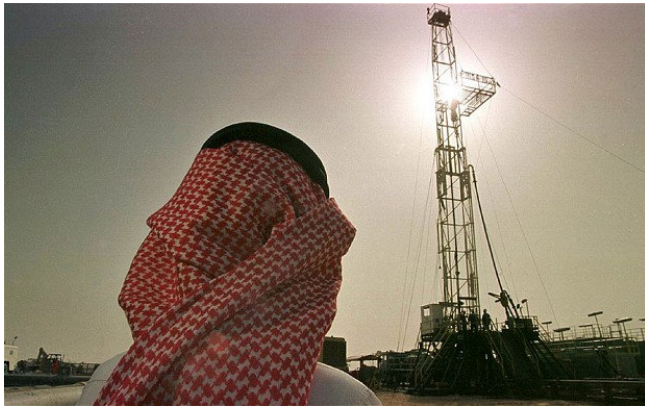


September 1, 2016

ValueScope's Oil & Gas Price Outlook September 2016: *End of August Supply Concerns*

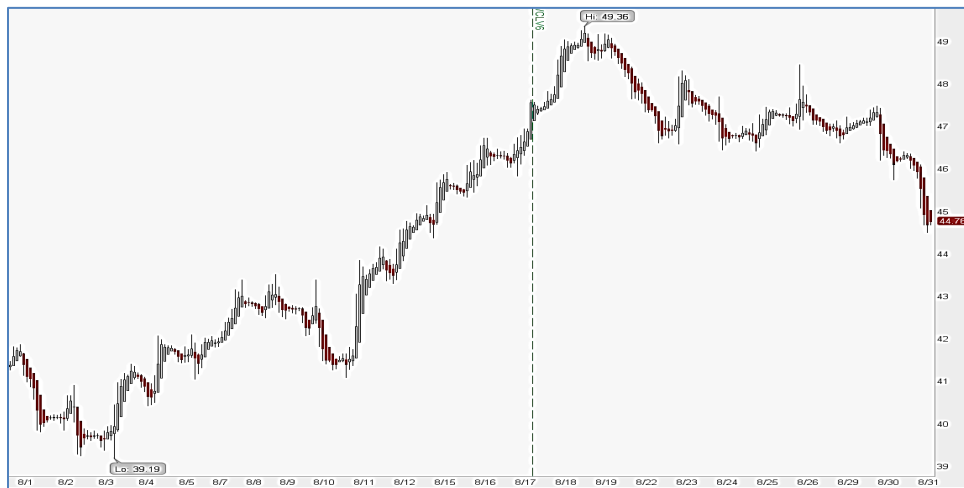
WTI oil prices fell over 3.5% on Wednesday, paring their 20%+ gains in August, based on new supply information from Saudi Arabia and the EIA. Oil prices' recent gains had been driven by speculation that OPEC and other producers would agree to curb their output, causing prices to reach a high of over \$49 per barrel.



However, on August 31st, the Saudi Arabian energy minister Khalid al-Falih said that the top crude exporter does not have a specific target figure for its oil production and that its output depends on the needs of its customers.

Also, on the same day the EIA announced that crude stockpiles rose for a second straight week, building by 2.3 million barrels last week, compared with analysts' expectations for a rise of only 0.9 million barrels. At 525.9 million barrels, U.S. crude oil inventories are at historically high levels for this time of year.¹

August Daily Crude Futures Pricing (\CL)



