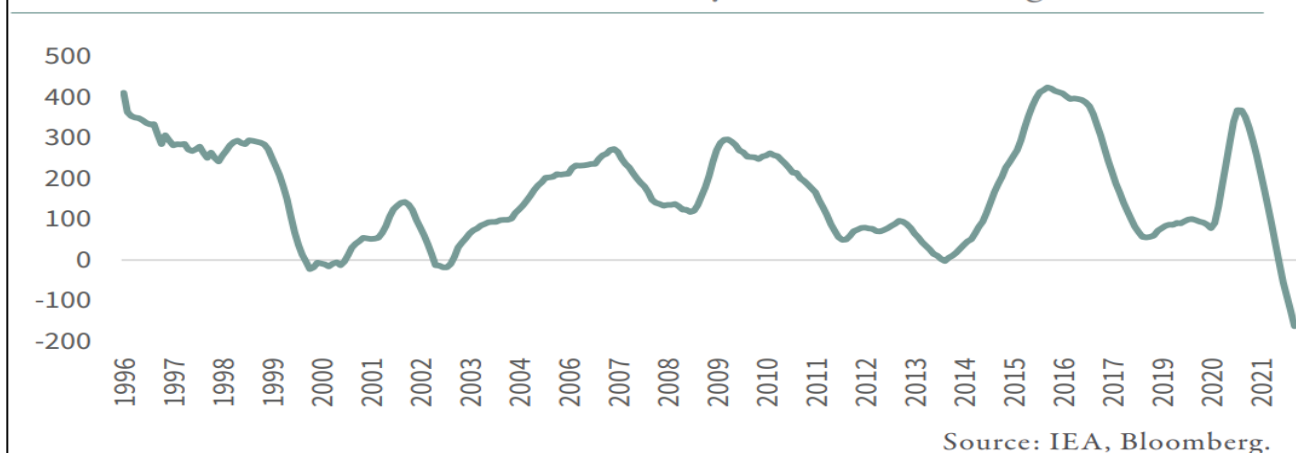




- Since pandemic oil inventories across the world has been declining as demand is running ahead of supply, energy prices have moved higher, energy stocks have shown leadership & yet we see no capital response/ no money has been put in any of the extractive/exploration exercise & that is keeping this market tighter.
- Shale exploration (2010) was an important development since discovery of oil fields in Saudi Arabia 70 years ago. But, even the biggest oil field is not infinite & are beginning to show their age(depletion). As expansion has been neglected for 10 years now there is no new capacity ready to back fill shale depletion.
- Backwardation in oil points to a very tight market and the reason this is because of under-investment in the industry. We are seeing the oil prices sell off at the same time the term structure tightened/backwardation increased; which means spot prices are selling off but underlying physical market is indicating tight supply. So, policies ideally should be the governed out increasing supply rather than the current set up of compensating customers for higher prices (via SPR release, reducing tax on gasoline)
- Oil markets are hyper-financialised; where, paper trades dominates physical trades. Sectors that did badly in 2008 recession & in 2022 are same (materials, energy, financial & industrials); despite present situation being different. Financial sector is less impaired now, energy is 4% of S&P vs 16% back then; so, markets are different but people are betting on same recession trade rules which is working it way into oil markets.
- Spread between price of refined products and that of crude oil have been at record high levels; at times gasoline and diesel have traded at levels implying \$200 on oil. Markets have been wondering if price discovery on oil is restricted by releasing SPR supplies thereby depressing oil side of this equation and refined products are indicating real price discovery as there is no SPR for gas, no SPR for diesel.

FIGURE 15 OECD Petroleum Inventory vs. 10-Year Average



Source: Macro Voices, Adam Rozenchwajg

1st half of every year oil markets tend to build inventories & 2nd half is used to draw them down. This year producers didn't build inventories despite an unprecedented release from SPR & need to re-furbish this. As SPR flows starts to pull off towards Q3/Q4; a spike in oil in 2nd half cannot be ruled out.

