



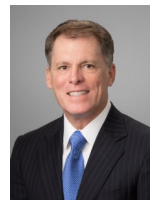
Weekly E&P Update

August 8, 2023

Vol. 31

Despite Weak Economy, China Stockpiles Discounted Crude

By Steve Hendrickson
President of Ralph E. Davis Associates



When the COVID pandemic started in early 2020, countries undertook different public health strategies that could be grouped broadly into "mitigation" and "elimination" strategies. Most Western countries, including the US, adopted a mitigation approach intended to reduce, but not eliminate, the number of cases to a manageable level by existing healthcare systems to buy time for vaccines and improved treatments to be developed and deployed. However, China adopted an "elimination" strategy intended to completely prevent the spread of the disease in areas it was detected until vaccines and effective treatments were widely available.

The Chinese approach required extensive lockdowns and limitations on travel that had a significant negative impact on their economy. Their government abandoned the policy in late 2022 when protests by their citizens threatened to get out of control. The continued slowdown in the Chinese economy was part of the reason oil prices remained soft as the pandemic ended in most countries, and the end of the policy was expected to create economic growth and a surge in oil consumption.

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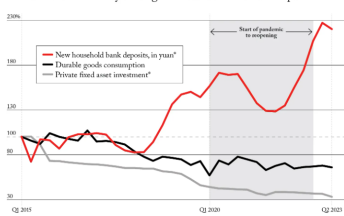
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DISTRESS SIGNALS

Indicators of insecurity among Chinese citizens and companies

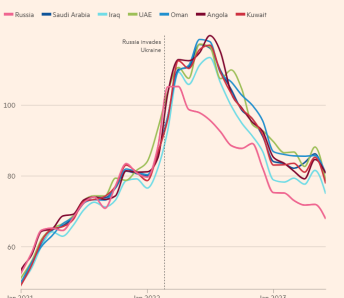


Note: Chart displays deposits, consumption, and investment as share of GDP, indexed with the first quarter of 2015 equalling 100 percent. *Indicates four-quarter moving average. Source: National Bureau of Statistics of China; People's Bank of China.

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(Source: Foreign Affairs)

Price of China's crude oil imports by source country (\$ per barrel)



Source: China's General Administration of Customs; FT calculations

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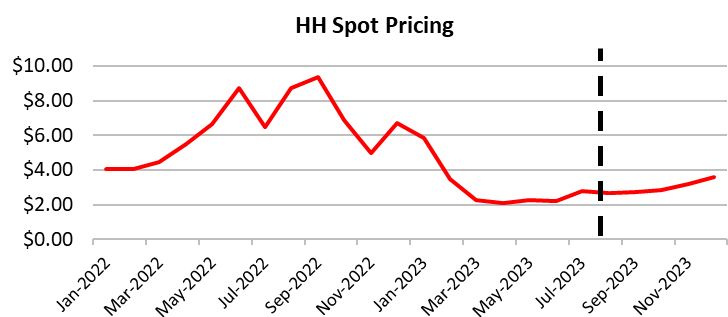
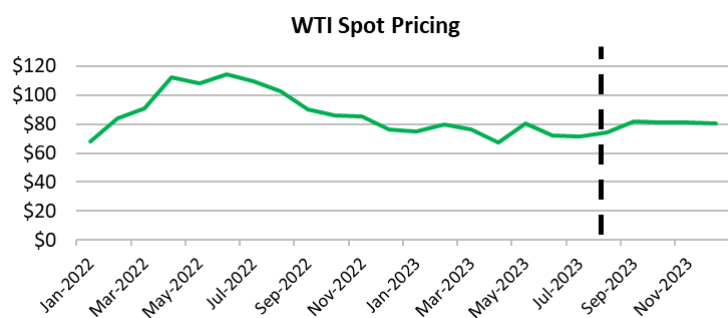
(Source: Financial Times)

So far, things aren't going quite as expected. In a [recent essay in Foreign Affairs](#), Adam Posen argues that the Chinese economy has not rebounded well, and other structural weaknesses have appeared. He states, "The seriousness of the problem is indicated by the decline of China's durable goods consumption and private-sector investment rates to a fraction of their earlier levels and by Chinese households' increasing preference for putting more of their savings in bank accounts." To make matters worse, he predicts that even if the Chinese government attempts to stimulate the economy, people will save the extra cash because they have lowered confidence in the government that created the problem through their autocratic and failed response to the pandemic.

However, [Chinese imports are at record levels](#) despite the slowness of their economy. The Chinese government is stockpiling crude to take advantage of the sanctions placed on Russian crude exports following their invasion of Ukraine. As Russia has lost access to most Western markets, China (and India) have jumped at the chance to buy Russian crude at discounted prices. Part of their rationale is to have plenty of crude on hand for an economic stimulus later this year. Of course, stockpiling can only be done for so long, and if the planned stimulus doesn't generate the hoped-for growth, we can expect Chinese demand to fall back to (or below) levels more in line with their actual consumption.



NYMEX FUTURE PRICING



MONDAY'S MARKET CLOSE

NYMEX WTI CRUDE OIL FUTURES as of August 07, 2023 Close (\$/bbl)

Period	Current	WoW Change	Last Week	1 Yr Ago
2023	\$81.25	\$0.17	\$81.08	\$81.76
2024	\$77.62	\$0.37	\$77.25	\$76.05
2025	\$72.86	\$0.47	\$72.39	\$72.08
2026	\$69.01	\$0.43	\$68.58	\$69.15
2027	\$65.82	\$0.36	\$65.46	\$66.96

NYMEX HH NATURAL GAS FUTURES as of August 07, 2023 Close (\$/MMBtu)

Period	Current	WoW Change	Last Week	1 Yr Ago
2023	\$3.08	\$0.06	\$3.02	\$5.60
2024	\$3.50	\$0.00	\$3.50	\$4.68
2025	\$3.97	(\$0.00)	\$3.97	\$4.51
2026	\$4.03	\$0.01	\$4.02	\$4.39
2027	\$3.97	\$0.01	\$3.96	\$4.34

