

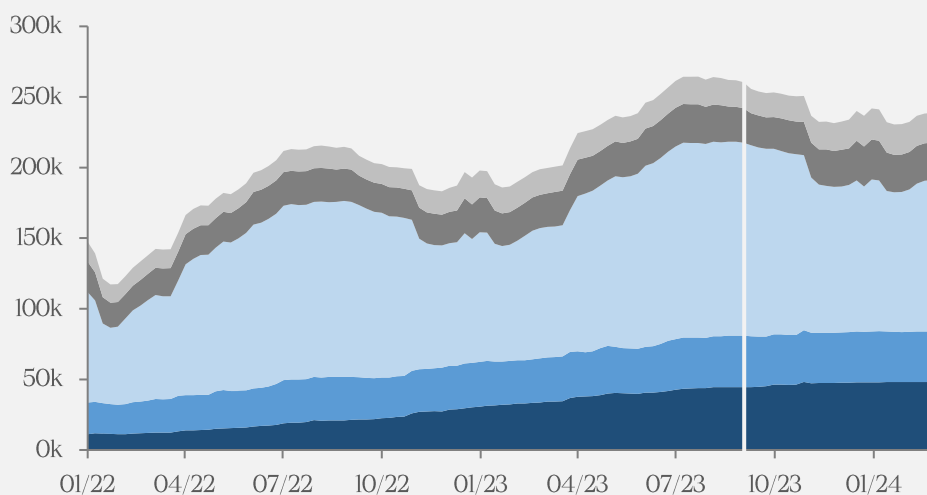
Weekend Flows

Air Travel, Turnarounds, and Traffic – September 4th, 2023

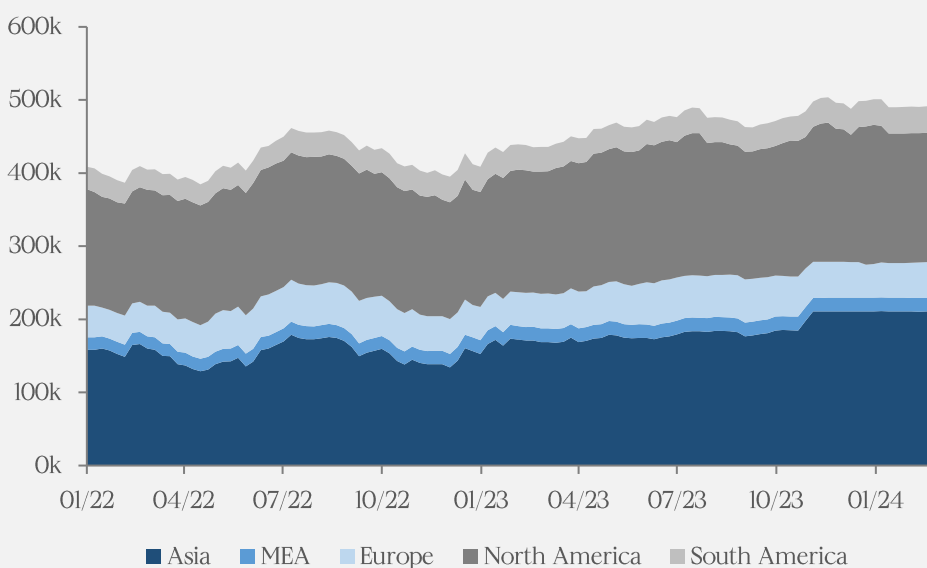
As the summer draws to a close, so does the busy travel season – while Asian international flight growth has been strong, and has added approximately 80,000b/d of jet type demand, the ending of the European travel season should give some slack back to the market – and of course, that is just a seasonal slack, with summer 2024 being a different story – so the question remains – will seasonal softness show up in prices, or are we going to see OPEC keep us in the \$80-\$90 range. We continue to stick with our \$78/bbl guidance for the year, which would imply a

