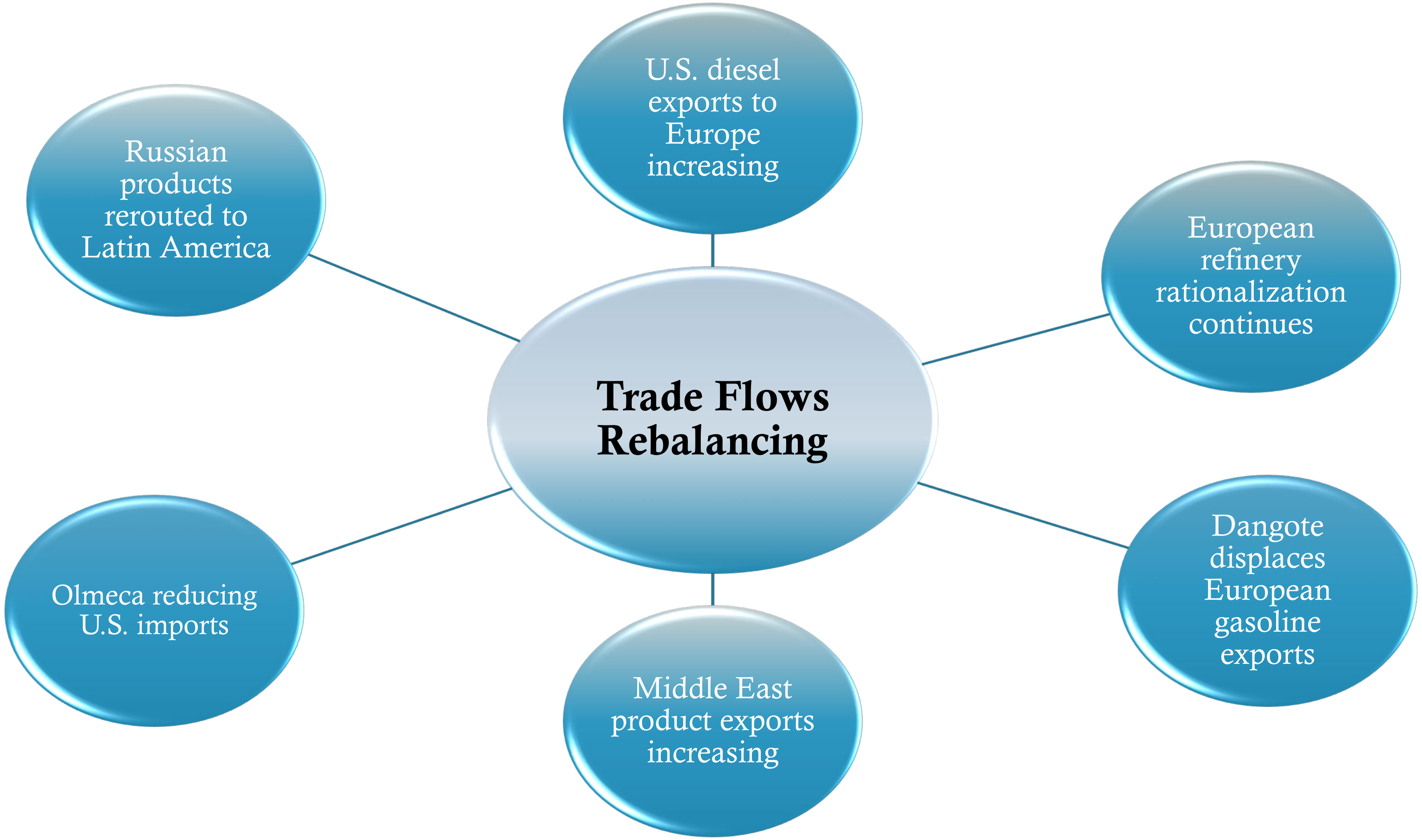
- Predictable trade routes
- Lower freight and insurance costs
- Regional pricing broadly aligned
- Logistics had limited impact on pricing