INDUSTRY METRICS—QUICK SNAPSHOT

	Current	Last Week	WoW Change	%Change
Crude Oil Near-Month Price (\$/bbl)	\$82.53	\$81.73	\$0.80	1%
Natural Gas Near-Month Price (\$/MMBtu)	\$2.74	\$2.64	\$0.09	3%
Weekly Upstream-Deal Transaction Value (\$MM)	\$495.00	\$0.00	\$495.00	-
Weekly Number of Upstream-Deal Transactions	2	0	2	-
Current Total US Rig Count	659	664	(5)	(0.8%)
US Field Crude Oil Production (MMbbl/day)	12.2	12.2	0	-
US Field Dry Natural Gas Production (Bcf/day)	108.7	107.5	1.2	1%
Commercial Crude Oil Stocks-Excluding SPR (MMbbl)	440	457	(17)	(4%)
Natural Gas Stocks-Working Gas Underground Storage (Bcf)	3,001	2,987	14	0.5%
Total Drilled But Uncompleted Wells (DUC-Last Month)	4,804	4,804	0	-

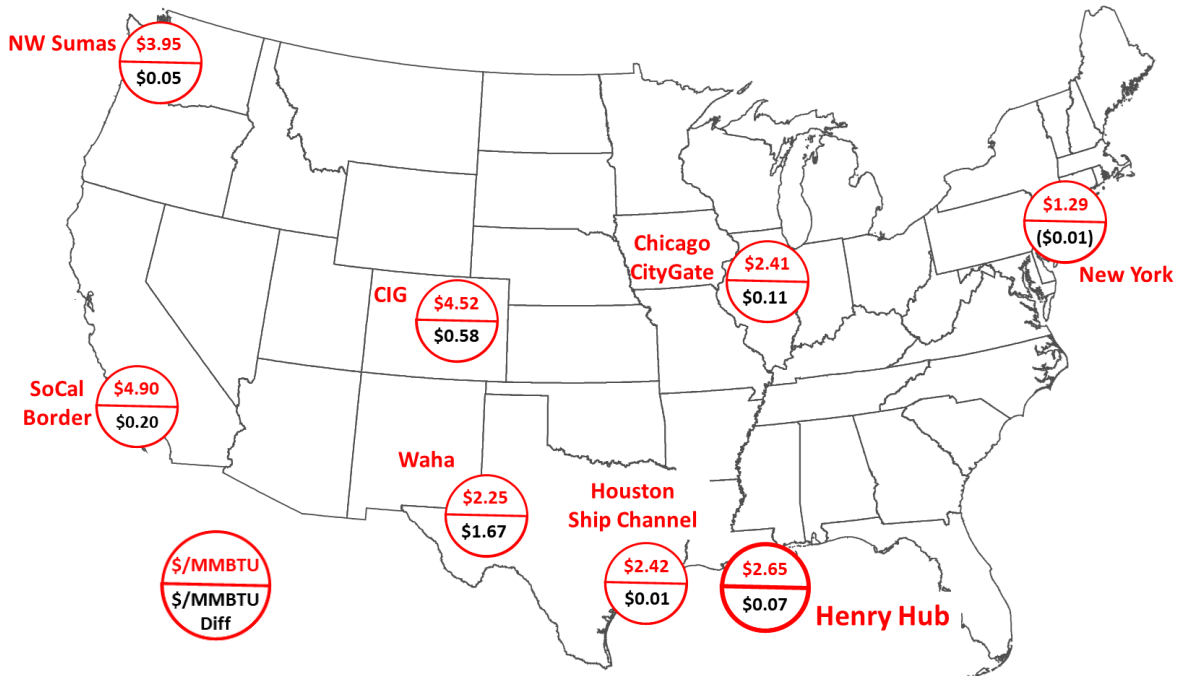
*Source—Energy Information Administration, United States (EIA)

*Source—Baker Hughes North America Rotary Rig Count & PLS M&A Database

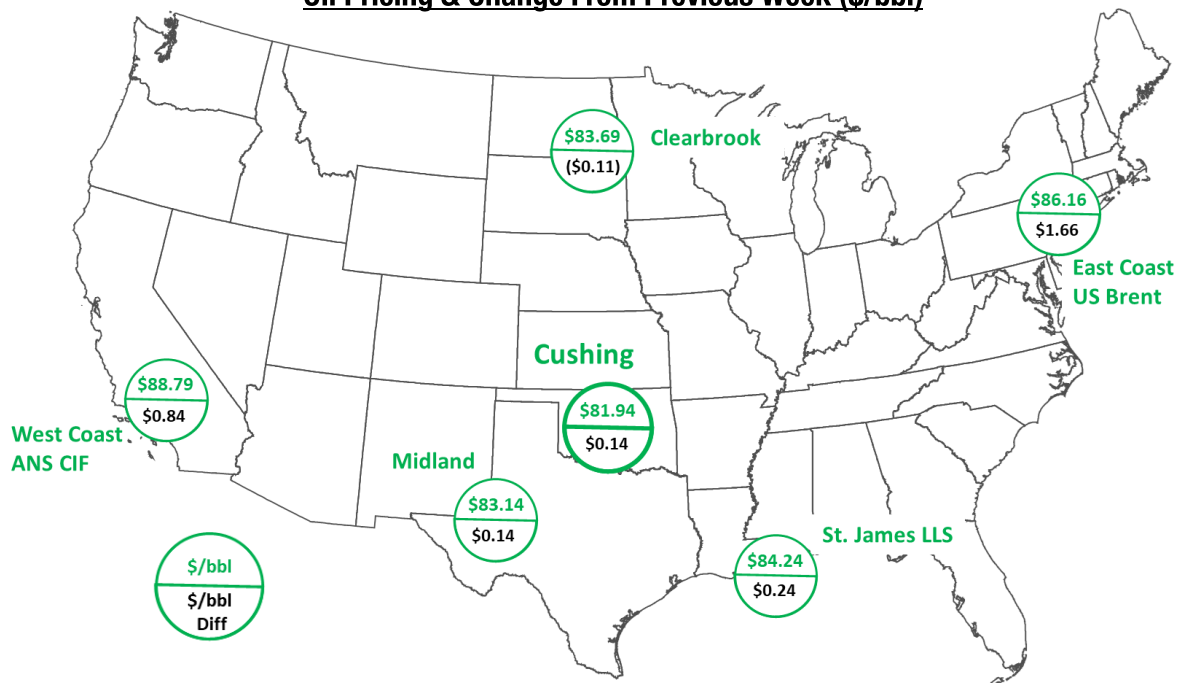


US COMMODITY PRICES CONTINUED

Natural Gas Pricing & Change From Previous Week (\$/MMBTu)



Oil Pricing & Change From Previous Week (\$/bbl)



*Source—Bloomberg LP



SELECTED INDUSTRY HEADLINES

Oil Edges Up On Higher US Economic Growth Outlook; China Import Slump Weighs

Oil prices edged higher recently, as a U.S. government agency projected a rosier outlook on the economy, but bearish data on China's crude imports and exports weighed.

