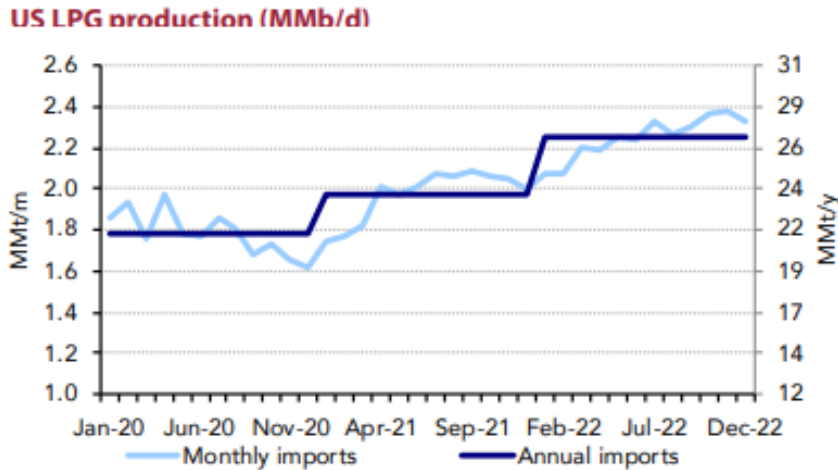




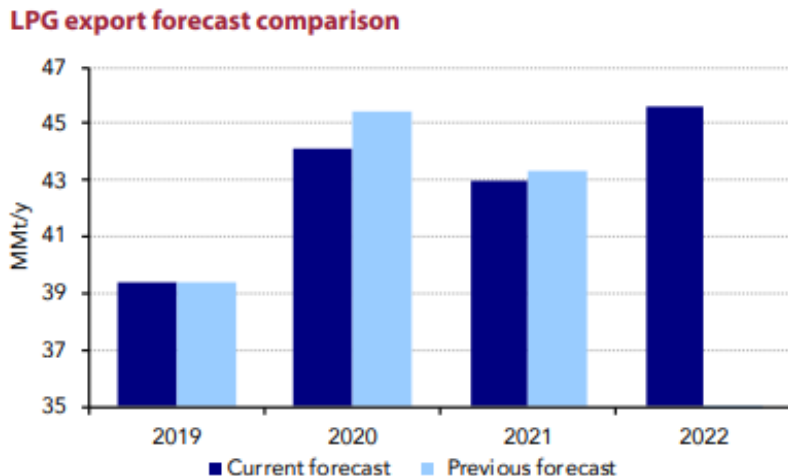
LPG Market Outlook

US production to fall sharply between May and October

The number of US drilling rigs in operation continues to fall and is now at its lowest level on record at 339, according to data from Baker Hughes (see graph on page 1). This is even lower than the previous low of 404 that occurred during the oil downturn in 2016. In addition to laying down rigs, US oil and gas producers are shutting in production especially in the Permian in West Texas and the Bakken in North Dakota. These regions produce a very liquids rich gas stream, so there will be an impact on LPG production.



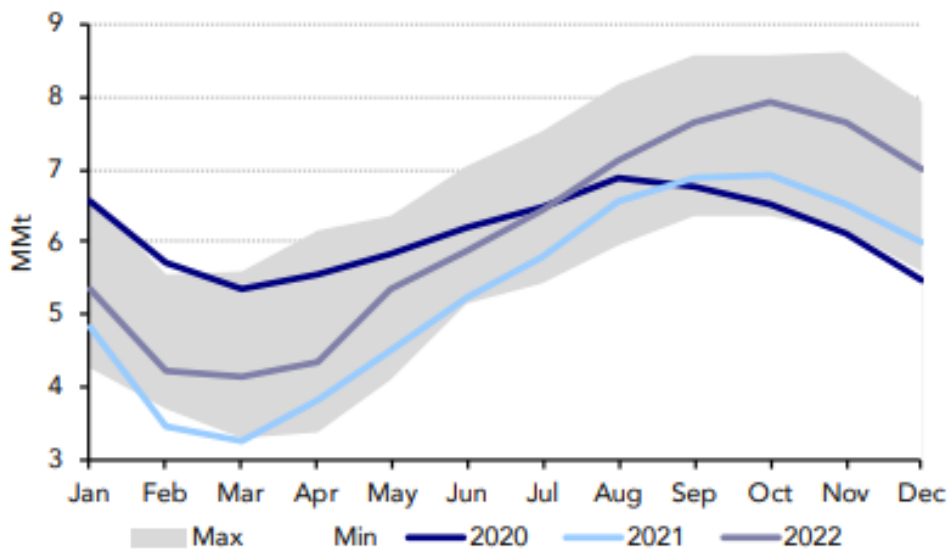
The revised production forecast is shown in the top graph. The new forecast features a sharp drop between May and October when further shut-ins are expected to occur. There is a slight recovery in 4Q 2020, with little growth in 2021. In 2022, production is expected to recover, hitting levels seen in January 2019 before oil prices crashed and coronavirus lockdowns decimated oil demand.



There is a slight chance that US natural gas markets may tighten in late-2020/early-2021 depending on the strength of the winter and US LNG exports. If that occurs, gas prices may increase to incentivize additional drilling; however, that drilling would likely occur in dry gas plays and will have little-to-no impact on US LPG markets.

As a result of the change in the production forecast, US LPG exports are forecast to be lower by 1 MMt in 2020 than last month's forecast. The decrease will occur starting in August and July when pressure from lower storage levels (bottom chart) should exert upward pressure on US prices, which, depending on international demand levels, should lead to cargo cancellations.

US propane storage forecast



The storage forecast for 2021 is up from last month since the outlook for production is higher for the entire year. However, the profile for propane storage will look quite different. In fact, for most of the year, storage is near the low end of the five-year range. In 2022, both exports and storage levels are expected to recover. By 2022, Poten expects that any economic impacts from the global pandemic will have been worked through and growth in markets will have resumed