Now: More Complex System

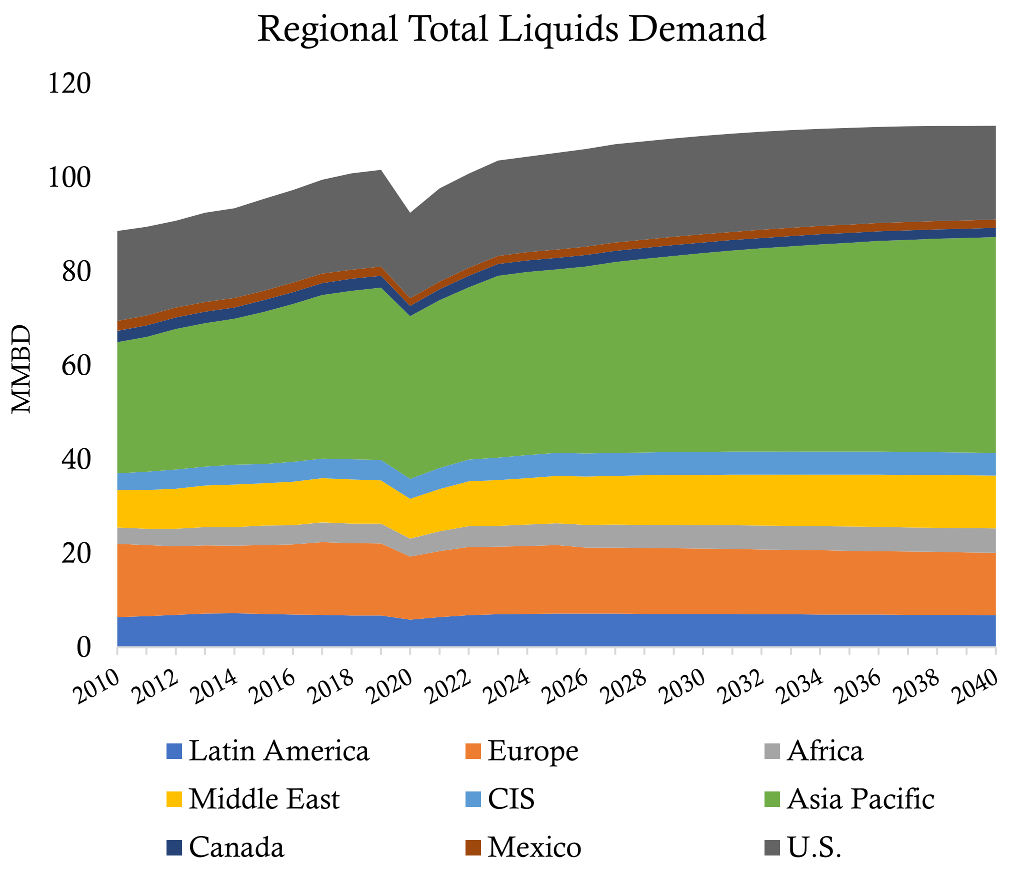
- Rerouted and fragmented trade flows
- Higher freight, insurance, and transit risks
- Same crude, different delivered cost
- Persistent regional price dislocations

How barrels move now matters as much as how much exists.

Trade Flows Are Rebalancing Across the Atlantic Basin



Demand Growth Shifts Toward Emerging Markets



- Asia (led by India), Africa, and the Middle East drive the majority of future demand growth
- OECD demand remains relatively flat to declining over time
- China's demand growth moderates as electrification and economic transition reduce fuel intensity
- Global product flows increasingly reorient toward growth markets
- Refining investment increasingly concentrates near demand growth regions

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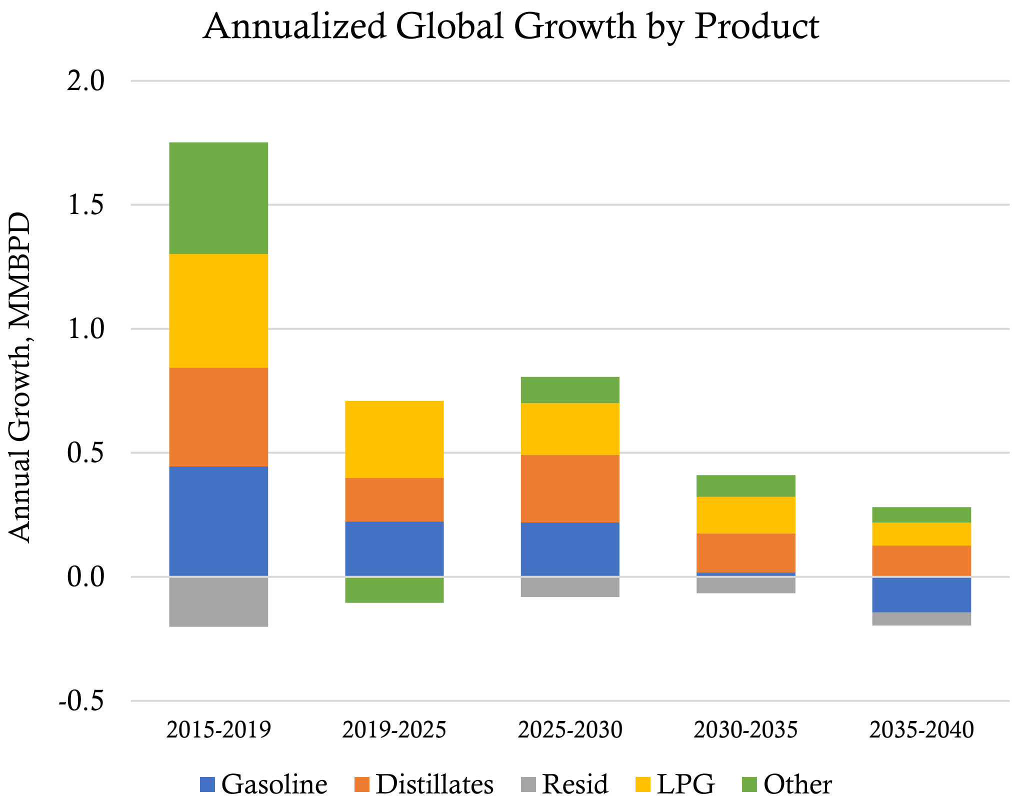
Gasoline Plateaus, Distillates Drive Growth



