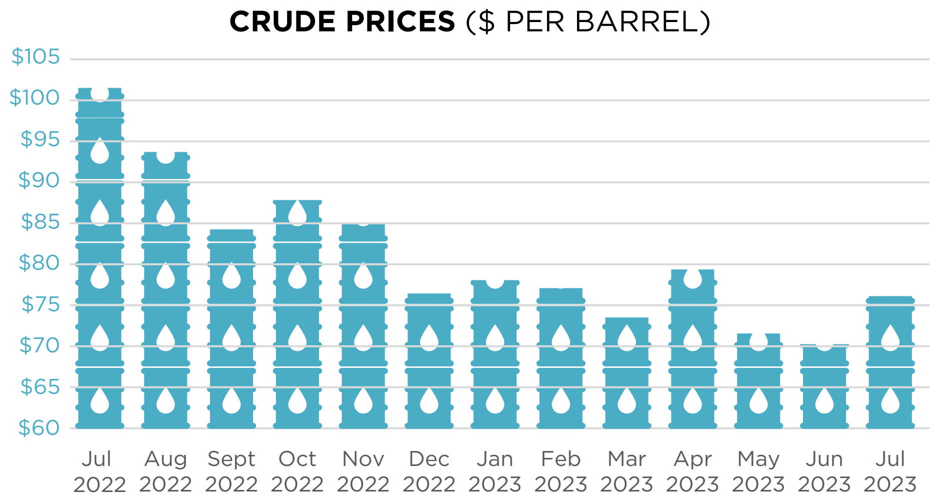
DUELING OUTLOOKS

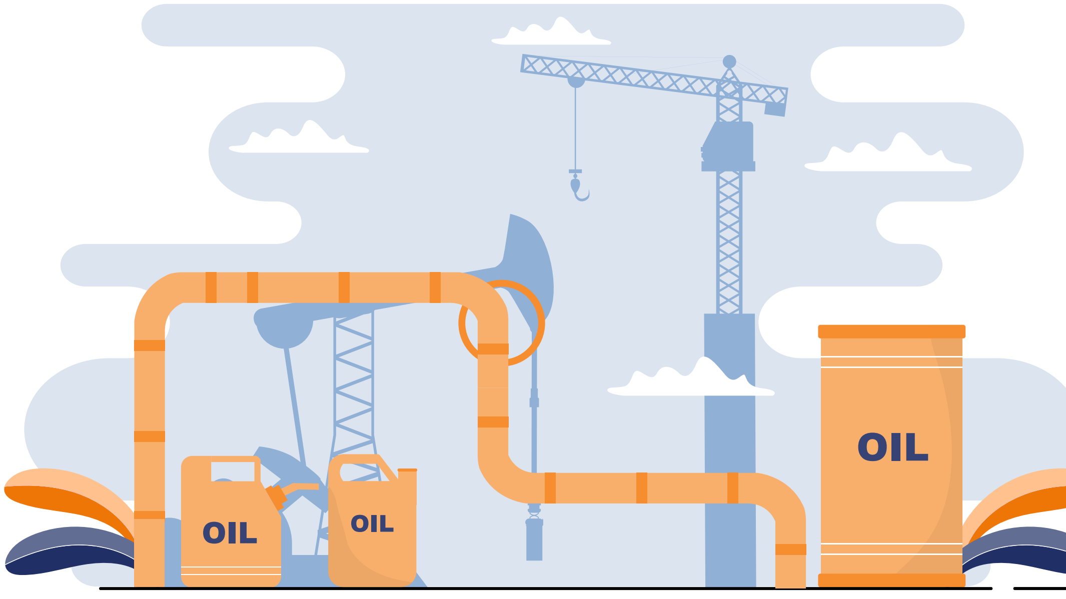
AUGUST 2023

U.S. oil prices have increased slightly in recent weeks, with dueling economic outlooks keeping the commodity from swinging too far in either direction. Prices rallied on news that the U.S. economy grew in the second quarter of 2023 and plans by the Organization of the Petroleum Exporting Countries and its allies ("OPEC+") to reduce oil production. However, recent credit downgrades of the U.S. government and some U.S. banks have sparked recession concerns.

