SISR Strategic International Securities Research Inc.
A Registered Investment Advisor

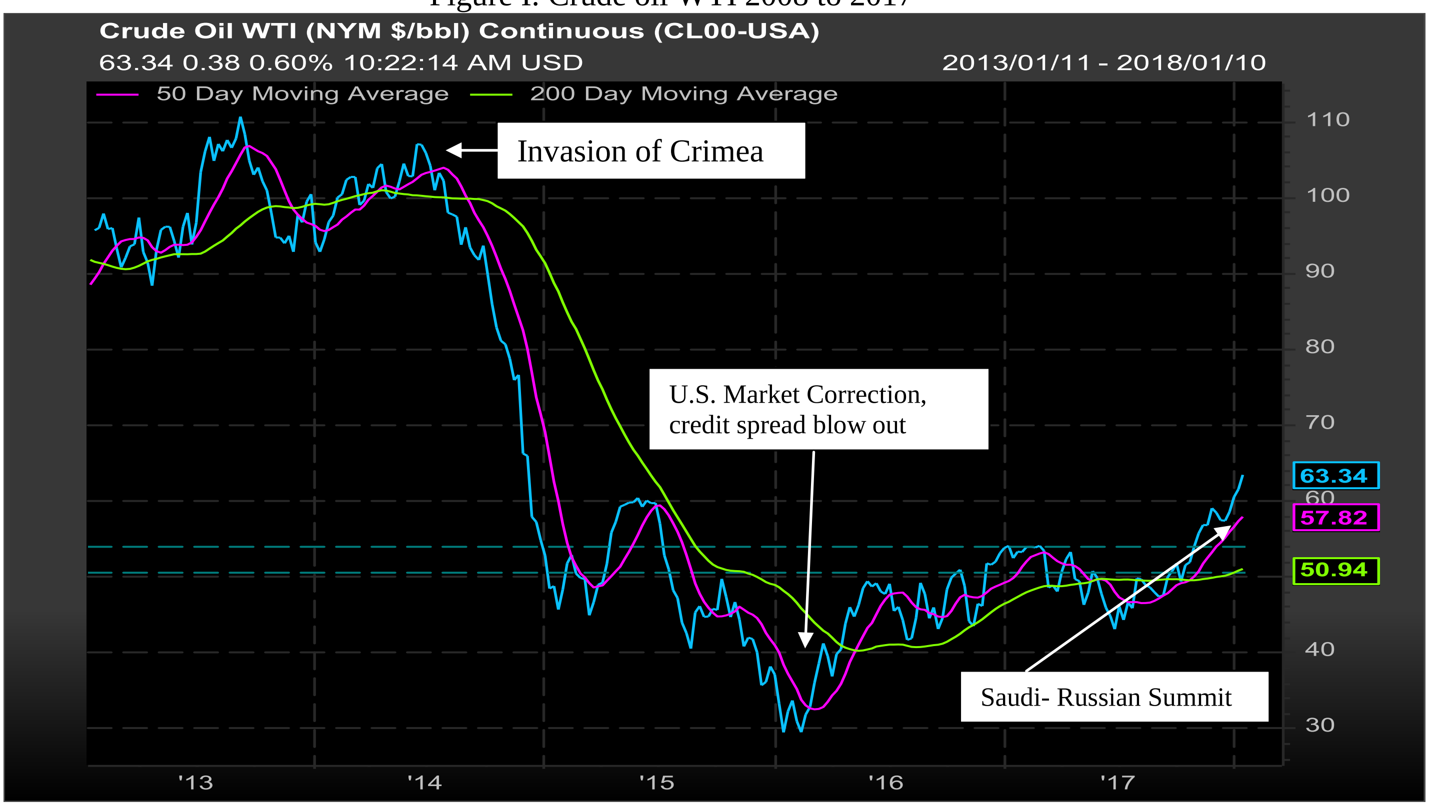
The Strategic Energy Report

Philip L. Miller – 212-785-8912
President & Chief Strategist
pmiller@sisresearch.com
www.sisresearch.com