- Gasoline demand slows with efficiency gains and electrification
- As gasoline demand plateaus, naphtha shifts toward petrochemical value chains
- Diesel and jet demand remain tied to freight, aviation, industry, and construction activity
- LPG and naphtha gain importance as petrochemical feedstock demand grows
- Future demand growth increasingly favors distillates and petrochemical feedstocks

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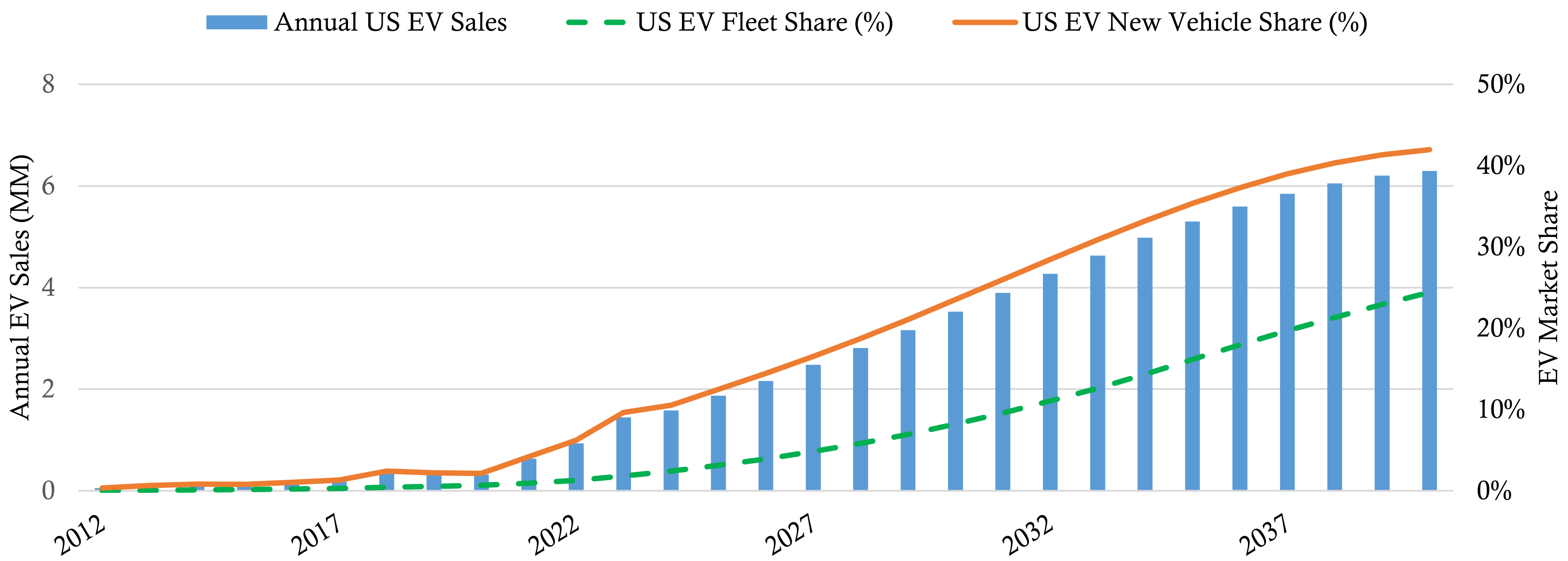
EV Adoption Is Rising, But Its Impact Is Uneven



