

The Damped Spring Report

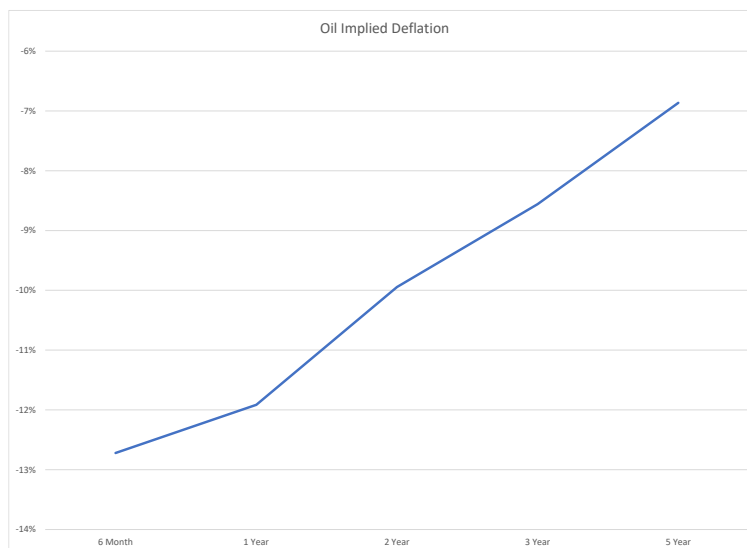
“Shifts in growth, inflation, risk premium and positioning all lead to opportunities in markets”

10/20/2022

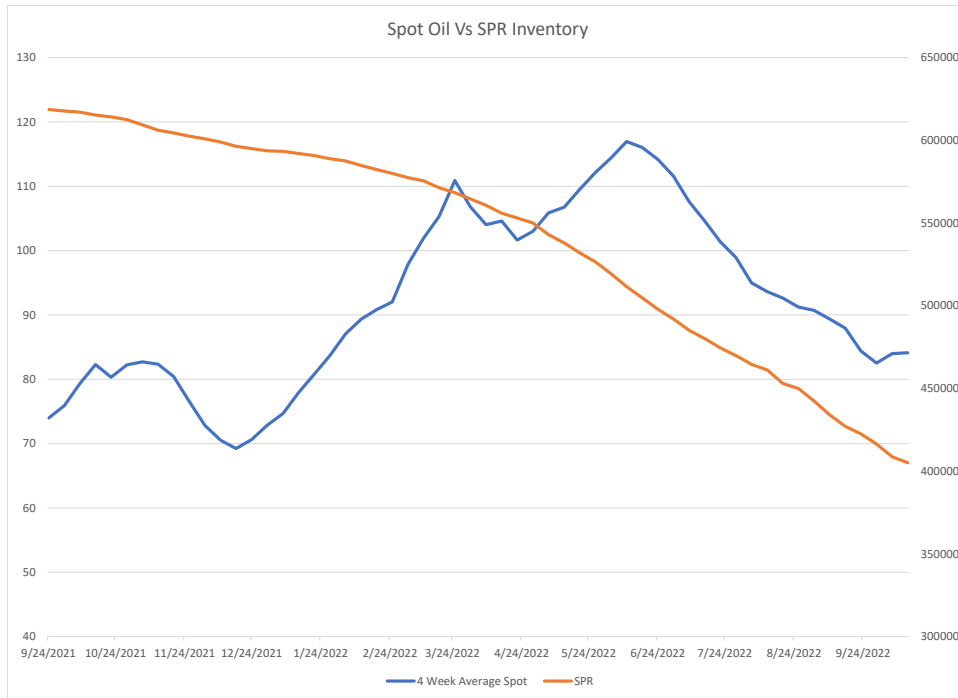
A brief and naïve look at the oil market is the subject of this DSR. Sometimes it pays to be naïve when looking at markets. Gazing at the forest instead of deeply focusing on the trees can pay off. It is possible we are doing neither.

Our view on oil has always focused on the longer-term contracts. Particularly in this unusual environment where inflation and inflation fears are dominating market pricing and policymaker action it strikes us as odd that the oil futures curve remains heavily backwarddated. This pricing suggests significant deflationary pressures over the course of the next five years. We believe that the SPR release is having its intended impact on spot. We expect the SPR release ahead of the election is political and will likely stop, pause, and then begin refilling over the course of the next year. Most importantly we are long term bullish on energy for many reasons we have discussed in past Damped Spring Reports. For all these reasons we are buying Call Spreads on December 2023 Oil Futures Options That also expire when the futures settle. Our Call spread is 95/105 for 2.10

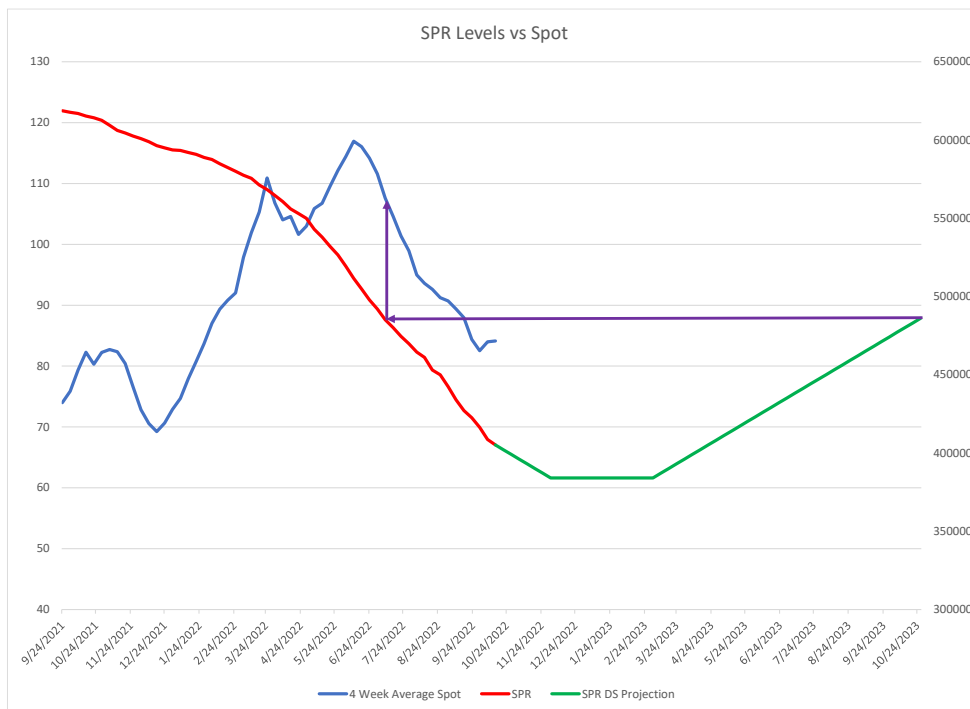
The Oil Forward curve implies deflationary pressure ranging from 13% over the next 6 months on an annualized basis to 7% over the next five years



The SPR release has made a clear impact on spot



We predict that the SPR will stop draining, pause, and then begin rebuilding. If the naïve relationship holds Dec 23 Spot will be 105



We have successfully traded front, back, and the backwardation spread all year. While the above is a simple and naïve forest view, we think 1 Year oil is very attractive and are buying call spreads for these naïve and other fundamental reasons catalogued all year.