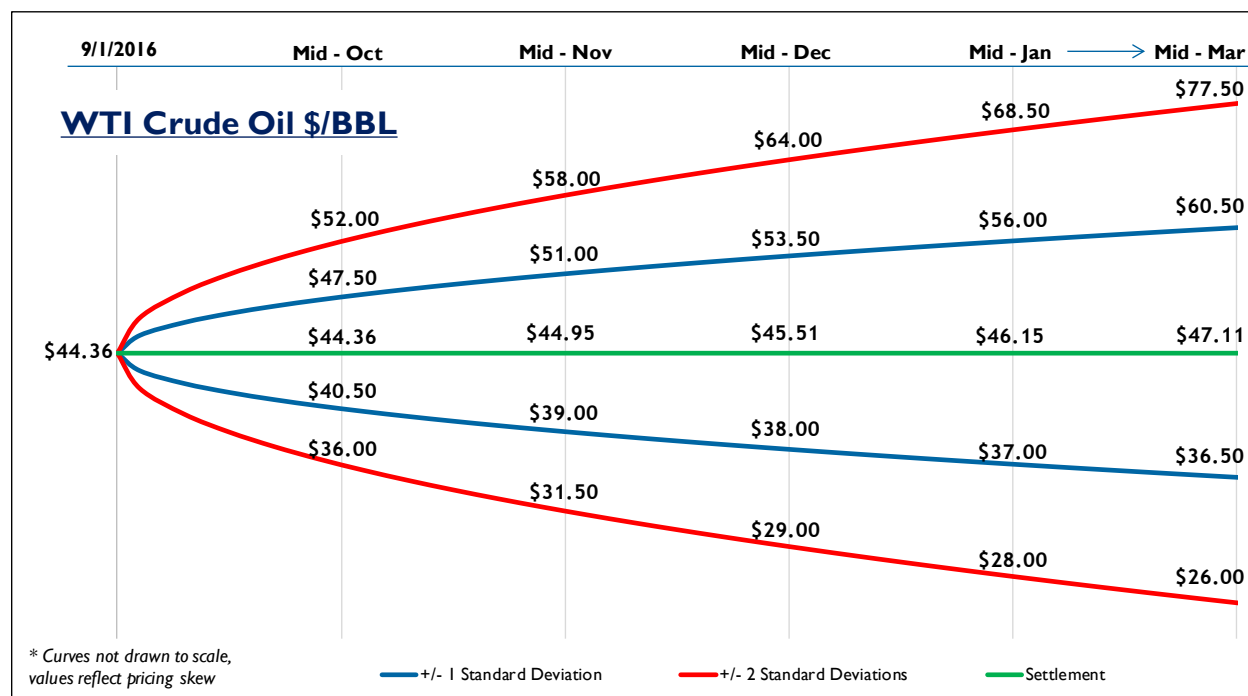
These two announcements contributed to both spot and future's prices for oil decreasing over \$1.50 per barrel on the last day of the month. As of this blog's posting, oil prices were down another dollar on the first.

¹ US EIA Weekly Report, CNBC 8/30/16

Crude Oil Outlook

While futures markets aren't a crystal ball, their price levels and related options are useful for estimating future ranges or "confidence intervals" for crude oil and natural gas prices.

The graphic below shows the crude oil price on September 1, 2016 and predicted crude oil prices based on options on oil futures contracts (ticker /CL). The blue lines are within one standard deviation (σ) of the settlement price (green line) and the red lines are within two standard deviations for each month (for a refresher on standard deviations, see the January 2016 blog).



Based on the September 1, 2016 prices, the markets indicate that in mid-December, there is about a 68% chance that oil prices will be between \$38.00 and \$53.50 per barrel. Likewise, there is about a 95% chance that prices will be between \$29.00 and \$64.00. For a longer-term view, by mid-March 2017, the +/- 1 σ price range is \$36.50 to \$60.50 per barrel.

Natural Gas Outlook

We can do the same thing for natural gas futures, currently trading at about \$2.87 per MMBTU on the Henry Hub (ticker /NG). Although more affected by seasonal factors than crude oil, in December 2016, the +/- 1 σ price range is \$2.65 to \$3.85 per MMBTU and the 2 σ range is \$2.15 to \$5.05 per MMBTU. The expected midpoint of natural gas prices is \$3.17 for the end of 2016.

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