- China leads global EV adoption
- U.S. and Europe show more uneven adoption trends
- Hybrids play a growing role in the transition
- EV impact is concentrated in gasoline, with limited effect on distillates

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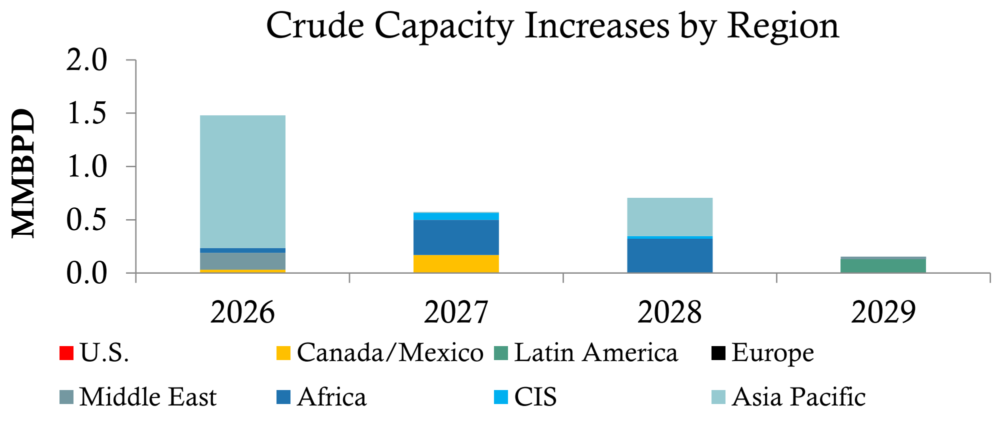
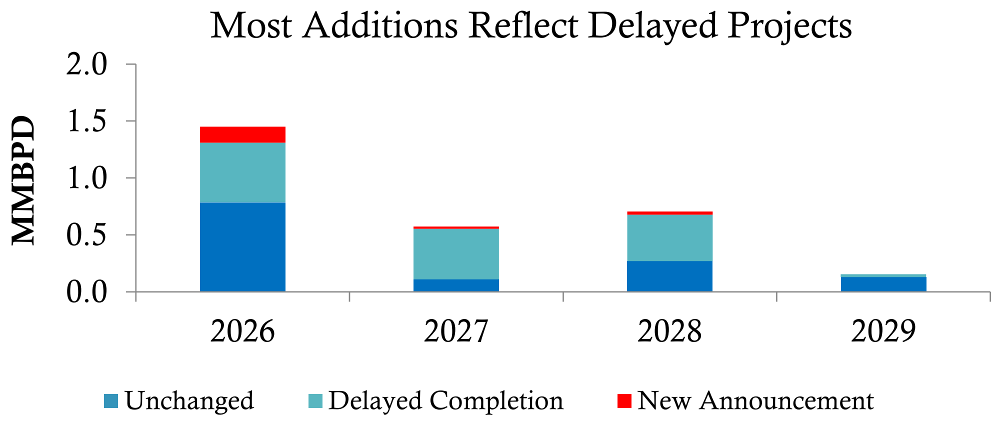
NEW REFINING CAPACITY REMAINS LIMITED





- Structural underbuilding persists despite demand growth
- Capacity additions are largely delayed completions, not new builds
- Growth concentrated in Asia, the Middle East, and Africa
- Limited new capacity in North America and Europe