January 10, 2018

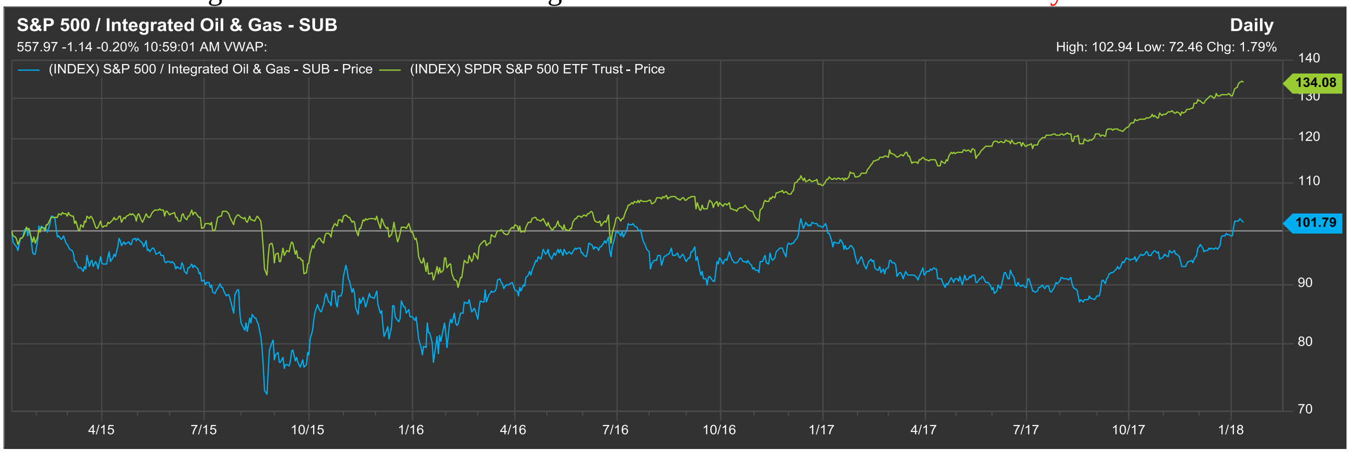
With WTI Crude Oil up more than 120% since their lows and having lagged most of last year we believe energy be a leading sector in 2018 - We continue to Expect that WTI to be at $80 by Midyear 2018 - The Conditions have been put in Place between Russia & Saudi Arabia for oil to rise

Figure I: Crude oil WTI 2008 to 2017



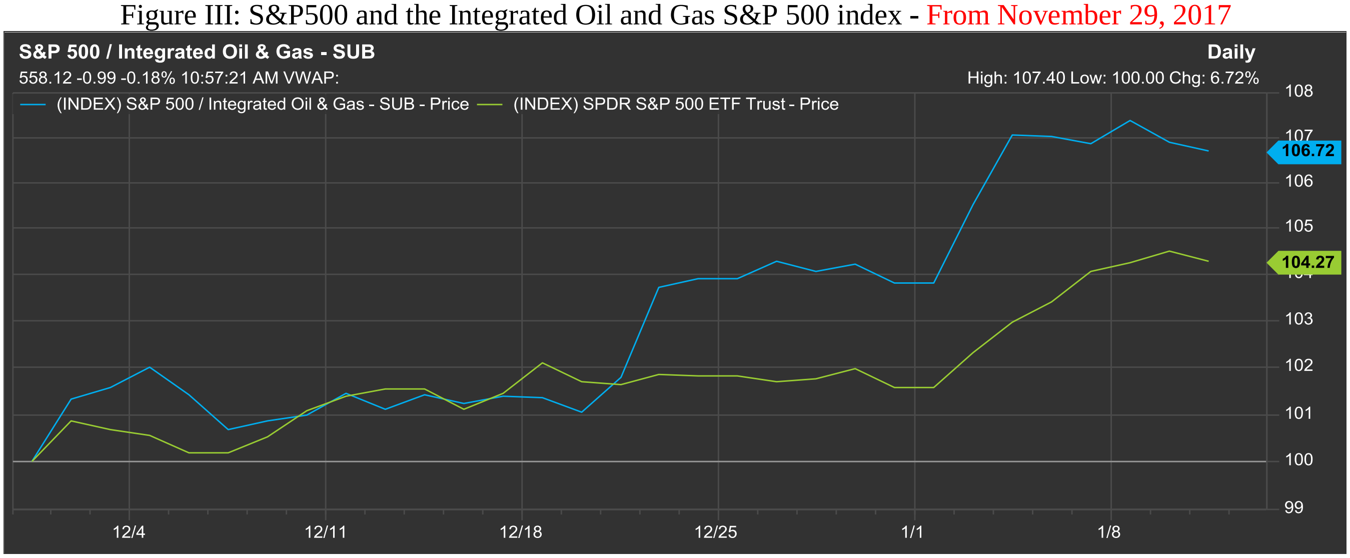
Source: Factset, SISR

Figure II: S&P500 and the Integrated Oil and Gas S&P 500 Index -Three year chart



Source: Factset, SISR

Figure III: S&P500 and the Integrated Oil and Gas S&P 500 index - From November 29, 2017



