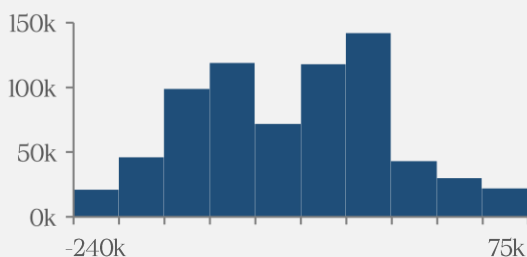


Daily Thought

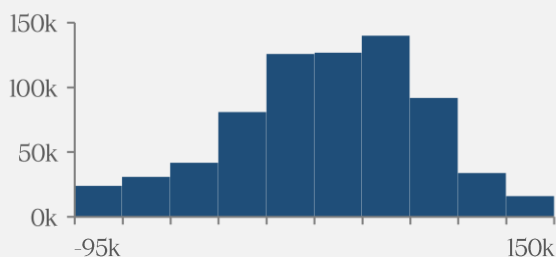
Producer Positioning – August 29th, 2023

The oft discussed commitment of traders report is used to take bearings on managed money, and speculator positioning – the CFTC also reports producer positioning. While managed money/speculative market participants tend to use futures, well, to speculate on the price of the commodity, producers use the contracts to manage their operational risk. Since 2010, the average deviation of producer positioning has been ~60k contracts, with producer deviation being 40k contracts (with speculator data having a slight positive skew and a distinct bimodal distribution, and producer data having a stronger negative skew - i.e. producers tend to have a touch more net length, and more regularly than their speculative counterparties). Over the past weeks, producers have gotten the most short they have ever been, while net positioning remains near zero (gross/collars also at highs). We interpret higher gross shorts as producer's willingness to continue to hedge reasonable prices, and continue to execute on their production plans, hence our hesitance to say that US production is

(Fig. 1) Speculator Histogram

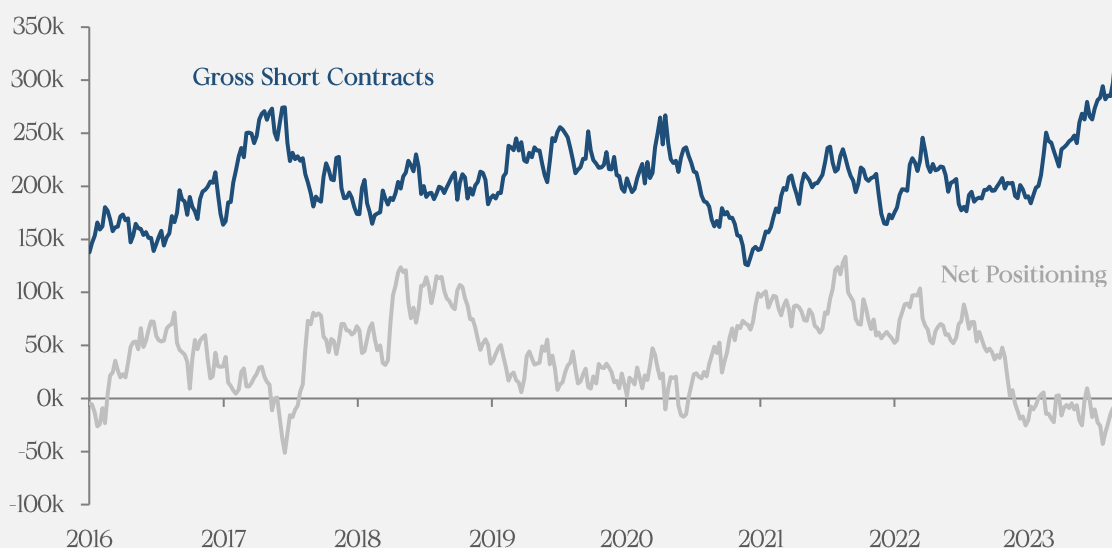


(Fig. 2) Producer Histogram



Source: Bloomberg, HTM Analysis

(Fig. 3) Producer NYMEX WTI Positioning



Source: Bloomberg, HTM Analysis

Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | \$105.45 (+0.5%)

Synthetic | \$111.42 (-1.2%)

WCS | \$83.28 (-1.2%)

USD Priced Liquids

Bonny Lt. | \$89.35 (+0.5%)

LLS | \$83.88 (+0.2%)

MEH | \$82.53 (+0.4%)

NYMEX | \$80.10 (-0.6%)

WTI FOB | \$80.71 (-0.1%)

CAD Priced Gas

AECO | \$2.55 (-0.3%)

Alliance | \$2.25 (-5.3%)

Empress | \$2.50 (-1.3%)

Station 2 | \$2.29 (-11.9%)

USD Priced Gas

Dawn | \$2.13 (-4.9%)

Houston | \$2.35 (-0.4%)