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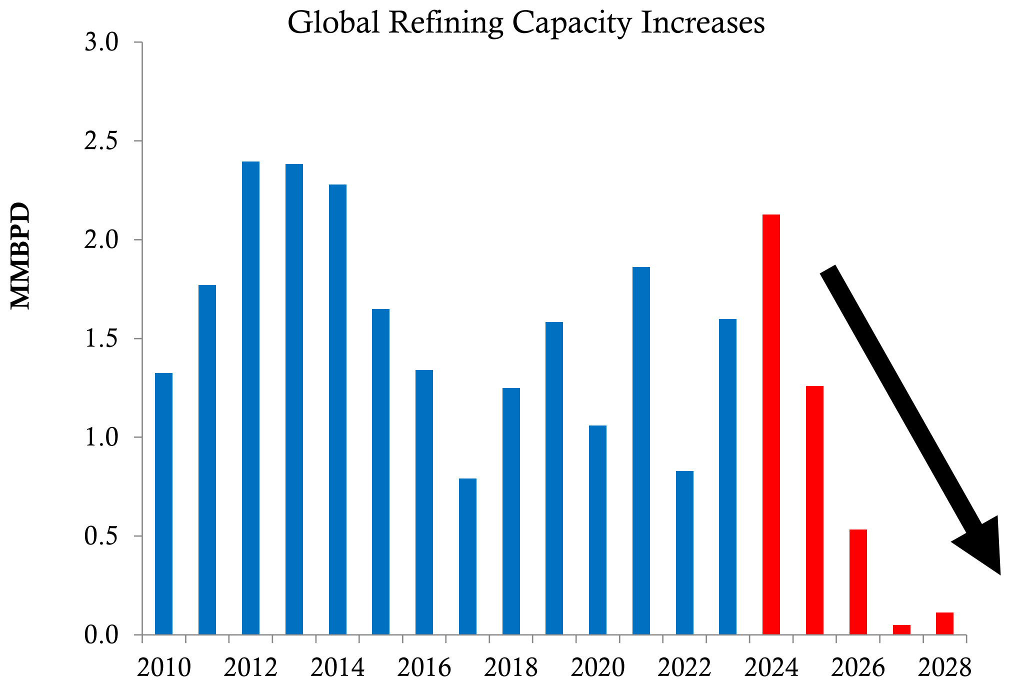
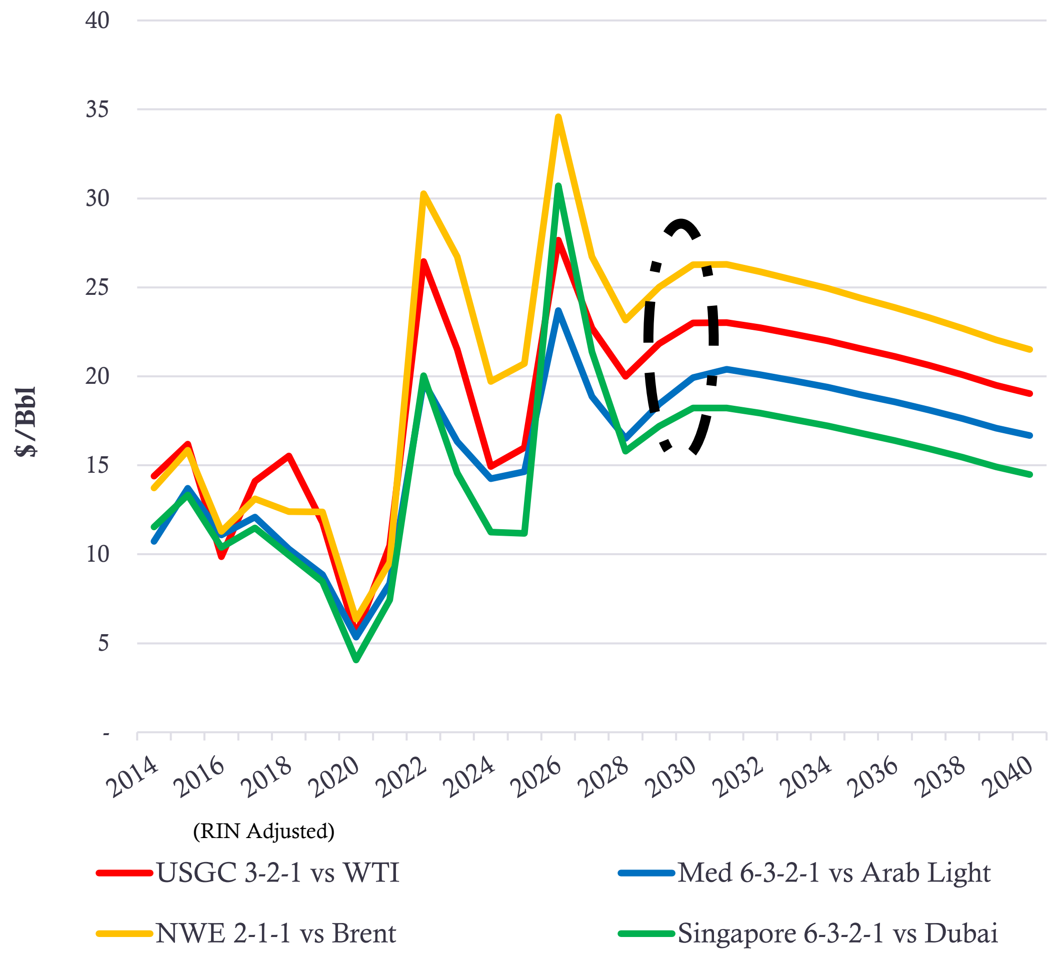
LIMITED CAPACITY GROWTH SUPPORTS REFINING MARGINS