price, for the remainder of the year a hair over \$82. We see upside risk to that \$82 target – the market (and the money managers) are clearly telling us that prices are comfortable in the higher \$80s – much in the way the right signals were saying they should be lower in 2022. Recession headlines have cooled, GDP forecasts have come back up, international travel will be growing y/y for the remainder of 2023, and domestic will continue to grow m/m into the Q4 – all positive factors for speculators that need to flow into crude. Given our rig count view (bottoming into September), the additional headline risk from Permian declines in EIA data would be the icing on the cake for those riding the momentum higher. If Russian barrels stay offline (recall, their shortage of storage, and the general lack of heavy sour feedstock demand), the bulls will have even more fodder. General macros concern, and seasonality, versus OPEC will be an interesting battle to watch, and while, we'd tend to think, fundamentally, \$82 is a fair price, we would also lean into embracing the short term rally.

(Fig. 1) International Flights by Origination



(Fig. 2) Domestic Flights by Origination



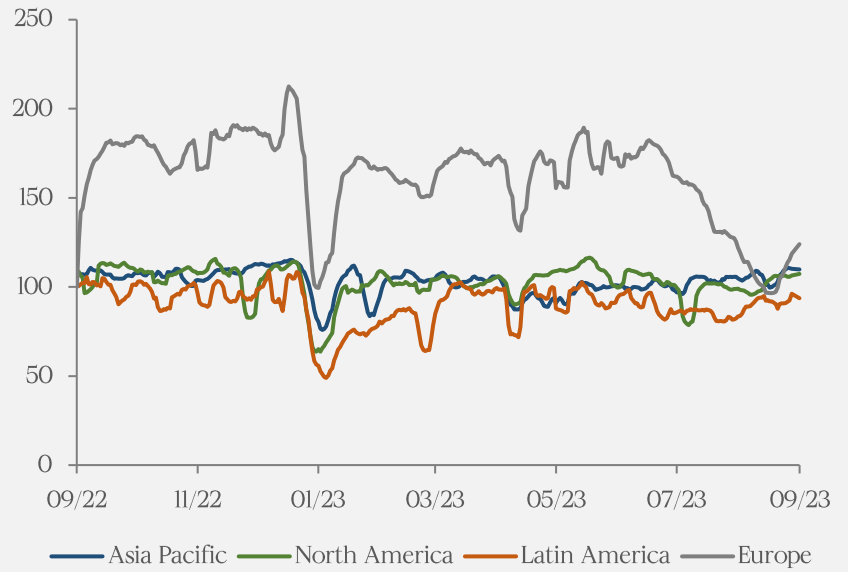
Source: Bloomberg, HTM Analysis

Global vehicle congestion indices are in-line with expectations, still no significant signs of economic weakness filtering through. Really, the real economy signals are mostly “business as usual” - which is positive for the majority of product consumption. On the supply side, we view OPEC’s role of market manager as surety enough that supply will be there, induced externally, or produced internally - with China keeping prices in check to the upside.

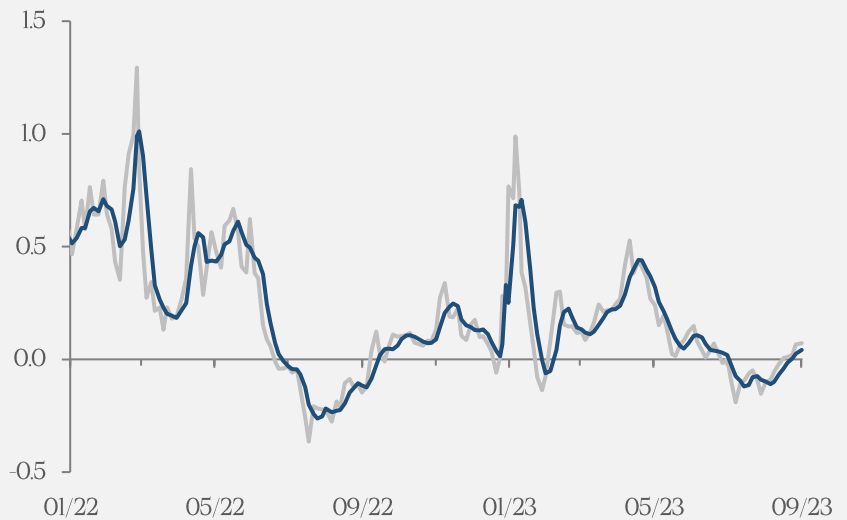
Real time diesel demand remains strong, considering the recession hysteria from earlier in the year - while not growing as fast as you’d hope, it’s not declining, especially in the face of the Chinese weakness story. While we don’t have a robust view on the Chinese economy, it evidently hasn’t completely collapsed (in fact, there’s a reasonable chance that the property slowdown is mostly overblown, and will have little effect on actual consumption), and gasoline stocks continue to draw.