AVERAGE MONTHLY WEST TEXAS INTERMEDIATE CRUDE PRICES ($ PER BARREL)



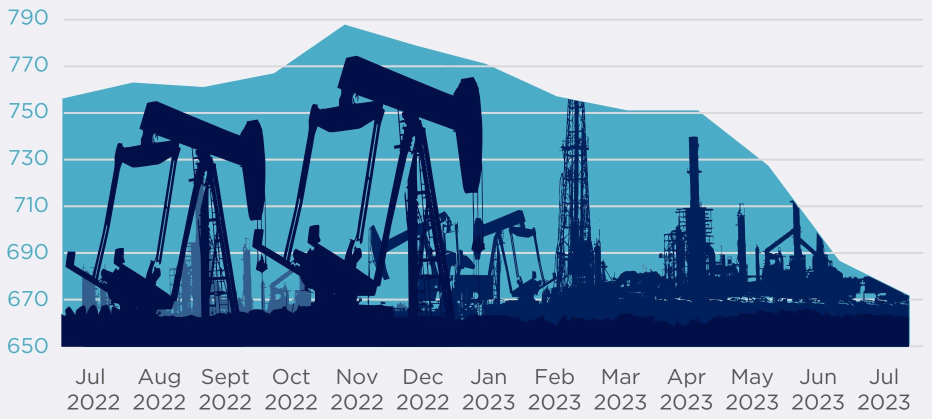
Source: U.S. Energy Information Administration ("EIA")



DOING MORE WITH LESS

The number of U.S. drilling rigs continuously increased as the economy reopened and pent-up energy demand surged following the peak of the COVID-19 pandemic. However, drilling rigs have declined in 2023 as operators tap into their existing pools of drilled but uncompleted wells ("DUCs") and the economy shows signs of uncertainty. Despite the declining rig count, the U.S. is on pace to produce a record level of oil as operators continue to focus on efficiency.

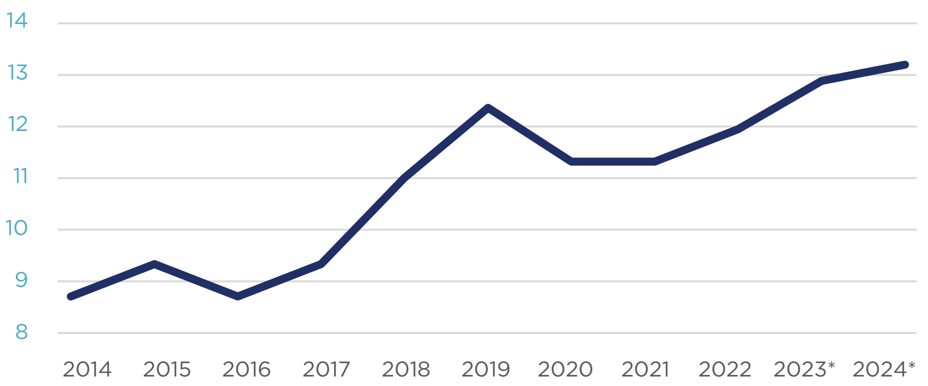
AVERAGE MONTHLY U.S. DRILLING RIG COUNT (ACTUAL UNITS)*



** Figures include both oil and natural gas rigs*

Source: Baker Hughes

U.S. CRUDE OIL FIELD PRODUCTION (MILLION BARRELS PER DAY)



** Estimated*

Source: EIA

PRODUCTION BOOM

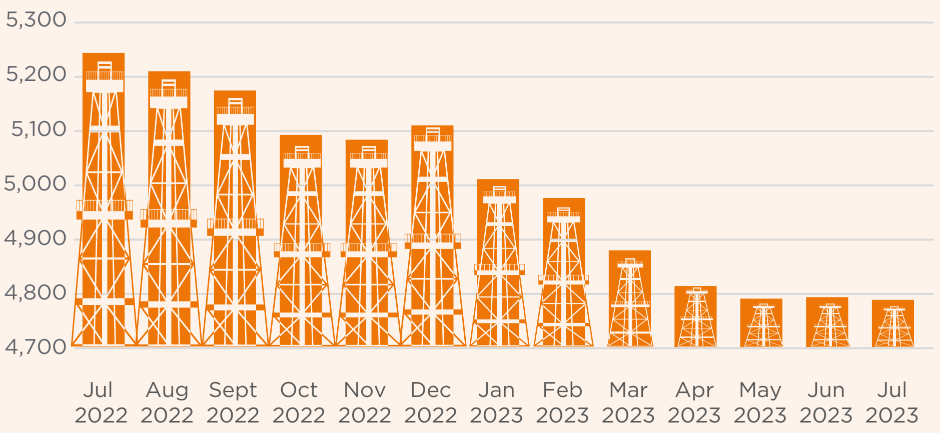
The U.S. continues to be the world's top producer of oil and is on pace to easily beat the country's previous oil production record of 12.3 million barrels per day set in 2019. The U.S. is slated to produce 12.8 million barrels of oil per day, which is expected to be followed by another production record of 13.1 million barrels per day in 2024. U.S. producers are serving as a counter to OPEC+, which has pledged to cut production throughout 2023 in an effort to shore up prices.