Source: TM&C



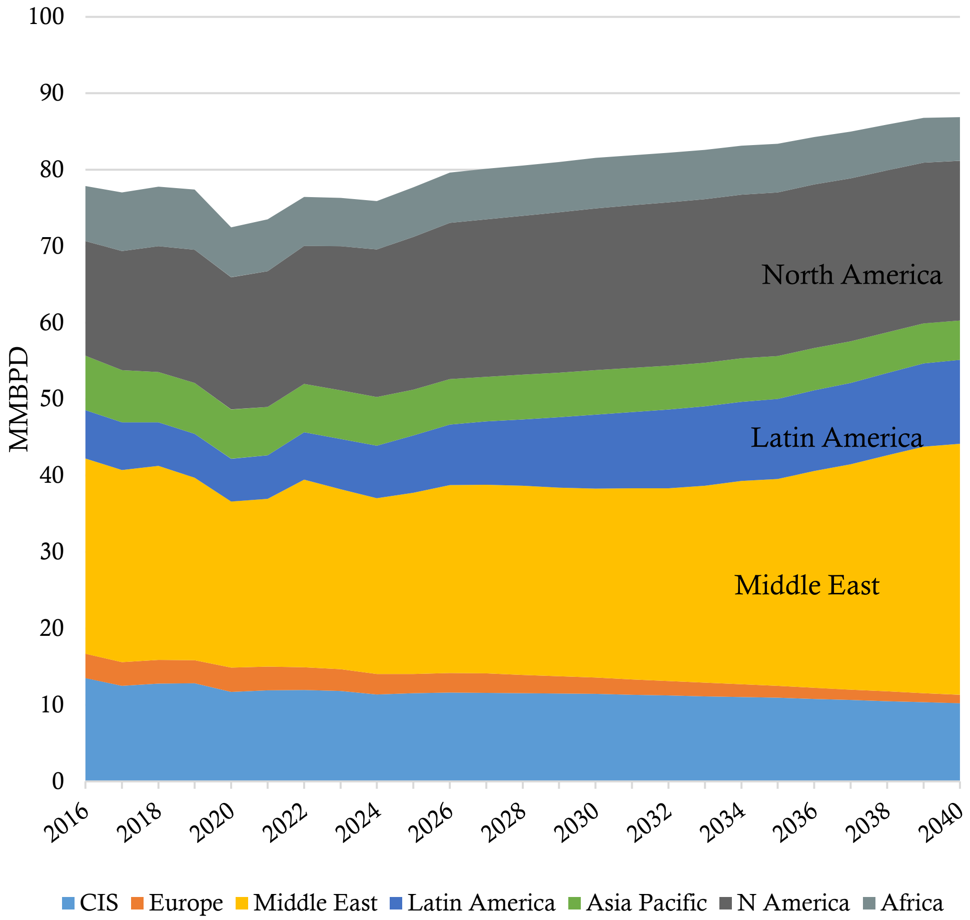
Capacity growth lags demand, tightening global product balances
Margins ease from near-term peaks but remain structurally elevated

Refiners Shifting Toward Distillate Optimization

- Value shifts from volume growth to configuration and optimization
- Optimize crude slates toward higher-value products
- Increase focus on distillate-maximizing operations
- Brownfield upgrades and refinery optimization gain importance
- Operational flexibility becomes a key competitive advantage

Refineries increasingly optimize toward distillate yields as gasoline demand growth slows

Crude Supply Growth Concentrates in the Middle East and Americas



- Canada, Brazil, Guyana, and Middle East producers drive most incremental export-oriented supply growth
- The U.S. Gulf Coast remains a critical crude aggregation, refining, and export hub
- TMX redirects more Canadian barrels westbound near term, though continued oil sands growth may still require incremental U.S. export pathways over time
- OPEC gradually increases market share over the outlook period
- Trade flows rebalance as Atlantic Basin and Asia-bound crude movements expand