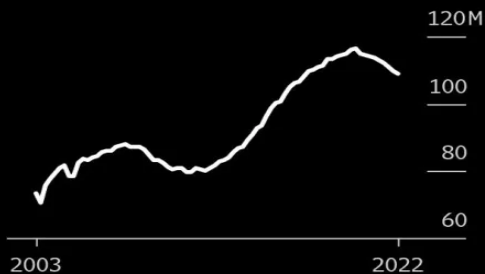


There are more than 3 times as many credit card accounts as there are total employed workers in the US. This is a nation of debt-driven consumerism — and it isn't sustainable with rising rates and a slowing economy.

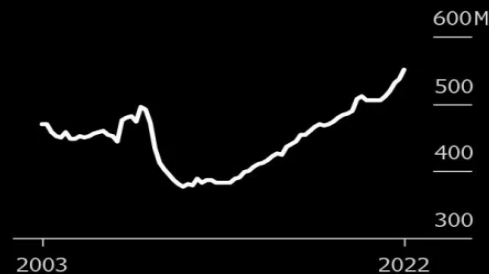
Credit Lines

US consumer hold a record 753 million accounts overall

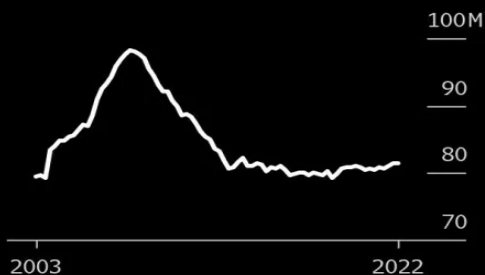
Auto Loan



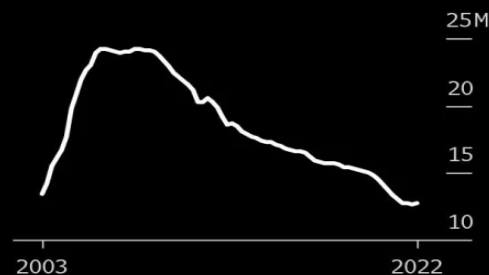
Credit Card



Mortgage



HE Revolving



Source: New York Fed Consumer Credit Panel/Equifax

Bloomberg

How The Current Yield Curve Is Flattening



Data Source: Federal Reserve and Bloomberg

© 2022 Bianco Research, L.L.C. All Rights Reserved
<https://www.biancoresearch.com/>

10y3m yield spread looks to be soon joining already-inverted peers as it flattens aggressively. This is an unmistakable sign that recession is not far for US economy.

