Eagle News

Eagle Equity Holdings, LLC

Q2 – 2017

Energy Fund II

Looking Back

OPEC and non-OPEC members agreed to extend production cuts for nine months in May but fell short of market expectations for deeper cuts, driving WTI oil prices back down to the $42 level.

The US EIA weekly reporting of oil inventories and production continues to be a key market driver, as US reports are still the most reliable and trusted indicators available.

US oil production has gradually increased to the 9.3+ mmbpd level. This is nearly a million barrels more than the 8.4 mmbpd near term low in Aug 2016. While this production level continues to trend higher, the rate of increase has already begun to show signs of slowing down.

The weekly US rig counts reported by Baker Hughes are another key indicator. Oil rig counts have risen from a low of 316 in May 2016, to 756 by the end of June 2017. While this is more than double the low, it is only about half of the all time high of 1609 set in Oct, 2014.

Natural gas ended the month at around $3 per mmbtu and continues to range trade between $2.70 to $3.50 based on weather, rig counts and weekly inventory injections.

Eagle Focus

Looking Back:

- Extension of OPEC cuts failed to turn oil prices around
- Natural gas range traded around the $3 mark
- The Energy sector is the worst performing sector of the S&P year to date

Looking Forward:

- We believe oil prices have bottomed.
- A Strong US economy and seasonal demand should support oil price recovery in the coming months, providing opportunity in commodities and related equities
- Natural gas will shift from a weather driven market back to a fundamentals (supply and demand) driven market

Investment Opportunities:

- The market continue to overreacted to bearish headlines and is currently in an oversold condition
- Healthy global oil consumption and OPECS continued efforts should provide support to the energy market in 2nd half of 2017
- The market is currently struggling between positive fundamentals and negative sentiment, as fundamentals improve, sentiment should change.

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Looking Forward

Oil prices are in a tug-of-war between improving fundamentals and a weak market sentiment. The only way for the market to turn weak sentiment around will be consecutive weekly draw downs in US inventories. The combination of a strong summer driving demand and reduced Saudi oil exports to the US coupled with a softening domestic shale oil environment should provide the catalyst to turn sentiments around.

Investment Opportunities

We believe the market has overreacted to short term headline news and succumbed to the short term volatility. Our research indicates that strong market fundamentals will support both energy commodities and equity investments.

We have focused our investment strategy to profit from recovering crude oil and related petroleum prices, and are positioned to benefit from the related impacts to underlying energy equities.

Dear Eagle—Q&A

Which groups are increasing production and which are decreasing production in 2017?

Starting Jan 1, 2017, OPEC as a whole agreed to cut production cut by 1.2 mbpd, Russia also agreed to cut an additional 0.3 mbpd.

Production levels from Iran and China stayed near the 2016 level of around 4 mbpd throughout 2017 year to date.

Nigeria and Libya were exempt from the production cuts, Nigeria has increased their production from 2 mbpd in 2016 to 2.5 mbpd, while Libya has increased production from 0.6 mbpd in 2016 to 1 mbpd.

US production has increased from 8.8 mbpd in 2016 to 9.4 mbpd currently.

If all OPEC and non-OPEC members manage to hold to their quota's, a net reduction of 0.3 mbpd should come off the market.

However, actual OPEC compliance levels debatable. If the compliance rate is only 80%, there will be net zero change in production from the 2016 to 2017.

It is difficult to determine the actual OPEC and non-OPEC production cut levels and just a few percentage points difference could move the market from surplus to deficit or vice versa.