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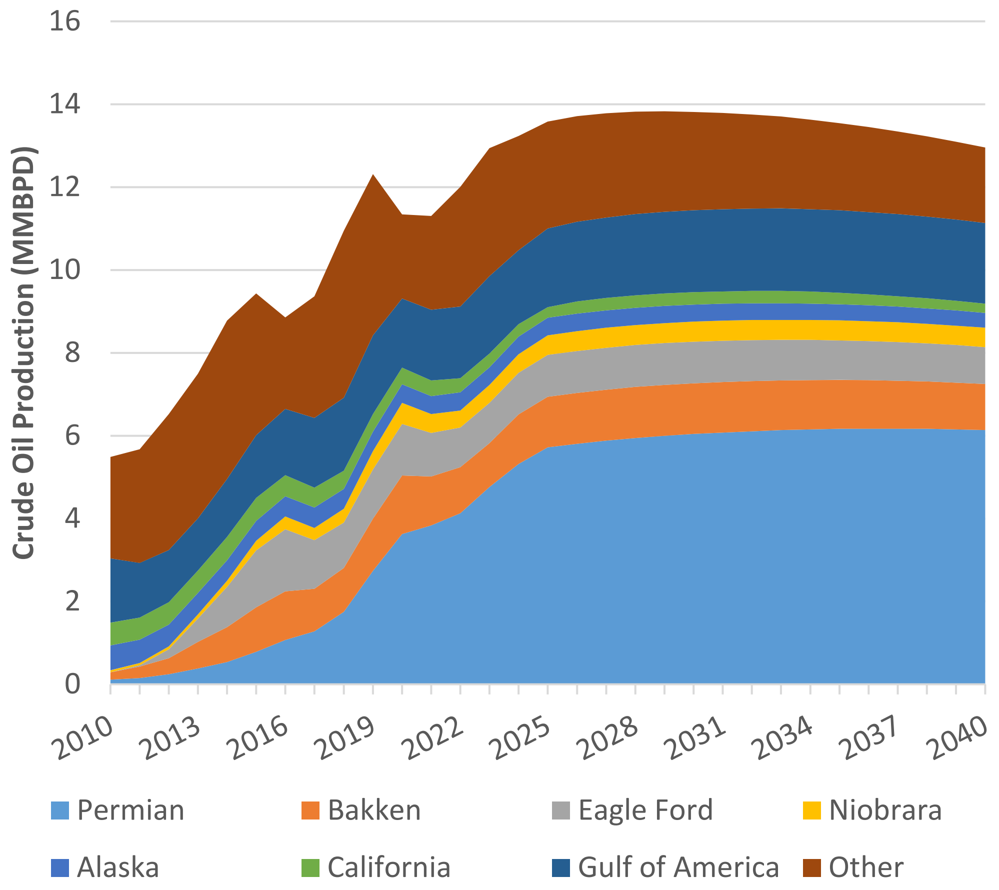
U.S. Shale Remains Critical, but Growth Moderates



- Permian remains the primary driver of U.S. supply growth
- Most non-Permian basins stabilize or gradually decline
- Tier-one acreage quality increasingly constrains long-term growth
- Capital discipline remains highly sensitive to crude price expectations
- U.S. production plateaus toward the end of the decade