ERCOT Sets New All Time Peak Demand Record

The Electric Reliability Council of Texas (ERCOT) revealed earlier this month that the organization set a new, unofficial August and all-time peak demand record of 83,593 megawatts (MW) recently.

U.S. Oil Production To Rise Faster Than Expected As Saudi Cuts Tighten Market

U.S. oil production this year will rise faster than previously expected, providing additional crude supplies to a market that has tightened because of Saudi Arabian output cuts, according to a new government forecast.

S&P Global Drops ESG Alphanumeric Scale

S&P Global has dropped an alphanumeric scale it launched in 2021 to score publicly rated entities in some sectors and asset classes on environmental, social and governance (ESG) factors when assessing their credit quality.

Oil Eases From 4-Month High As Rally Takes A Breather

Oil prices eased from four-month highs as crude's summer rally takes a breather. Global benchmark Brent futures traded lower by 0.7% at \$85.63 a barrel after reaching their highest level since April. U.S. West Texas Intermediate futures dipped 0.7% to \$82.24 per barrel.

North America Drops Multiple Rigs

North America has gone back to losing rigs week on week, according to Baker Hughes' latest rotary rig count, which was released recently.

Saudis Extend 1MM Barrel Oil Cut

Saudi Arabia extended its unilateral oil production cut by another month, and said it could be prolonged further or even deepened.

Bp Considers Building Two Offshore Wind Farms Without Government Support

The London-based company, bp, is considering building two offshore wind farms in the Irish Sea without any support from the government — marking a first for the sector where development has been hindered by rising costs.

Energy Workforce: U.S. Oil Field Employment Remains Steady As Labor Market Slows

Employment in the U.S. oil field services and equipment sector decreased by 117 jobs, remaining steady as the labor market and economy slows.

Rising Oil Prices Are Bad News For Drivers—And The Fed

America faces a familiar foe in its fight against inflation. Over the past three months, wholesale diesel costs jumped 31%, jet fuel climbed 33% and gasoline rose 18%.

World Battles To Loosen China's Grip On Vital Rare Earths For Clean Energy Transition

Refining rare earths for the green energy transition is hard, just ask MP Materials and Lynas. The world's two biggest rare earths companies outside of China are facing challenges turning rock from their mines into the building blocks for magnets used across the global economy, from Apple's iPhone to Tesla's Model 3 to Lockheed Martin's F-35 fighter jet.

China Becomes Bearish Factor For Oil Prices Again

Brent crude fell below \$85 per barrel recently as poor import/export data from China weighs on oil markets.

Earthstone Shops Eagle Ford Assets As E&P Eyes South Texas Exit

Earthstone Energy is marketing PDP and undeveloped locations in the Eagle Ford as the E&P streamlines its focus on the Permian Basin.

Biden Administration Delays Replenishing U.S. Emergency Oil Reserve

The Biden administration is again delaying a replenishment of the nation's emergency oil reserve because of market conditions, according to people familiar with the matter. The decision comes as oil prices have rallied above \$80 a barrel.



SELECTED RECENT TRANSACTIONS

ExxonMobil Announces Acquisition Of Denbury

Exxon Mobil Corporation (NYSE: XOM) today announced it has entered into a definitive agreement to acquire Denbury Inc., an experienced developer of carbon capture, utilization and storage (CCS) solutions and enhanced oil recovery. The acquisition is an all-stock transaction valued at \$4.9 billion, or \$89.45 per share based on ExxonMobil's closing price recently.

Sandridge Energy, Inc. Announces The Closing Of An Acquisition Which Increases Its Interest In Wells It Operates In The Northwest Stack

SandRidge Energy, Inc. today announced the closing of an acquisition which increases its interest in twenty-six producing wells operated by the Company within the Northwest Stack play for approximately \$11.25 million.

Ring Energy Announces Accretive All Cash Asset Acquisition Strategically Expanding Core Operating Area

Ring Energy, Inc. today announced it has entered into an agreement to acquire the Central Basin Platform assets of Founders Oil & Gas IV, LLC for \$75 million in cash. Founders' CBP operations are located in the Permian Basin in Ector County, Texas and are focused on the development of approximately 3,600 net acres that are similar to Ring's CBP assets acquired in 2022 from Stronghold Energy Operating II, LLC and its affiliate.

Zenith Energy Expands Its US Presence With Stateside Energy LLC Deal

Zenith Energy Ltd. the international energy production company with assets in Africa and Europe, has announced that it has entered into an agreement with Stateside Energy LLC, an Oklahoma-based oil and gas operator, to acquire and operate a portfolio of oil production and development licences in Oklahoma, as well as certain other states in the USA.

Civitas Resources to Enter Permian Basin through Transformative Transactions

Civitas has also agreed to purchase Hibernia's Midland Basin assets for \$2.25 billion in cash, subject to customary purchase price adjustments.

SM Energy Company Announces Certain Second Quarter 2023 Activity And Acquired 6,300 Net Acres In The Midland Basin

The Company's Midland Basin assets are located in the Permian Basin in West Texas is comprised of approximately 80,000 net acres.

Riverbend Energy Group Announces Acquisition to Mark the Rebuilding of Its Non-Operated Energy Strategy

Riverbend Energy Group, via certain of its affiliates, announced today the acquisition of a sizeable non-operated working interest position in the core of the Williston Basin.

Earthstone Energy Announces \$1.0 Billion Delaware Basin Acquisition

Earthstone Energy, Inc. recently announced that it has entered into an agreement to acquire Novo Oil & Gas Holdings, LLC, a privately-held Delaware Basin focused E&P company backed by EnCap Investments L.P., for \$1.5 billion.