We flirted with a crude short on Friday, but covered into the weekend, with momentum being too strong. While, OPEC mostly controls the value of the barrel, we don’t think it’s \$90 quite yet, but we also can’t ignore commercial positioning - in our previous notes we were looking for cash Chinese stimulus, lower US rig counts, and net speculative length chasing that momentum factor. There is no doubt that good news next week, and the press through \$85 this week, that crude will be on speculator’s minds - if China property concerns are resolved, and other macro nonsense sees some clarity, again, we wouldn’t really be shocked with \$90, but view it as mostly a short-term phenomenon. We would maintain exposure through quality names with specific torque (as discussed previously) as the lower quality relative value trade sits at a key resistance.

(Fig. 3) Global Vehicle Congestion



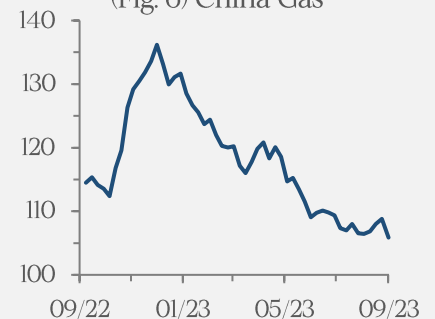
(Fig. 4) Live y/y Diesel Demand Growth (mb/d)



