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Energy Risk  
Management Services

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**HIGHLY CONFIDENTIAL**

February 26, 2018

**Good Morning**

**Overview**

- Hydrocarbon prices were mixed overnight. **NYMEX crude oil down \$0.19 to \$59.10 per barrel; ICE Brent off \$0.06 to \$62.53 per barrel; NYMEX natural gas up \$0.061 to \$2.613 per mmbtu.**

**News/Views**

- Thus far this morning the prompt NYMEX crude oil contract has found support at around \$59.00 per barrel, but the trading day will be long, given the equity futures weakness and the latest prognostication from the IEA. The Agency seems to have changed its tune from last month, now suggesting the risk to the balance of rising non-OPEC supply after previously assuming a modest deficit in the second half of the year.
- Part of the culprit has been the revision to U.S. crude oil production as reported in the November EIA Petroleum Supply Monthly. The IEA subsequently embraced this revision, as required, in their own report and the current EIA outlook suggesting U.S. output will hit 11.0 MMB/D by the end of the year. As we have previously suggested, our Base Case has not assumed such lofty levels, but as previously discussed if we are wrong, holding all our other assumptions constant would imply that by the end of 2018 the year-over-year U.S. commercial position will move back into surplus, with our pricing model suggesting a drop in WTI to the upper \$40s per barrel in the fourth quarter.
- We will take the near term first, however, since we need to get there from here, but U.S. production remains of critical importance to the latest EIA stats to be reported tomorrow. As you are all aware, for the week ending February 2 the EIA reported a hefty 332 MB/D jump in U.S. crude oil production. We argued, and we believe we are correct, that this gain reflected the required algorithmic adjustment to the weekly estimates given the upward revision in the November PSM. The higher base then led to their econometric extrapolation, leading in turn to the reported higher production outlook as published in the latest Short-Term Energy Outlook.
- The importance of all of this is that if our interpretation is correct, we would not look for anywhere near the same production increase for the week ending February 9, and we cannot rule out a modest retracement. If this is so, analysts will moderate, at least for the moment, their increasingly bearish position. If we are wrong, however, and we see another sizeable jump in production, the odds heavily favor a fall in the March NYMEX crude oil contract to the 200-day moving average, which now stands at \$55.54 per barrel, in comparison to our current estimated fair fundamental value of about \$56.00 per barrel.
- Whatever the production number for last week, however, it needs to interact with the other balance variables to determine whether last week's crude oil stock position will move the market higher or lower. In this regard, the latest Reuters survey for the week ending February 9 is looking for a 2.6-million-barrel build in commercial crude oil stocks, a 1.4-million-barrel rise in primary gasoline supplies, and a 1.6-million-barrel draw in distillate fuel oil inventories.

- Our take on the crude oil data would assume, as previously discussed, only a modest increase in domestic production in the range of 10-20 MB/D, and a slight retracement in refinery crude oil runs. Our trade models assume gross imports and exports averaging about 8.1 MMB/D and 1.5 MMB/D, respectively. This arithmetic yields a stock build of only 1.3 million barrels. We will guess, however, that gross imports will have recovered somewhat more last week, to the tune of averaging 8.4 MMB/D. If so, holding all equal implies a stock build of almost 3.4 million barrels. For products, our math suggests modest builds for both gasoline and distillate.
- The latest ICE Brent Commitments of Traders Report is shown below along with the prior week.

	Open	-----Producer/Merchant-----			-----Swap Dealers-----			-----Managed Money-----			-----Other Reportables-----			
	Interest	Long	Short	Net	Long	Short	Net	Long	Short	Net	Long	Short	Net	Brent
30-Jan-18	2,516,759	604,675	1,391,589	(786,914)	384,426	53,386	331,040	618,968	36,403	582,565	99,581	234,200	(134,619)	\$69.02
6-Feb-18	2,396,395	540,914	1,324,738	(783,824)	382,230	53,242	328,988	615,118	33,269	581,849	97,655	229,440	(131,785)	\$66.86

W.H. Brown III

## WHB Energy Research, LLC Model Portfolio

<u>Asset Class</u>	L/ S	Vol.	Date Executed	Cost/ Price	Capital Utilized	Pct. Cap. Alloc.	Impl. Weight	12-Feb-18 Close/ Settlement	Profit/ Loss			
<b>Equities</b>												
<u>Indexes</u>												
1 XLE	L	26200	29-Dec-17	\$72.26	\$1,893,212	17.01%	100%	\$67.76	(\$117,900)			
<u>Independent Producing Companies</u>												
1 HES	L	10,000	29-Dec-17	\$47.47	\$474,700	4.26%	100%	\$44.14	(\$33,300)			
2 APC	L	6,600	29-Dec-17	\$53.64	\$354,024	3.18%	75%	\$57.82	\$27,588			
3 APA	L	9,600	29-Dec-17	\$42.22	\$405,312	3.64%	86%	\$38.11	(\$39,456)			
4 MRO	L	17,750	29-Dec-17	\$16.93	\$300,508	2.70%	64%	\$16.27	(\$11,715)			
5 CVX	L	1,000	2-Feb-18	\$118.58	\$118,580	1.07%	25%	\$113.98	(\$4,600)			
<u>Options</u>												
1					\$0	0.00%	0%		\$0			
2					\$0	0.00%	0%		\$0			
<b>Realized Equity Position Profit/Loss</b>									(\$57,186)			
<b>Total Equity Position Profit/Loss</b>									(\$236,569)			
<b>Commodities</b>												
<u>Futures Positions</u>												
1 CL					\$0	0.00%	0%		\$0			
2 CL Calendar Spread					\$0	0.00%	0%		\$0			
3 RBOB Crack					\$0	0.00%	0%		\$0			
<u>Options Positions</u>												
1 CL			CLH 52 Put	L	80	29-Dec-17	\$0.08	\$6,400	0.06%	2%	\$0.01	(\$5,600)
2 CL			CLH 66 Call	S	50	9-Jan-18	\$0.46	\$23,000	0.21%	8%	\$0.01	\$22,500
3 CL			CLH 67 Call	L	50	24-Jan-18	\$0.75	\$37,500	0.34%	13%	\$0.01	(\$37,000)
5 CL			CLJ 66 Call	S	75	19-Jan-18	\$0.74	\$55,500	0.50%	20%	\$0.17	\$42,750
<b>Realized Commodity Position Profit/Loss</b>									(\$71,000)			
<b>Total Commodity Position Profit/Loss</b>									(\$48,350)			
<u>Other Asset Positions</u>												
2			E Mini S&P 500 Mar 2200 Put	L	110	29-Dec-17	\$3.45	\$37,950	0.34%	8%	\$6.50	\$16,775
<b>Realized Other Asset Position Profit/Loss</b>									\$0			
<b>Cash Deposits Into Fund</b>					\$0							
<b>Cash Withdrawals From Fund</b>					\$0							
<b>Available Cash(a)</b>					\$7,425,655	66.7%						
<b>Total Profit/(Loss) On Equity, Commodity, and other Asset Positions</b>									(\$268,144)			
<b>Total Assets</b>									\$10,864,196			
<b>Rate of Return on Initial Capital(b)</b>									-2.4%			

**Notes:**

(a) Initial capital less full value of equity positions and initial/maintenance margin requirements for commodities.

(b) Before fees and commissions.

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