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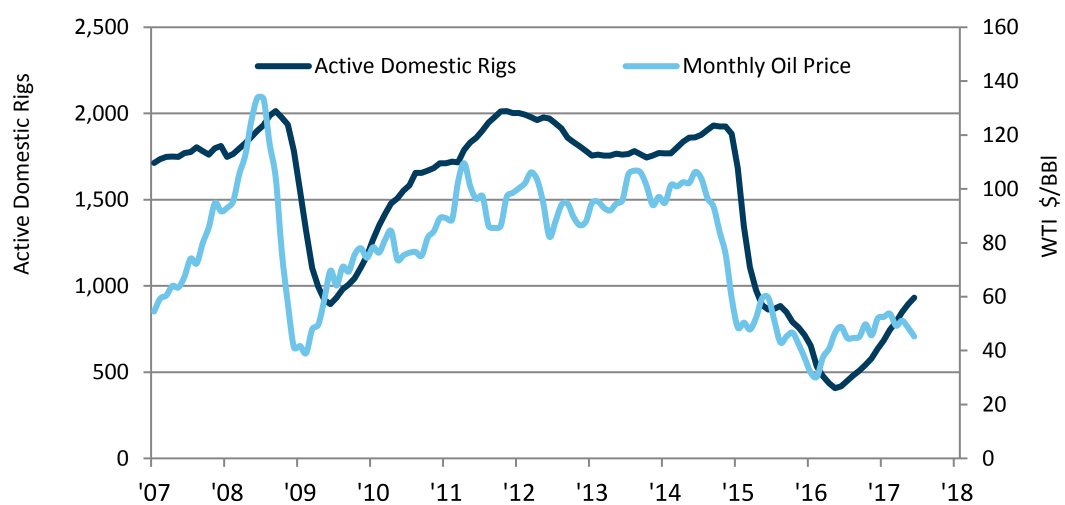
Oil Patch Update — June 20 marked the third anniversary of the collapse in oil prices. Though the worst is over, stability remains elusive. Over the past six months, West Texas Intermediate has traded as high as $54.48 and as low as $42.38 per barrel. Oil briefly entered a bear market, defined as a drop of 20 percent or more in the price of crude. WTI closed at $47.03 per barrel the Monday before the July 4 holiday.

In a June story headlined "Big Banks Wave Goodbye to Hopes for Year-End Oil Price Surge," *Bloomberg* reported that Bank of America, Citi and Goldman Sachs no longer expect crude to reach $60 per barrel by year's end. They now expect crude to hover around $50 in December, according to the report. Last June, the U.S. Energy Information Administration forecasted WTI to average $57.94 in Q4/17. In January, EIA revised its forecast downward to $53 per barrel. This June, EIA revised again to $50 per barrel.

U.S. RIG COUNT AND OIL PRICES
Monthly Average



Source: Baker Hughes, Inc.; U.S. Energy Information Administration

Reuters reports that many U.S. firms scaled back their hedging programs in Q1/17, leaving them vulnerable to tumbling spot market prices. A hedge secures a minimum price for crude at a future date and helps safeguard future production. Many firms expected prices to continue rising after

OPEC and non-OPEC producers agreed in November to cut production by 1.8 million barrels per day. The futures market suggests crude will trade near $47 a barrel in March '18 (when the latest round of cuts expires). That's $4.50 below where crude traded in Q1/17.

EIA estimates that U.S. production averaged 9.3 million b/d in the four weeks ending June 23, up 700,000 barrels from the same period last year and 840,000 barrels from the October '16 trough. U.S. production has offset about 45 percent of the OPEC and non-OPEC cuts. Libya and Nigeria were excluded from the OPEC agreement to slash production last year by 1.2 million b/d. Non-OPEC countries agreed to cut another 600,000 barrels. The combined output of Libya and Nigeria is now about 380,000 b/d above the October level. Their output has offset about 21 percent of the production cuts.

The International Energy Agency forecasts global oil demand to expand by 1.4 million b/d in '18. Demand will set a record, averaging 99.3 million b/d. Growth in non-OPEC production will average 1.5 million b/d, causing excess inventories to persist into next year.

Oil field activity increased in Q2/17, albeit at a slower pace than in Q1/17, according to the Federal Reserve Bank of Dallas' quarterly energy survey. More than 46 percent of respondents reported increased uncertainty about the future, compared to 33.8 percent in the Q1/17 survey.

The North American rig count stood at 940 the last week of June, up from 421 the same week in June '16. The industry has added 282 rigs since January 1. Through June this year, 19,917 U.S. drilling permits have been issued, up 67 percent from 11,939 during the same period last year.

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