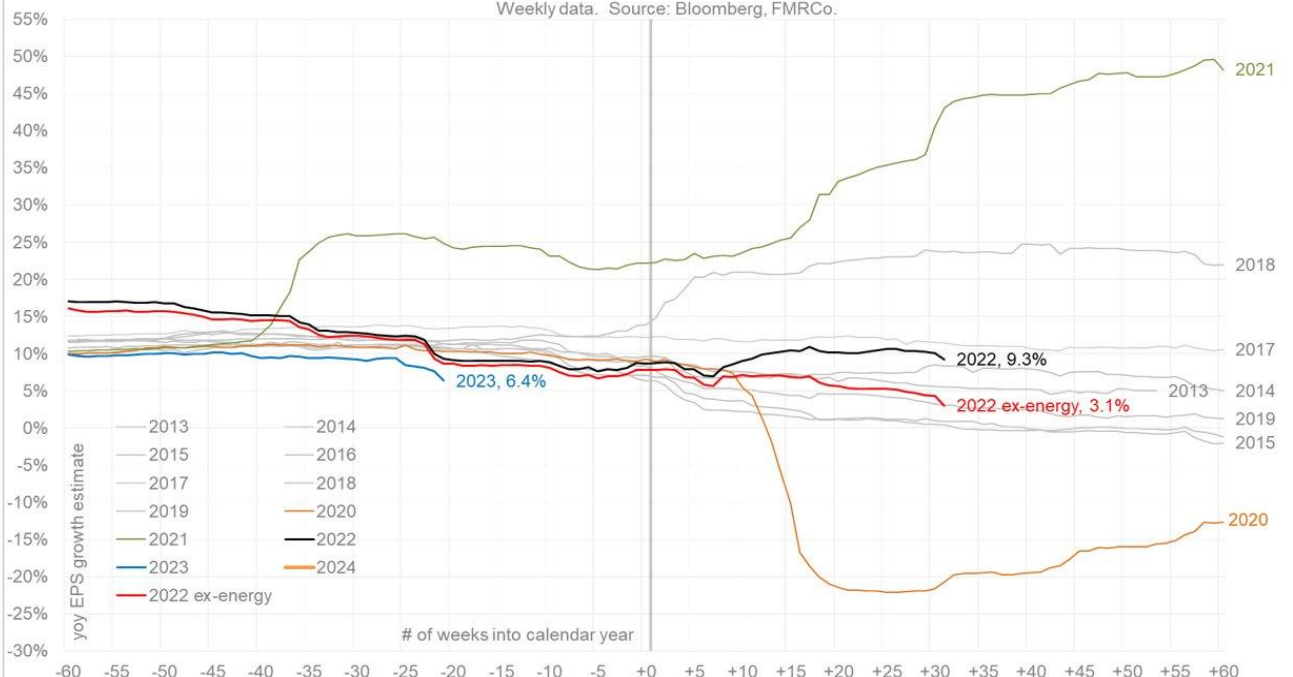




Earnings outlook has remained decent, thanks to energy. But minus energy, what do we have? Look at this calendar-year growth progression for the headline S&P 500 and ex-energy. The trend is clear.

Earnings Estimate Progression

Weekly data. Source: Bloomberg, FMRCo.



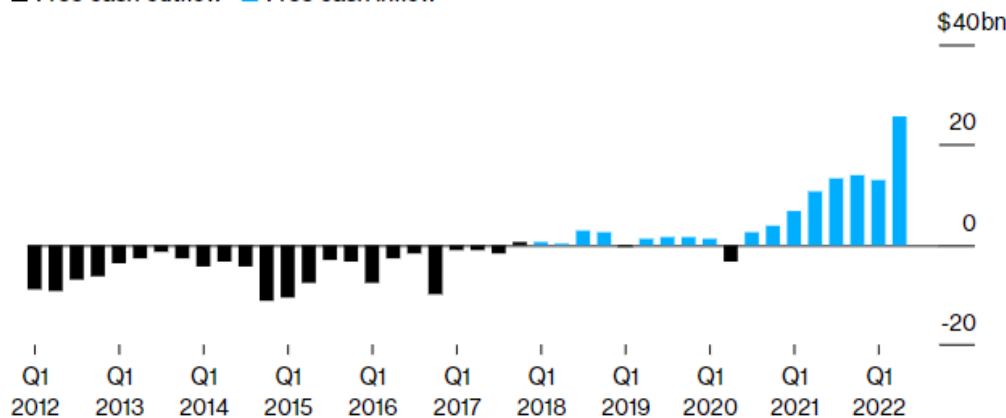
Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 07/31/2022. Past performance is no guarantee of future results.



US Shale's Record Cash Haul

Independent oil and gas producers are quickly making back past losses

■ Free cash outflow ■ Free cash inflow



Source: Bloomberg

Note: Data is for 28 publicly-traded US oil and gas companies tracked by Bloomberg Intelligence. Excludes cash flow from assets before they were acquired, meaning historic industry-wide losses may have been higher.

US shale drillers are expected to post record Q2 profits in coming days, likely making enough cash to erase a quarter of what they lost over the previous decade. They are not expected to reinvest in their business unlike last time and that is good news for higher and sustainable oil price.