Westlawn Group Forms Ellipsis U.S. Onshore Holdings To Acquire Assets Located In The Delaware Basin

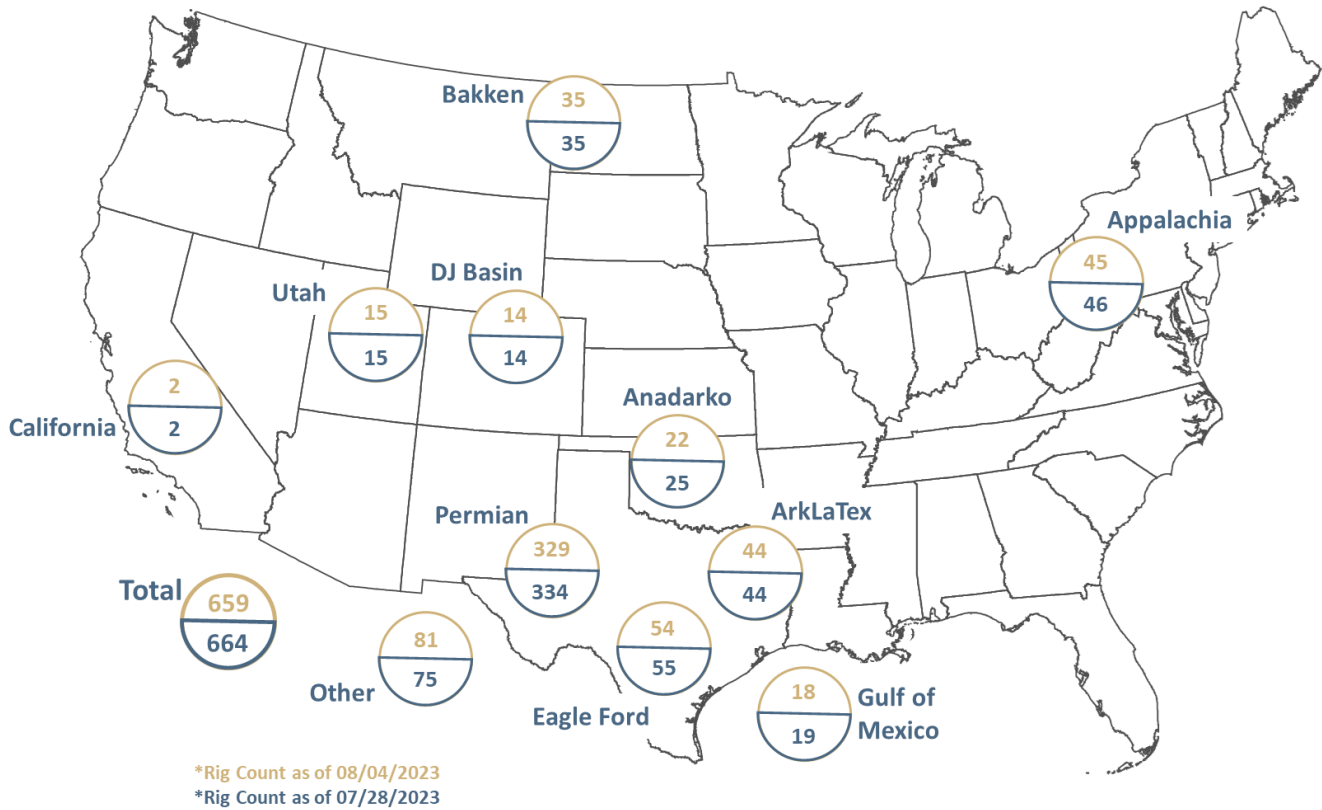
Westlawn Group, LLC is pleased to announce the formation of Ellipsis U.S. Onshore Holdings, LLC. Headquartered in Dallas, Texas, Ellipsis is a private energy company formed to pursue the acquisition and development of large, producing oil and natural gas assets in the United States.

Lucero Energy Corp. Announces US\$104.6 Million Asset Disposition, Revised 2023 Guidance And Normal Course Issuer Bid

Lucero Energy Corp. is pleased to announce the Company has executed and closed a definitive purchase and sale agreement with an arm's length purchaser, to divest of certain non-strategic, non-operated assets within Lucero's North Dakota Bakken/Three Forks play for cash consideration of C\$140.2 million before customary closing adjustments.



