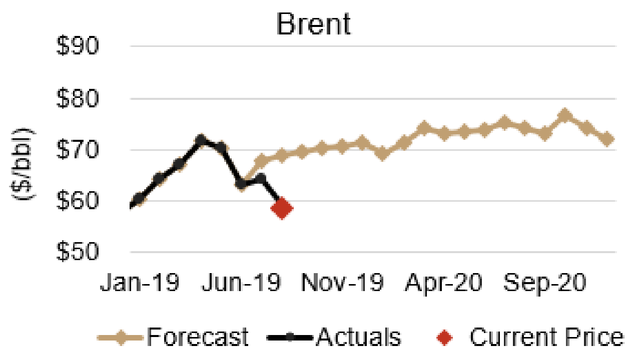
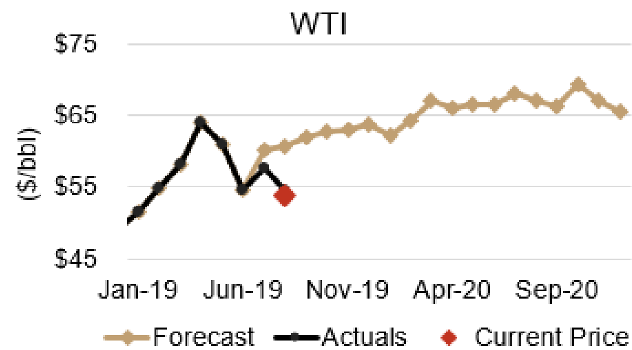
STRATAS ADVISORS
A HART ENERGY COMPANY

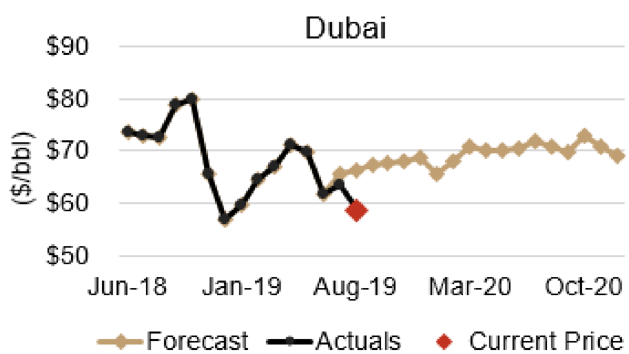
August Crude Oil Price Update

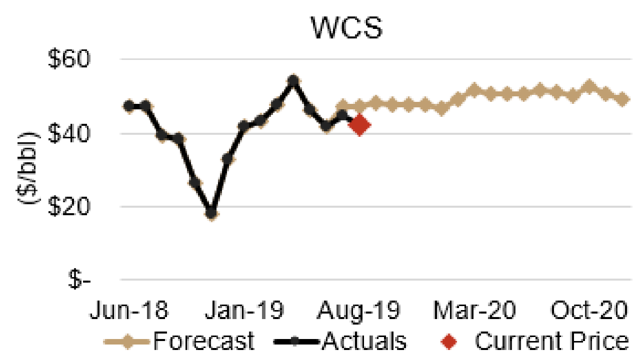
Crude oil price have continued to disappoint through August, with all major markers swinging sharply lower. Physical fundamentals now present a mixed-bag, a deterioration from the bullish picture seen earlier this year. Visible crude oil stocks in the OECD and floating in VLCCs have started to increase despite higher year-on-year refining runs. Technical indicators, especially those tracking momentum, don't appear to be signaling a shift in direction and are instead indicating that this downward drift could continue.

Current Price Outlook versus Actual









With only a couple of days left in the month, prices are going to come in below our expectations. Recent days have shown flickers of strength, but absolute values remain below our most recent outlook. The average price of Brent so far this month ($59.32/bbl) came in $9.44/bbl below our forecast ($68.76).

What We're Watching

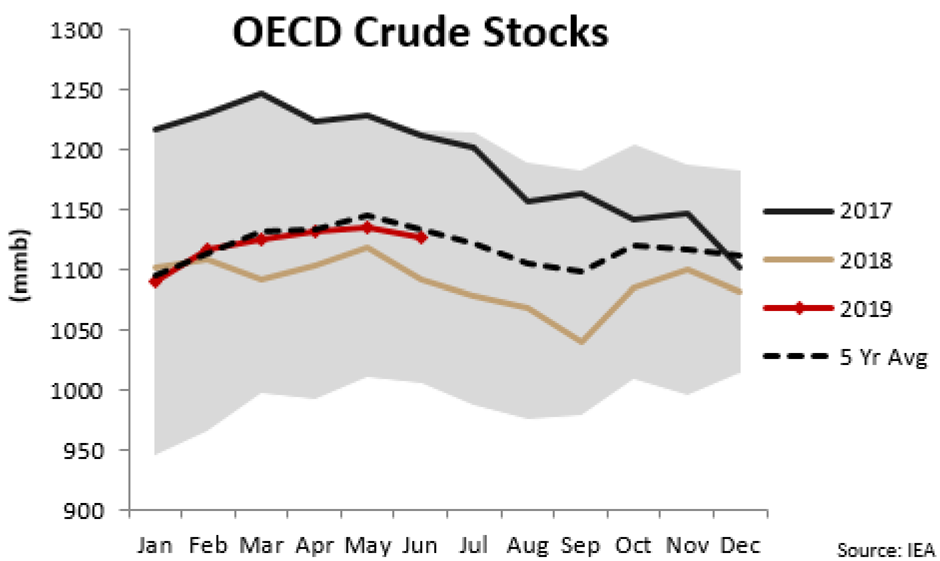
Several large developments are affecting prices and differentials and will remain front-of-mind.

Trade Disputes Are Heating Up: President Trump's trade war continues on several fronts, dragging on outlooks for the global economy. By far the largest and most impactful dispute continues to be with China. Chinese officials announced this month that they would be expanding and increasing tariffs in response to President Trump's threat to do the same. Various tariffs are scheduled to come into effect over the rest of the year, including a tariff on US crude oil exports to China. Outside of the details of what is being tariffed how much, the increasingly fiery rhetoric and antagonistic actions on both sides mean it is unlikely a deal will be struck anytime soon.

Strait of Hormuz is Calming Down: After several months of rhetoric and confrontations, tensions in the Strait of Hormuz have (at a minimum) stabilized. The sized Iranian tanker was released although a British tanker remains in Iranian custody. Several countries have deployed forces to the region to guard shipping traffic but no further confrontations have been reported. Although the chances of another confrontation remain high, with no new developments in sight, what little geopolitical risk premium was being factored in by markets is likely to dissipate.

Economic Warning Signs are Flashing: Global economic indicators are flashing red, and many economists now believe it is a matter of "when" not "if" a recession will occur. Chinese trade data was disappointing, and a private measure of factory activity in the United States indicated a contraction for the first time in a decade. Additionally, short-term and long-term US bond yields briefly inverted earlier this month, which has historically been followed by a recession.

Oil Inventories



OECD oil inventories have been increasing for several months, driven by above-average stocks in the OECD Americas, particularly high stock levels in the United States. VLCC floating storage levels have also continued to increase and show a large potential spike at the end of August. Iran appears to be contributing only minimally to floating storage increases after drawing down floating storage volumes over the course of July.

State of the Forecast

The next iteration of our quarterly price update in September will see forecasts revised downward on a combination of actuals and a withering economic outlook. The largest change will likely come to Brent crude as WTI, WCS, and Dubai have proven slightly more resilient. Our overall price path remains unchanged on expectations of slowing global production, but the timing of the eventual increases is increasingly murky.