Source: Factset, SISR

Introduction:

From late 2015 through November 2017 the price of crude oil was up more than 100% (Figure I). While the price of the various S&P Energy sector components had lagged the market. (Figure II). In late November we argued that the conditions were in place for oil to take on a leadership role in the markets. Since that report the integrated oil & gas sector has been a market leader (Figure III) up 6.69% while the S&P has been up 4.20%.

On Nov 29, 2017 we wrote:

> *Earlier this month we continued with our external event analysis that major external event always coincide with inflection points in the price of oil, and that as a consequence of the recent cooperation between Saudi Arabia and Russia once again is likely the kind of event to create an inflection point that will push the price of WTI up to $80 and possibly above.*

We believe that the external event break that will allow the price of oil to rise to $80 occurred last month at the Russian Summit for the Saudi King. The monthly IEA report stated that:

> *"Over the last few months, questions lingered about whether producers were seriously committed to their agreement to cut output and balance the market ("All in it together?" OMR August 2017). While there may still be doubts about some of them, the market heavyweights have once again walked into the ring. A few weeks ahead of the next OPEC meeting, Saudi Arabia and Russia have strengthened their relationship with a high level summit, and a series of investment agreements accompanied by statements suggesting that the current oil output cuts might be tightened. Of course, we must wait and see what happens. But there is little doubt that leading producers have re-committed to do whatever it takes to underpin the market and to support the long process of re-balancing." (IEA, Market report Oct, 2017 p. 3)."*

This agreement was months in the making but most likely was fueled after President Trump's visit to Saudi Arabia, where he was ***unwilling to agree to slowing the expansion of drilling in the U.S****. which has been a major concern to Saudi Arabia. The Saudi's felt that as they were cutting production to help the U.S. politically with Syria and Russia, but, the U.S. was hurting them by taking market share away from Saudi Arabia with the U.S. aggressive expansion of U.S. drilling, and even passed a laws to enable the export of oil. This was a deal breaker for the Saudi's, and with Tillerson's help they were able to work with Russia to push up the price of oil leaving the U.S. with less influence over the price of oil.*

Recent External Event History of the price of oil

1. The invasion of Crimea (Feb 2014) when oil was at $107 per barrel (Figure I).
2. The crash in the price of WTI all the way down to $27/b in late 2015 (Figure I).
3. The destruction of the Russian economy (Figure II)
4. The contagion to Europe, Germany was hurting from the Sanctions on Russia (Figure III)
5. The U.S. correction cause by the U.S. credit spread blow out, first only within the energy sector, then to the broader economy in late 2015 (Figure IV).
6. October 2017 the Russian- Saudi summit - Oil breaks out above $55/B (Figure I). Today at $57.00