(Fig. 5) China Diesel

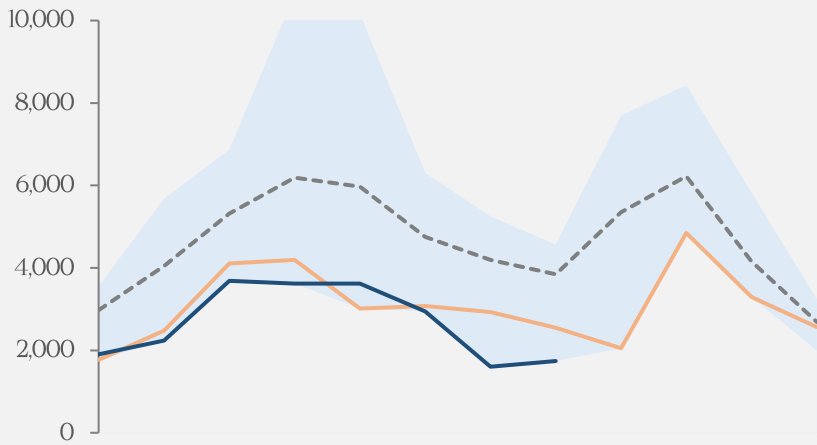


(Fig. 6) China Gas

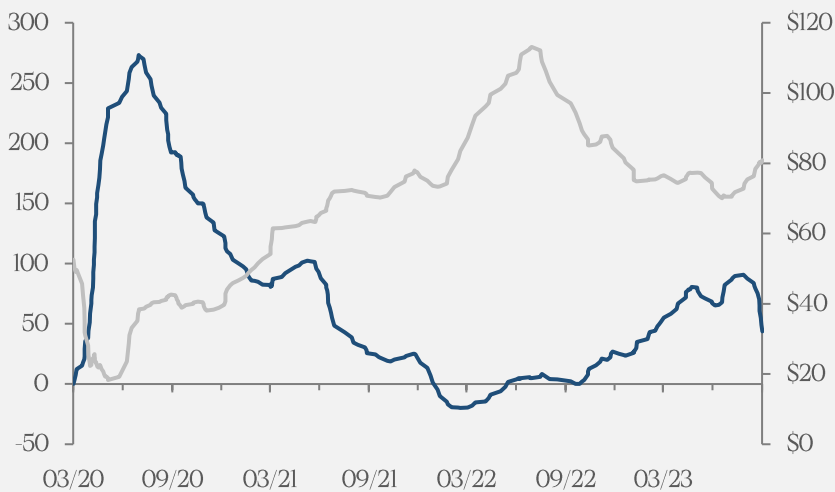


Source: Bloomberg, OilChem, Rystad Energy, TomTom, HTM Analysis
 Note: Chinese inventories are shown in million barrels

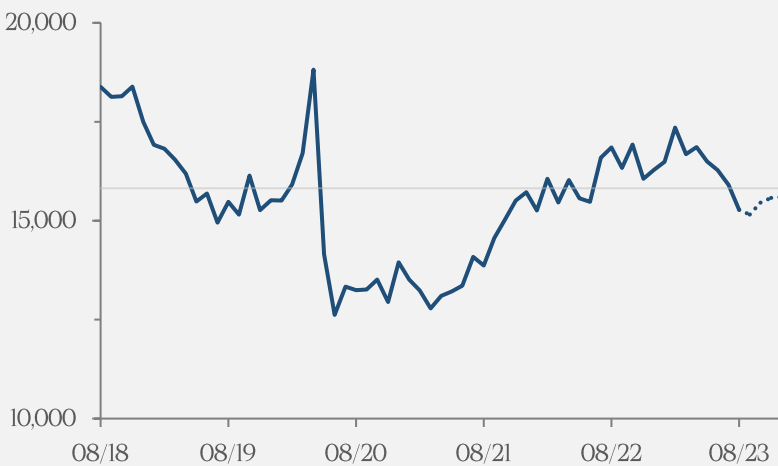
(Fig. 7) Global Refining Capacity Outage (kb/d)



(Fig. 8) Developed World Stocks Spread vs. Cash WTI



(Fig. 9) Persian Gulf Crude Exports & Forecast (kb/d)



Source: Bloomberg, Kpler, HTM Analysis

This summer's refining maintenance was seasonally quite low, a positive for the refined products market, which was already very tight, seasonal refining maintenance levels should keep refined product inventories tight – with heavy distilled, and ARA light distillates both higher than seasonal averages.

We continue to maintain, that the market needs to see a material deficit to what we'd consider the "baseline" OECD inventory levels of ~2.6bn barrels (with the last official reading at 2.8bn barrels) to move materially higher – while our inventory forecast doesn't have us there in 2023, there's a very real chance that we do get there in 2024 – though we do not believe that overtightening inventories is in the best interests of OPEC (recall, they do want a healthy market, and we have what we would consider one of the healthiest markets in decades) given their strategic goals. We believe they not only want to keep shale growth marginally in the money, but also induce fuel demand through reasonable, steady prices. Recession aside (has that passed, we're not entirely sure) – the oil market has enough capacity to meet demand growth (without destroying it), and prices high enough to induce long cycle investment.

This afternoon, in a research note published by GS, they said they think KSA production will remain flat at 9mb/d – and while we agree that cut barrels will not make their way back into the market in a hurry (in fact, we'd not be surprised with a further small cut to maintain exports <6mb/d) – this would see global draws into early 2024 (per our inventory model published in the last 'Weekend Flows'), again, something we see as positive, though not overwhelmingly bullish, and still in line with OPEC's objective.