RIG ACTIVITY BY US REGION

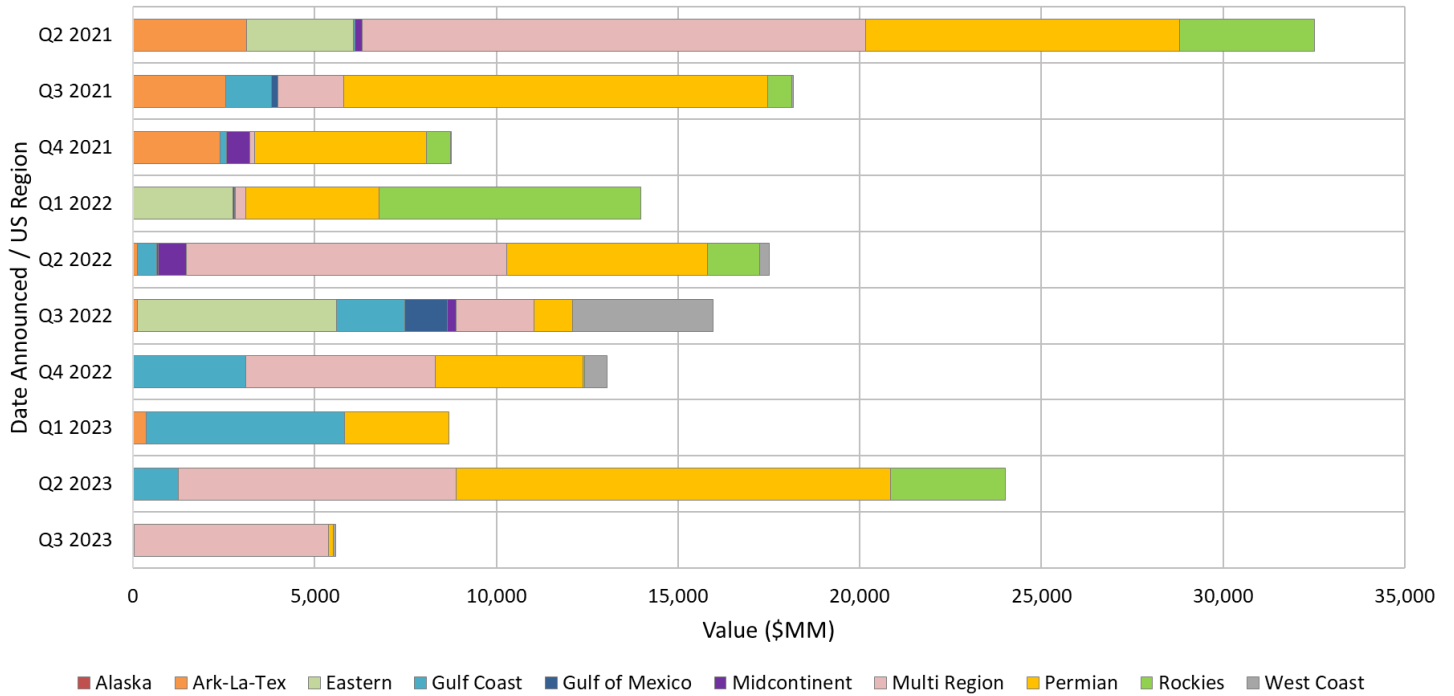


	Week Ending 08/04/2023		Week Ending 07/28/2023		Week Ending 08/05/2022
U.S. Rig Breakouts	Count	+/-	Count	+/-	Count
Oil	525	(4)	529	(73)	598
Gas	128	0	128	(33)	161
Not Specified	6	(1)	7	1	5
Directional	53	0	53	16	37
Horizontal	585	(7)	592	(113)	698
Vertical	21	2	19	(8)	29
Land (Inc Others)	635	(5)	640	(111)	746
Inland Waters	5	0	5	3	2
Offshore	19	0	19	3	16
US Total	659	(5)	664	(105)	764

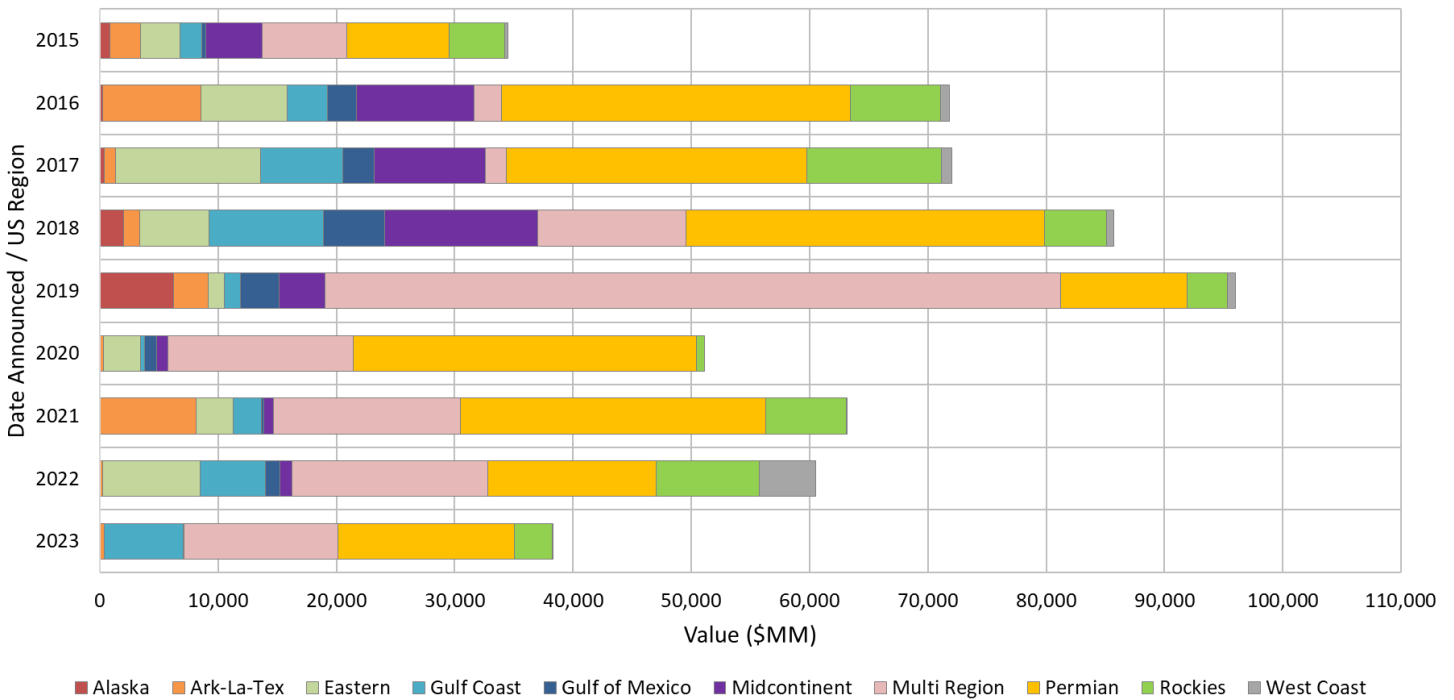
*Source—Baker Hughes Weekly Rig Counts



DEAL VALUE BY US REGION (BY QUARTER)