Figure IV: Russian RTS Stock Index 2008 to 2017

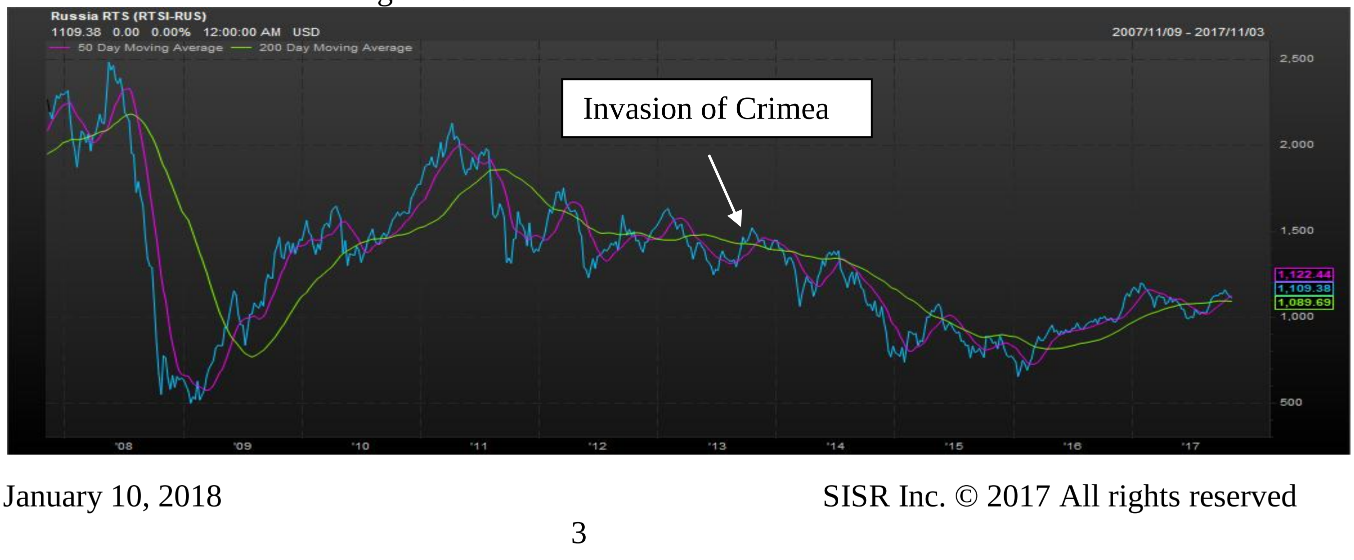
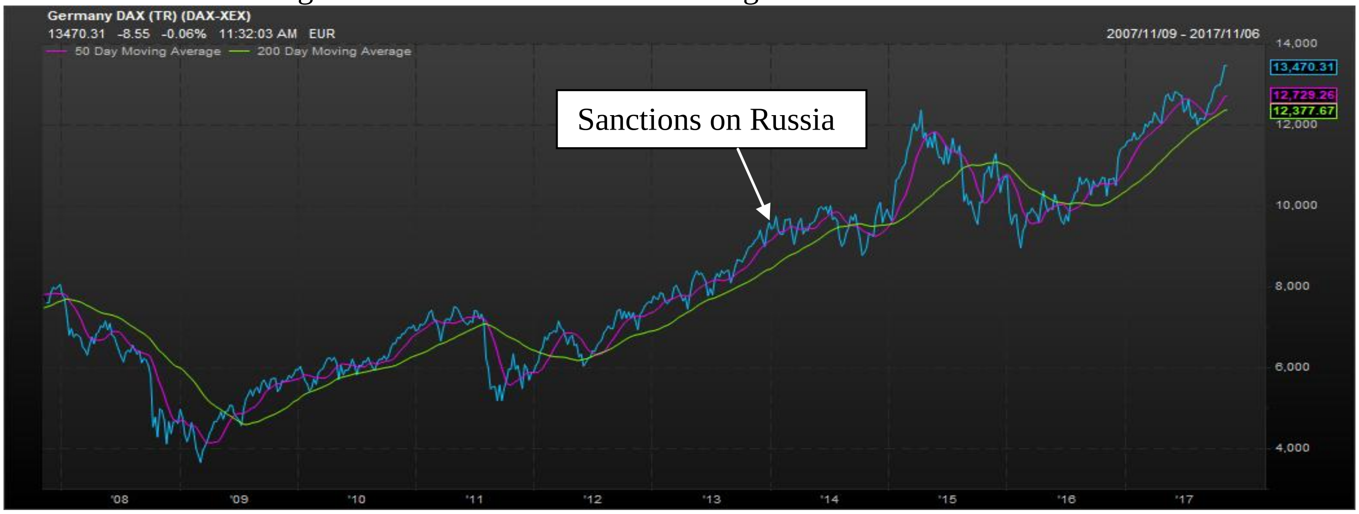


Figure V: Dax in correction following the Sanctions on Russia



Source: Factset, SISR

Figure VII: S&P 500 2008 to 2017 showing the late 2015 correction corresponding to oil hitting $27/B

Source: Factset, SISR

With this external event analysis we then asked:

Assuming that we are correct with respect to the price of oil reaching $80, in the intermediate term, (1) how can investors benefit from this expected move, and (2) will the energy sector begin to outperform the S&P 500.

