

Daily Thought

More Rig Cuts – August 25th, 2023

Rigs and spreads are on the mind today. With the price of a barrel 2 years forward at \$70, and holding strong, we again, can't help but think that rigs are starting to bottom. With the Baker Hughes rig count at 632, and the Enverus rig count at 680 (we take the midpoint at ~650), focus is on the curve's term structure (and NGL pricing) to dial in on when we think it's reasonable for privates to pick back up rigs. One notable distinction, in the Permian (where really, most of the supply growth is coming from/going to come from), is that private operators are really the only ones dropping rigs. Only very recently have public rig counts

seen any sort of softness (and only down 7%), while the private count is -27%. We reiterate, that private shops, on average have worse acreage than public peers (and control less of the basin supply). With the 2yr forward pricing seeing some strength we believe there is little reason to see more major private rig drops, with the same sentiment for the public operators, especially given the easing in steel prices (with OCTG typically being around 15% of a well's AFE). Do we think the L48 basins are going to add material production in the coming months - no, but we

Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | \$103.73 (+0.5%)
Synthetic | \$110.96 (-0.8%)
WCS | \$79.92 (-6.5%)

USD Priced Liquids

Bonny Lt. | \$87.99 (-0.7%)
LLS | \$82.45 (-1.1%)
MEH | \$81.60 (-0.6%)
NYMEX | \$79.05 (-1.7%)
WTI FOB | \$80.71 (+1.7%)

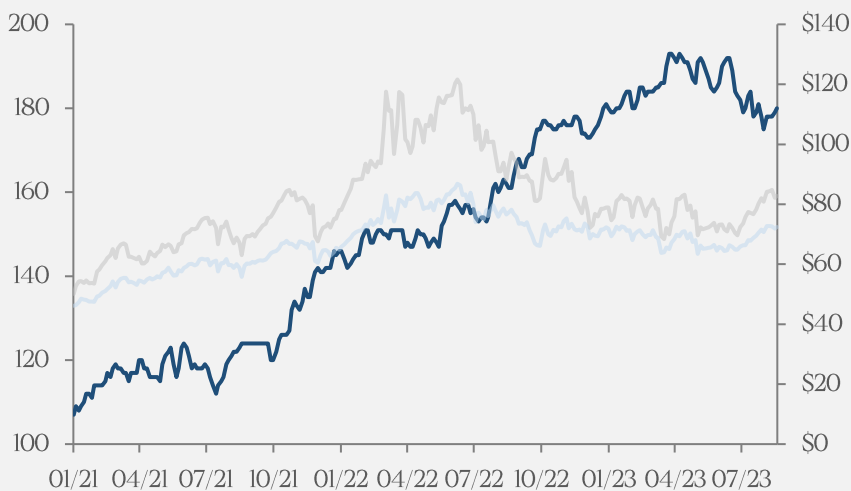
CAD Priced Gas

AECO | \$2.64 (-1.7%)
Alliance | \$2.63 (+15.9%)
Empress | \$2.64 (-1.5%)
Station 2 | \$2.64 (+8.1%)

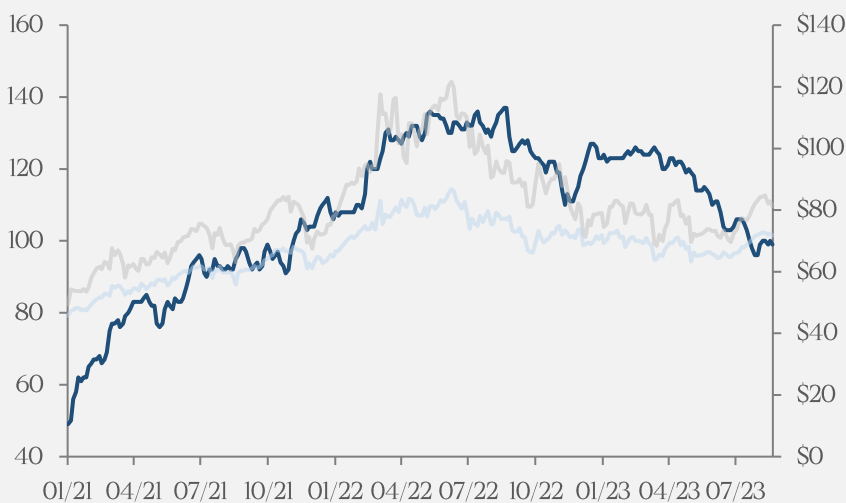
USD Priced Gas

Dawn | \$2.24 (-3.0%)
Houston | \$2.37 (-2.1%)
Malin | \$2.37 (-37.1%)
PG&E | \$4.14 (-26.7%)
SoCal | \$3.58 (-54.1%)
Waha | \$2.59 (+1.8%)