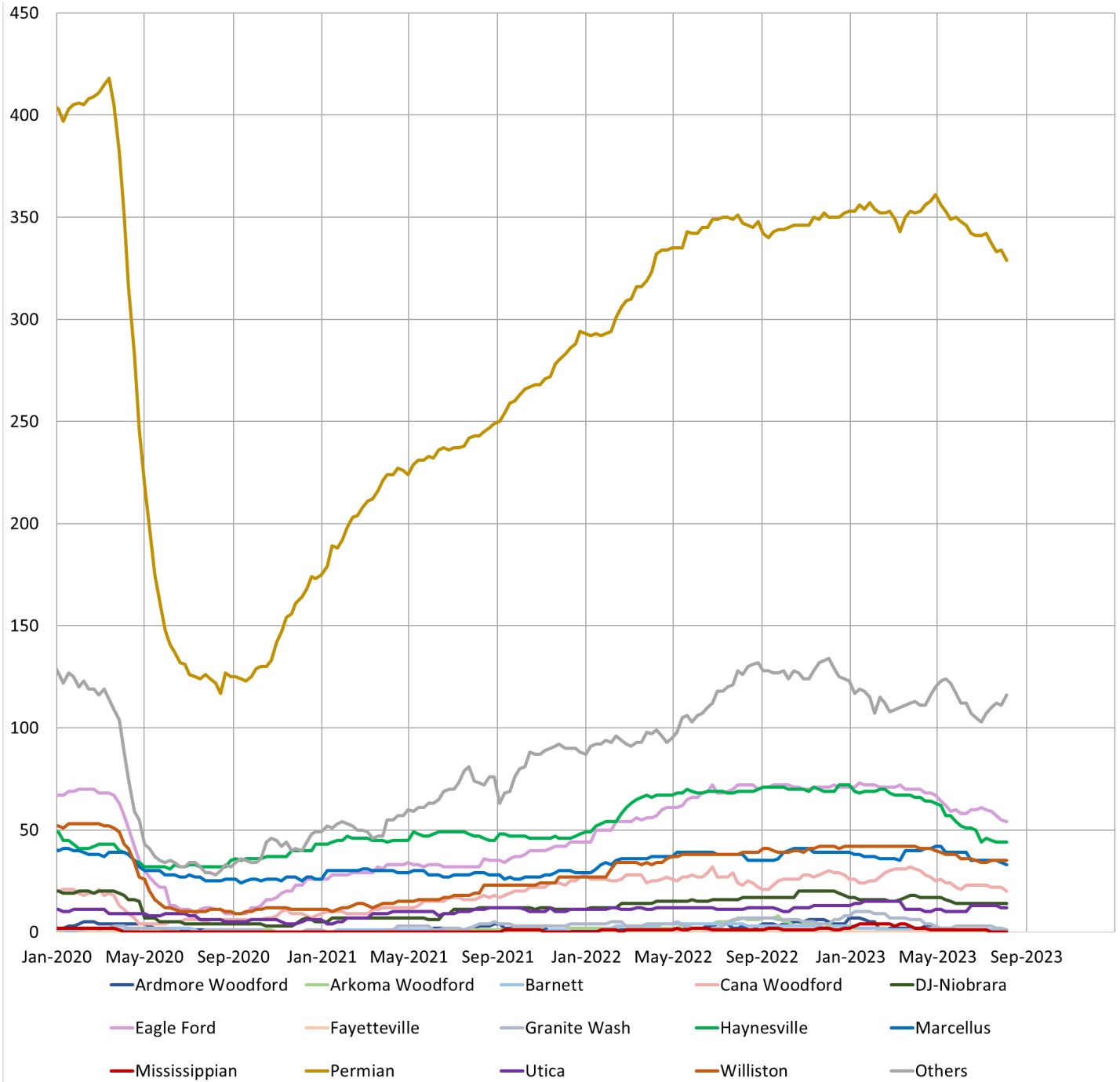
DEAL VALUE BY US REGION (BY YEAR)



*Source—PLS M&A Database (Charts exclude terminated deals)



