

Eagle Midstream Strategy Quick Note - June 2020

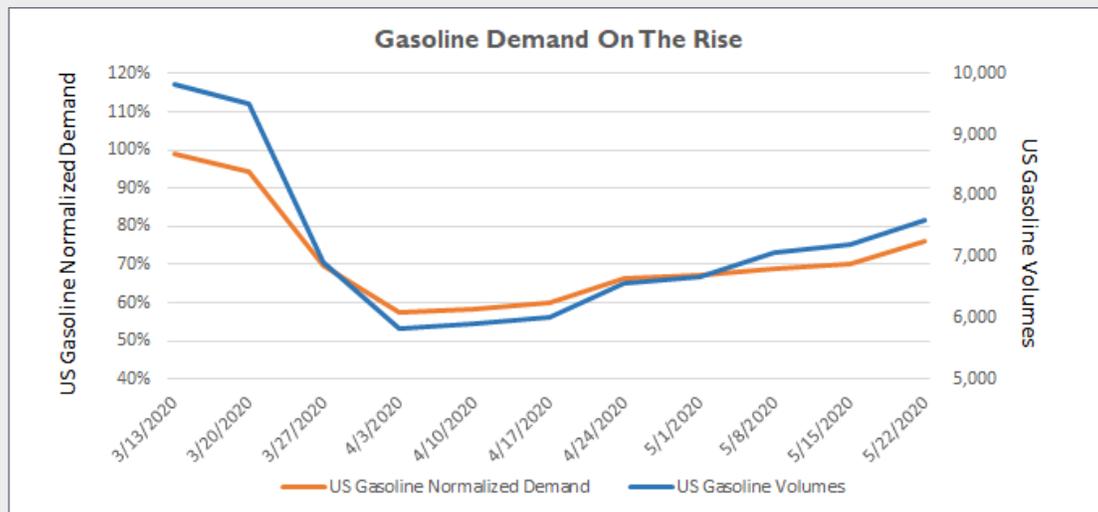
From the EGA Portfolio Management Team

April Showers Bring May Flowers To The Crude Market

Since the unprecedented drop of WTI to a closing low of $-\$37.63/\text{bbl}$ on April 20th, prices have staged a furious rally of 194% to end May at $\$35.49/\text{bbl}$. Market participants have digested both positive news on the supply side (OPEC+ now initiating cuts) and green shoots on the demand side as North America, Asia and Europe begin to re-emerge from COVID-19 lockdown. After Saudi Arabia and Russia flooded the market with oil just three months ago, they have now emerged as the key players in getting the other OPEC+ members to extend production cuts of 9.7 MMbb/d for May and June through the end of July. The cuts were initially planned to be reduced back to 7.1 MMbb/d on July 1st. While compliance of all OPEC+ members to supply cuts is never assured, they have agreed to meet monthly to assess appropriate supply levels.

Green Shoots at Home

Prior to the June 6th OPEC+ announcement, signs of domestic recovery began to emerge. As various U.S. states began to reopen their economies, demand for energy, particularly gasoline, saw the beginning of a recovery as shown by the rising trend in gasoline volumes.



Source: Bloomberg, U.S. Department of Energy

Is the Rally Sustainable?

The pace of recovery has been faster than expected with price levels now allowing for shut-in production to return and a line of sight for drilling uncompleted wells as prices in the $\$40$ range are sufficient to cover operating costs. Continued demand recovery will be dependent on the success of phased in removal of lockdowns as nervous governments look for more evidence of curve flattening. While oil bottomed in mid-April, the Alerian (AMZ) troughed in mid-March. The rebound for midstream has been slower than for crude, but began to accelerate in late-April and May. From the March 18th low to May-end, the index has returned 110%. We reiterate our view that stock selection is crucial and our team continues to work hard to identify the right balance between defense and offense, so our portfolios will be well-positioned for the continued re-normalization of the energy market.