(Fig. 1) Pub. Permian Rigs & Cash MEH & 2yr Fwd. WTI



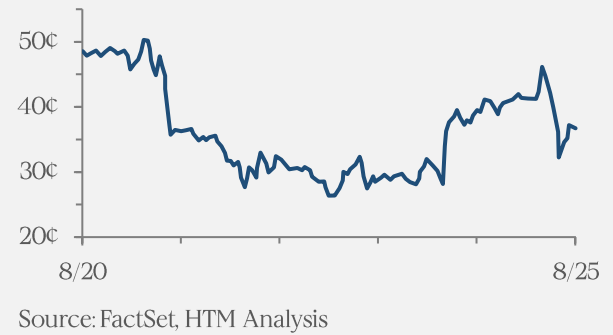
(Fig. 2) Priv. Permian Rigs & Cash MEH & 2yr Fwd. WTI



Source: Bloomberg, Enverus, HTM Analysis

do believe that the slight decline in Permian oil production, that both the live Genscape estimates, and the EIA figures have shown, will moderate. Private operators are truly the swing producers in the basin, and we would expect, given our price outlook, that private's will look to add rigs in late September. Of course, all the 'first rigs dropped are the least efficient' that can be found in previous notes, but from a 1,000' view, we believe that WTI's term structure is generally favorable to the marginal operator that may be looking to add a rig at this point in time. In other WTI term structure news, on Friday, the generic first to second month time spread pressed higher to almost \$0.50/bbl, but softened \$0.10/bbl into the close, on the news that the White House has been working with Iran and Venezuela to coax additional barrels to market. We believe that Venezuela has more production potential in the near term, compared to Iran, and while, it's true to some extent that Iran has been drawing onshore inventories to support higher export levels, we also believe that they have line

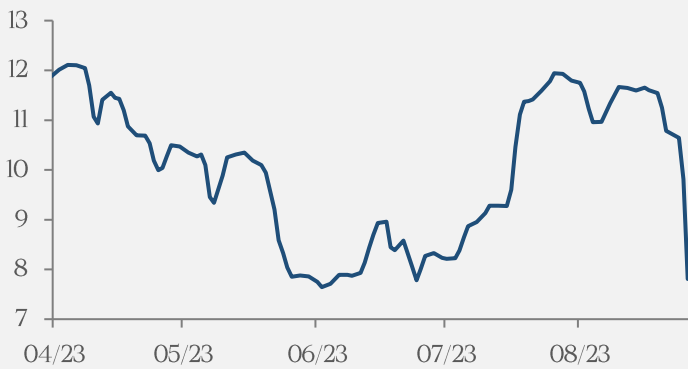
(Fig. 3) Oct. to Nov. Spread



of sight to sustained export capacity in the 1.3-1.5mb/d range (generally what we've been seeing from them as of late). With this front month time spread move (and the spread's general malaise) there will be some interest in seeing what develops supply wise in the market, and the 5mb/d inventory draw prints we have seen, will be quickly reversed (and to some extent, products are to blame for that move, but we have less clarity on product flows).

In the natural gas world, the Woodside negotiations with their workers union went well, with them reaching an agreement on August 24th, and meeting to ratify shortly after, abating the scare that we'd lose 10% of global LNG

(Fig. 5) Norway Gas Exports to Europe (Bcf/d)



supply in short order. TTF softened on that news, but has moved higher today, as Norwegian gas exports moved decisively lower for infrastructure maintenance. We don't view either strikes, or maintenance timelines as major scares for the winter European gas market balances and prices.

Finally, it was a weak week for fund flows into the sector. After bottoming in July, we had a flat week of flows into XLE, though flows into the XOP being positive. We think that the energy quality factor has an edge in outperforming the general index next week, with XLE/XOP at a key support level.

XLE ETF Fund Flows (million dollars)