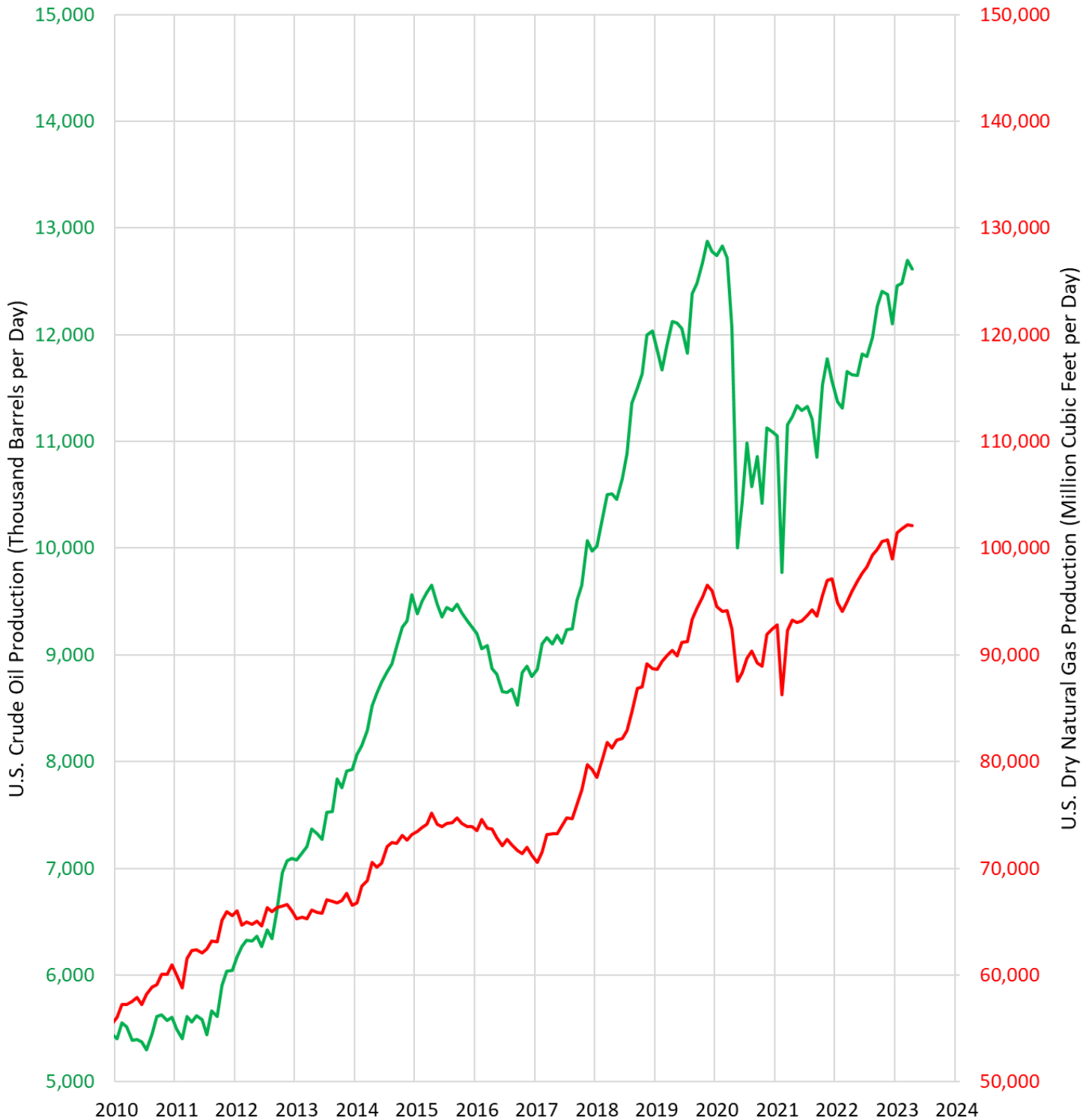
RIG ACTIVITY BY US REGION



*Source—Baker Hughes Weekly Rig Counts



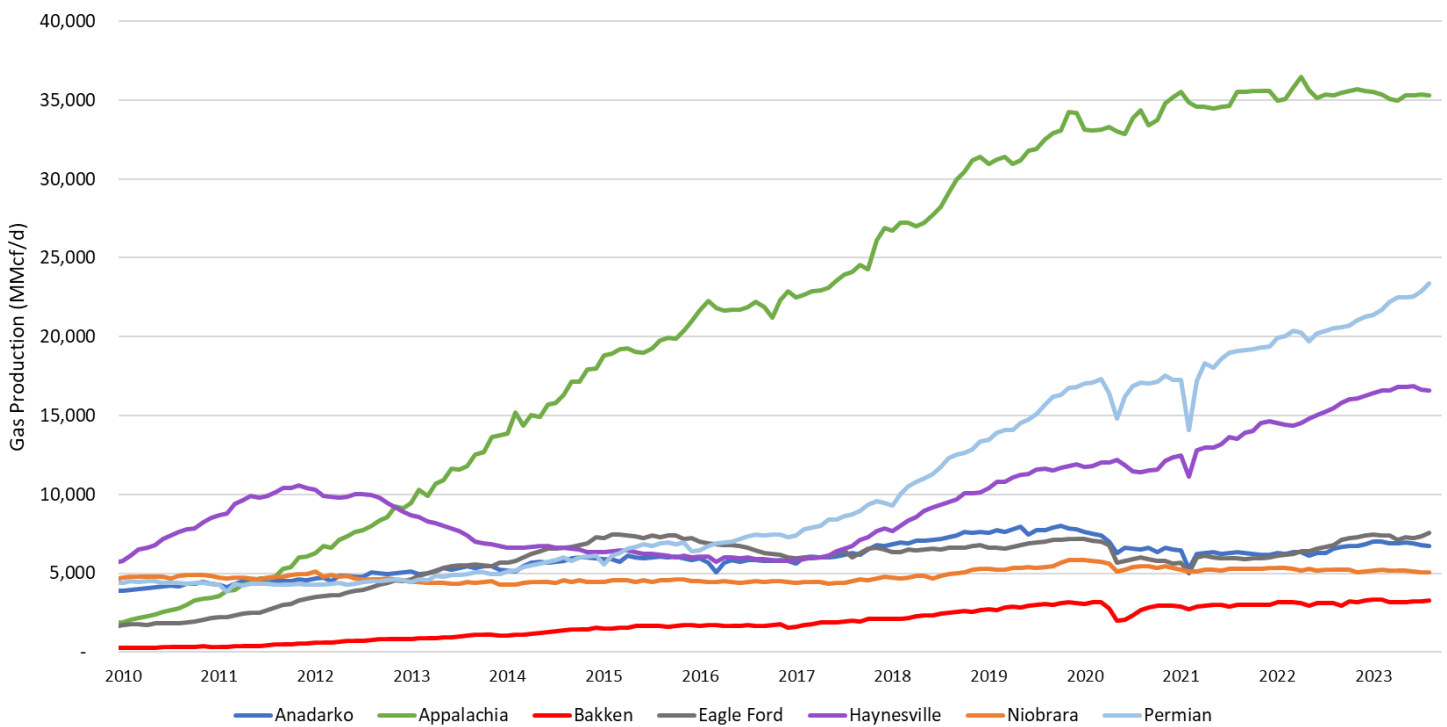
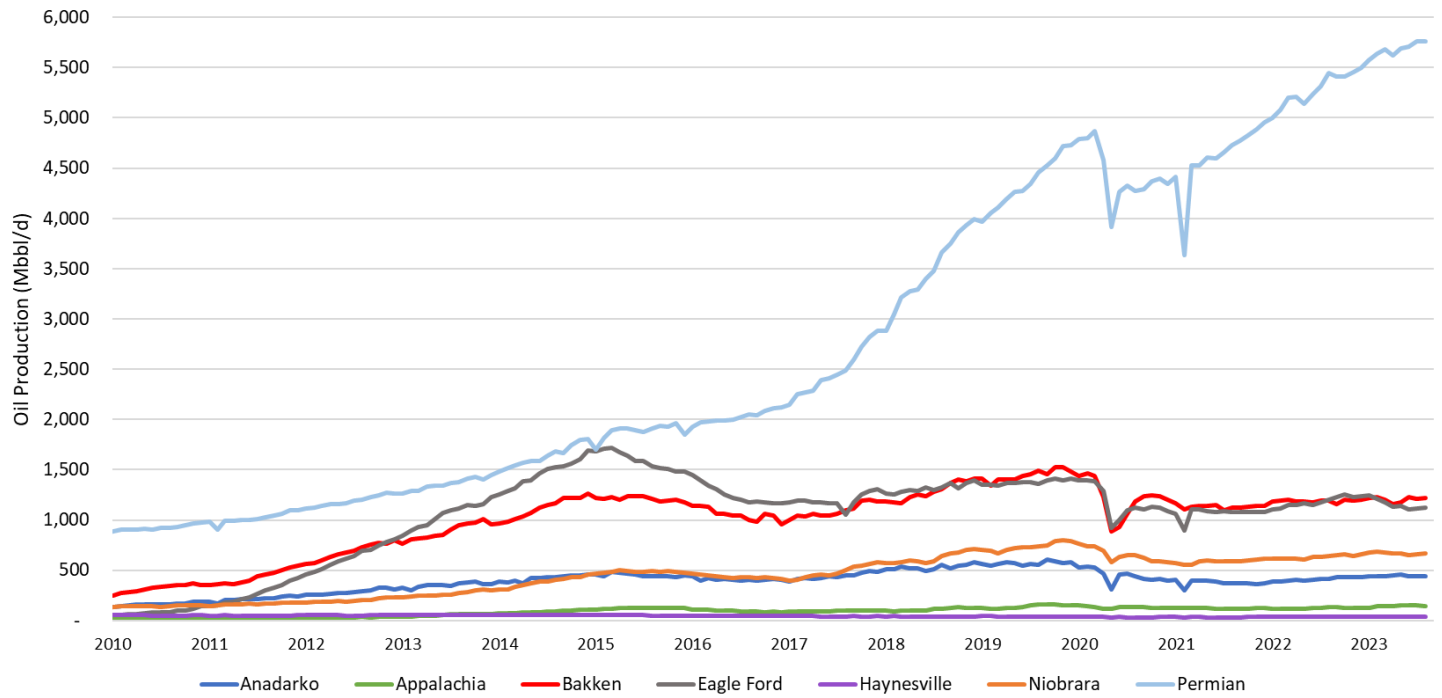
US DAILY CRUDE (MMbbl) & DRY NATURAL GAS PRODUCTION (MMcf)