DUCs DECLINE

DUCs represent oil and natural gas wells that have been drilled but have not yet undergone casing, cementing, and other procedures that are necessary to create a fully functional well. DUCs enable producers to bring production online quickly in response to rising energy prices.

The number of DUCs in the U.S. has largely fallen throughout 2023. This trend started in 2020, when the number of DUCs declined precipitously, as producers slowed drilling activity due to pandemic-related shutdowns and relied on DUCs to bring production online at a lower cost. However, the recent decline has not been as steep as the previous drop.

DUCs (ACTUAL UNITS)

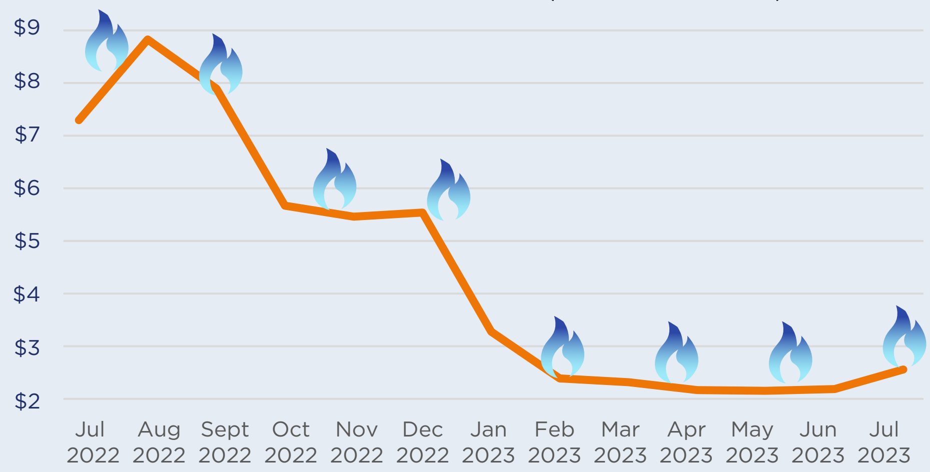


Source: EIA

NATURAL GAS PRICES DEFLATE

The price of natural gas at the benchmark Henry Hub in Louisiana averaged $2.50 per million British thermal units ("MMBtu") every month since February 2023, well below the average of $6.42 per MMBtu in 2022. The decline is a result of an increase in dry natural gas production, lower-than-average consumption as a result of mild winter weather in much of the U.S., and high storage levels. In addition, prices in the 2022 comparative period were particularly high, partly due to overseas demand brought on by the war in Ukraine. The EIA expects natural gas prices to rise in the coming months as the existing natural gas surplus declines.

AVERAGE MONTHLY HENRY HUB NATURAL GAS PRICES ($ PER MMBTU)

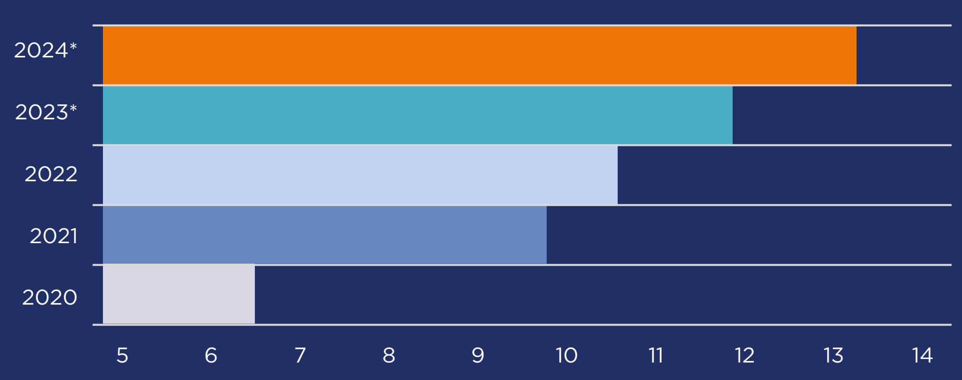


Source: EIA

EUROPE GETS A LIFT FROM U.S. NATURAL GAS

U.S. natural gas prices spiked in 2022, spurred partly by the war between Russia and Ukraine, which resulted in the U.S. diverting natural gas to Europe to make up for the continent's loss of Russian natural gas. The U.S. rushed in to the fill the void and, in the process, became the world's top supplier of liquified natural gas ("LNG"). The EIA foresees continued LNG activity for the U.S., particularly as the country's LNG export capacity expands and the war in Ukraine continues.

LNG EXPORTS (BILLION CUBIC FEET PER DAY)



** Estimated*

Source: EIA

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