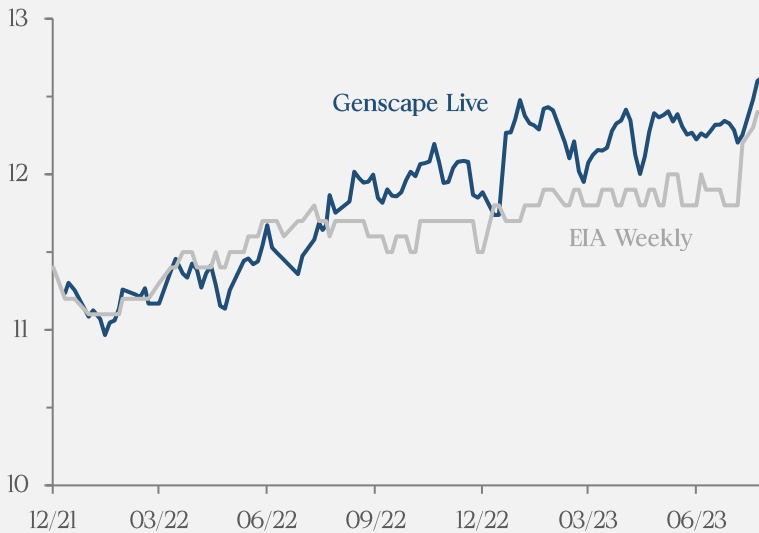
Malin | \$2.74 (-14.7%)

PG&E | \$4.38 (-8.4%)

SoCal | \$4.60 (+32.4%)

Waha | \$2.11 (+1.0%)

(Fig. 4) US L48 Crude Production (mb/d)

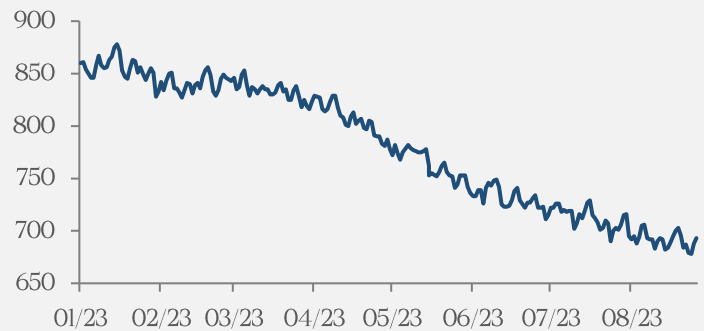


Source: Bloomberg, EIA, Genscape, HTM Analysis

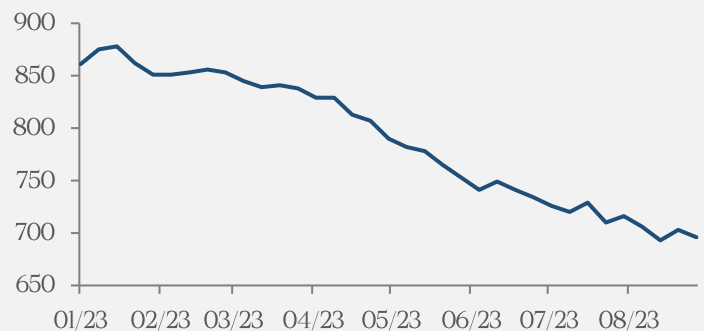
There is ability to add rigs quickly (unlike last summer), and on a weekly maximum satellite tracked rig count basis, the peak-to-peak weekly rate of change has slowed from 15 drops weekly in April and May, to around 5 drops weekly in July and August, with a handful of peak to peak weekly rig adds. Where we stand is rigs come back, slowly. Recall fig. 2 from August 25th's daily thought - private producers were the first to drop rigs, and thus have the most bandwidth to bring back rigs (and Permian is where we think they go first). With the back of the WTI strip moving higher (with yearly strip spreads having a stronger correlation to private rig adds during non-COVID influenced years), cautiously, we think private operators start to dip their toes back into the arena. Rate of change rise, we think when we are back solidly positive on a w/w adds basis (we see in late-September, early October timeframe) that the reactive onshore OFS stocks start to move. ProFrac is extremely shorted right now, though has poor operational momentum. Nine Energy Services has some beta to completions activity, and KLX still has a levered balance sheet, and improved rig activity should get them running higher. We see ProFrac with some support at \$10/sh (though lines on a chart don't mean much). There are much better onshore services companies out there, but for a rig rate of change trade, we can't help but be interested in leverage given our 2-3 month outlook on US rig counts.

imminently dead - and as we continue to stick to our "flat at worst" Permian thesis - L48 US crude production as reported by the live Genscape pipeline scrape (still, not extremely reliable) has touched post-COVID highs, while frac spreads printed down w/w. What gives? Overstimulating new wells? Higher efficiency? We still think that high grading of acreage is primarily attributable. The live rig count, we think is beginning to bottom, and producer hedging (while yes, confirming our priors), fits with that narrative.

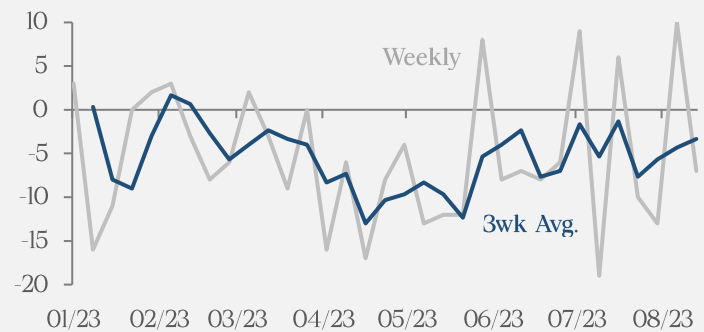
(Fig. 5) Daily Satellite Tracked L48 Rig Count



(Fig. 6) Weekly Max. Sat. Tracked Rig Count



(Fig. 7) Weekly Change in Max Sat. Rig Count



Source: Enverus, HTM Analysis