*Source—Energy Information Administration, United States (EIA)



HISTORICAL PRODUCTION OF SELECTED US SHALE REGIONS



*Source—Energy Information Administration, United States (EIA)



UPCOMING EVENTS

August 2023

<u>Enercom Denver</u>	August 14-16	Denver, CO
<u>Women In Minerals – Dine n Deal</u>	August 16	Denver, CO
<u>TXCPA Energy Conference</u>	August 25	Houston, TX
<u>Society of Petroleum Engineers (SPE) - Saint Arnold's Season Kick-Off Social</u>	August 30	Houston, TX

September 2023

<u>Enertia User Conference</u>	September 21-22	Fort Lauderdale, FL
<u>HPF 29th Annual Golf Tournament</u>	September 25	Cypress, TX
<u>World Oilman's Overnight Poker Tournament (WOOP)</u>	September 28-29	Lake Charles, LA

October 2023

<u>Hart Energy—Energy Capital Conference</u>	October 2	Dallas, TX
<u>Hart Energy—A&D Strategies and Opportunities Conference</u>	October 3	Dallas, TX
<u>2023 National Conference of Bankruptcy Judges (NCBJ)</u>	October 11-14	Austin, TX
<u>Tulsa Octoberfest</u>	October 19-22	Tulsa, OK

*Denotes an Opportune Sponsored Event



ABOUT RALPH E. DAVIS ASSOCIATES

Ralph E. Davis Associates LLC (RED) is an industry-leading petroleum engineering and geosciences firm committed to satisfying the individual needs of clients. We accomplish this by holding ourselves to the highest standards of integrity and professionalism to deliver honest, direct and actionable insights to help clients achieve their strategic objectives. We distinguish ourselves by combining reservoir engineering, geoscience evaluation techniques and advanced data analytics with economic analyses to provide our clients with individual, customized solutions.

Banks, bondholders, private equity firms, financial institutions and law firms around the world trust in RED's diverse services and unrivaled upstream oil and gas expertise to deliver comprehensive solutions that help clients make informed decisions. We add value to every engagement by employing a team approach, leveraging Opportune LLP's experienced bench of experts in transactional due diligence, tax advisory, investment banking, restructuring and valuation.

We offer technical and economic analyses to deliver our clients a complete, independent, accurate and detailed assessment of the value of their assets. We apply a robust set of technical capabilities to assist our clients. Our capabilities include:

- Reservoir engineering and geosciences
- Economic forecasting and reporting
- Data analytics and geospatial analysis

KEY CONTACTS



Steve Hendrickson is the President of Ralph E. Davis Associates, an Opportune LLP company. Steve has over 35 years of professional leadership experience in the energy industry with a proven track record of adding value through acquisitions, development and operations. Steve is a licensed professional engineer in the state of Texas, and holds an M.S. in Finance from the University of Houston and a B.S. in Chemical Engineering from The University of Texas at Austin. He recently served as a board member of the Society of Petroleum Evaluation Engineers (SPEE) and is a registered FINRA representative.



John Beaird is Vice President of Ralph E. Davis Associates, an Opportune LLP company. John has 39 years of oil and gas management, reservoir engineering, and petroleum economics evaluation experience. Recent relevant experience includes the Permian, Western Gulf, Tx-La-Miss Salt, Mid-Continent, Denver-Julesburg, Wind River, Williston Basin, and Appalachian Basins. John is a registered Petroleum Engineer in the State of Texas and holds a B.S. in Petroleum Engineering from Louisiana Tech University. He is also an active member of the Society of Petroleum Evaluation Engineers (SPEE).



Yvonne Trujillo is a Senior Petroleum Engineer at Ralph E. Davis Associates, an Opportune LLP company. Yvonne has over 25 years experience in the oil and gas industry with extensive expertise in reserves engineering, SEC and PRMS/SPE reporting and economics and asset evaluation in conventional and unconventional reservoirs in the U.S. Lower 48. Yvonne earned a B.S. in Mechanical Engineering at Simon Bolivar University in Caracas, Venezuela and an M.S. in Petroleum Engineering at the University of Houston.



David Edwards is a Petroleum Engineer at Ralph E. Davis Associates, an Opportune LLP company. David has over three years of reserves engineering experience in conventional and unconventional reservoirs. Before RED, David was a Petroleum Engineer at a lower middle market A&D advisory firm where he handled the technical processes for marketed assets. He began his career with an operator in Dallas, where he contributed to its engineering, operations, and A&D teams. David holds an M.B.A. from The University of Texas Permian Basin and a B.S. in Petroleum Engineering from The University of Oklahoma.