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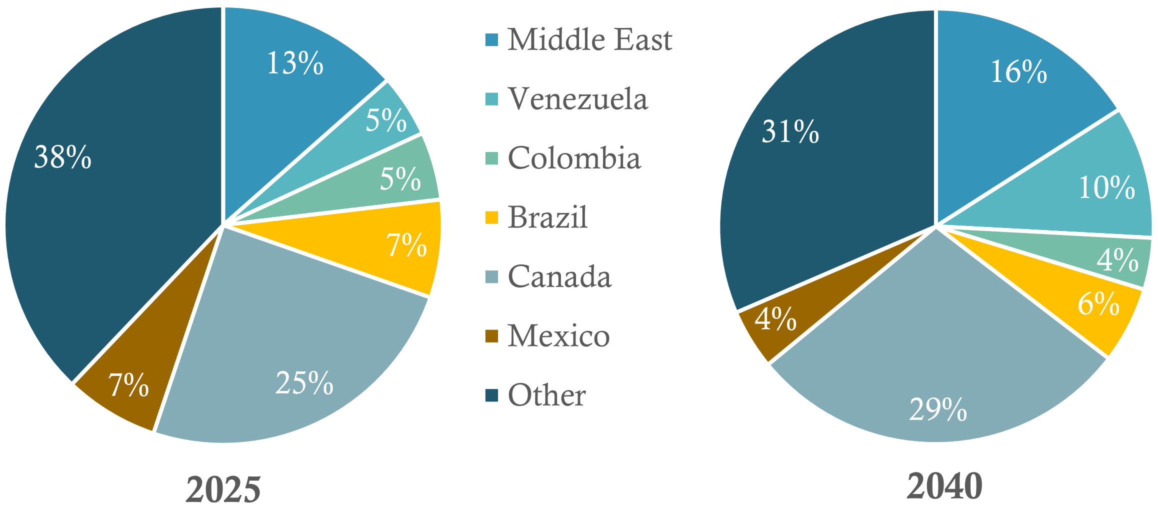
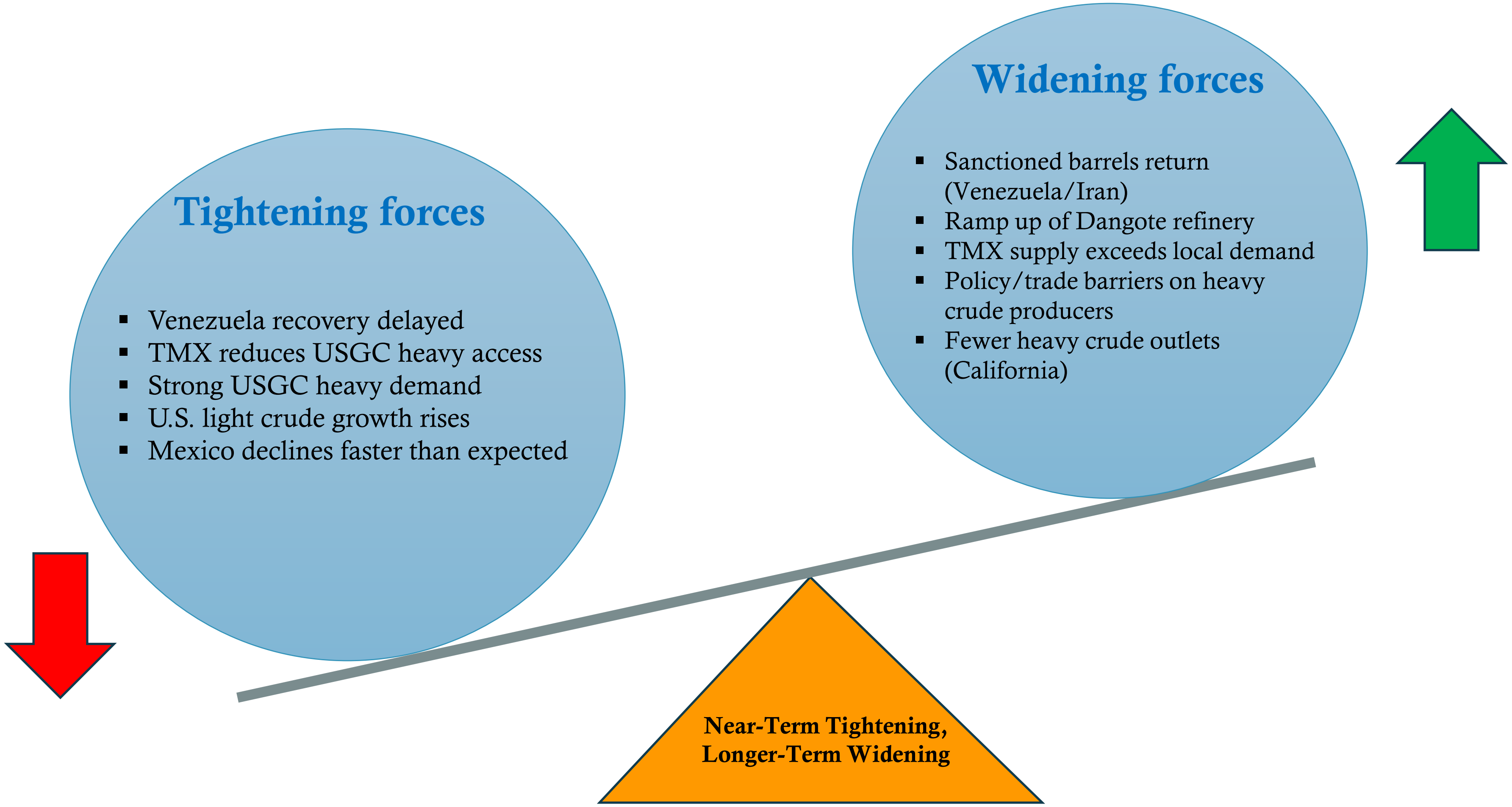
HEAVY CRUDE BECOMES INCREASINGLY STRATEGIC

Global Heavy Crude Production Share by Region



- Canada provides stable, long-term heavy supply growth
- Venezuela remains the key recovery wildcard
- Mexico declines while Middle East heavy supply expands
- Heavy crude flows increasingly align with complex refining capacity and regional refinery investments

Heavy Crude Balance: TMX vs Venezuela



Flexibility Becomes the Defining Advantage

- The transition reshapes demand - it does not eliminate it
- Multiple pathways are required to meet future energy demand
- Demand evolves - gasoline plateaus, distillates grow
- Supply growth shifts, but remains concentrated in key regions
- Refining margins remain supported by structural tightness
- Refining value increasingly shifts toward configuration and optimization

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QUESTIONS?

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Who We Are

Turner, Mason & Company provides technical, commercial and strategic consulting services to clients globally in the crude oil, midstream, refining, refined products, and biofuels industries.

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