Investing in the Energy Sector based on the Price of WTI

To answer the first question we created a simple correlation matrix of the major oil companies in the S&P 1500 from the 5 energy subsectors and the major oil ETF's against WTI.

Figure V: Top Companies & ETF's that correlate with WTI from Jan 2017

Top Companies & ETF's that correlate with WTI	
From Jan 2017	WTI
WTI	1
DBO	0.974776
USO	0.944875
OXY	0.901815
Integrated oil Index	0.815582
CVX	0.811992
MRO	0.783378
HES	0.757596

What we found is that the ETF's: DBO & USO had the highest correlation to the change in the price of WTI. Second were the major intergraded oil companies OXY, and CVX. Finally, the other top companies that correlated highly with the price of oil were two of the major Oil & Gas exploration & production companies MRO, and HES.

On January 2, of this month we added the following recommended names:

Energy Companies:

a. Murphy Oil Corporation (MUR) - 31.05
b. Apache Corporation (APA - 42.22
c. Chevron Corporation (CVX) -125.19
d. Holly Frontier Corporation (HFC) -51.22

Summary and Conclusions

We began by pointing out some obvious facts regarding WTI and the equity markets:

1. The price of WTI since its lows in late 2015 have appreciated by more than 120% but until Nov of last year the energy companies had lagged the markets.
2. Since our report in late November the energy sector has been a leading sector.
3. We continue to believe that WTI will go to $80 by midyear based on our external events expectations approach.
4. In this respect to continued to recommend the energy sector and believe it will be a leading sector in 2018.

Certification:

I, Philip L. Miller (or any research analysts at SISR Inc.) certify/certifies that the views expressed in this report accurately reflect my personal views about the subject companies and securities. In addition no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Recommendation Scale:

Stock Rating:
1 – Recommended List – The stock has our highest recommendation and is expected to outperform the average equal weighted expected total return of the overall Market irrespective of sector. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.
2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.
3 – Neutral – The stock is expected to perform in line with the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.
4 – Underweight – The stock is expected to under-perform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.
5 – Rating Suspended – The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when SISR Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector Ratings:
1 - Recommended Sector – The sector has the highest recommendation with continued improving valuations and rapid growth.
2 – Positive – The sector fundamentals and valuations are improving with a positive second derivative.
3 – Neutral – The sector fundamentals and valuations are flat with the second derivative close to zero or with a neutral slope.
4. Negative – The sector fundamentals and valuations are negative with a negative second derivative.
5 – Rating Suspended – The rating and sector targets have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when SISR Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

Additional Disclosures:

This report is for information purposes only and should not be construed as a solicitation or an offer to buy the securities or other instruments mentioned in the report. This report may not be reproduced in any manner, without the written permission of SISR Inc.

This research report is based on current public information, with the possible exception of disclosures relating to SISR Inc., that SISR Inc. deems to be reliable and as accurate as reasonably possible. SISR Inc., however, makes no claim to the accuracy and completeness of this reports, and this report should not be relied on as such, or as a statement of factual content.

This research report is prepared for general information purposes only. In addition this information does not consider the specific investment objectives, financial situation and particular needs of any individual, or institution. Investors and/or institution should seek financial advice and or internal due diligence for institutional investors, as to the appropriateness of investing in any securities or investment strategies mentioned or recommended.

Analyst as Officer or Director: No analyst will serve as an Officer or Director. SISR Inc. prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage.

Ownership and Material Conflicts of Interests: SISR Inc. permits ownership of the recommended securities subject to all the NASD rules regarding the ownership of securities by analysts. Since our analysis is economic in origin and subsector driven we expect all analysts to cover the universe of all stocks and as a consequence limiting the analyst or the firm to ownership of the underlying securities would in essence require these entities to reframe from investing in the equity market.

Analyst Compensation: Analysts are paid in part based on the profitability of SISR Inc., some of which may include investment banking and consulting revenues.

Disclosures are required in the United States for any of the following:

1. acting as a financial advisor,
2. manager or co-,manager in a pending transaction
3. 1% or other ownership, long or short
4. compensation for certain services
5. types of client relationships
6. managed/co managed public offerings in prior periods
7. directorships
8. market making and/or specialist role.

These disclosures are included in the company-specific disclosures above for any of the above disclosures that are required.

