Trading Trends and Recommendations from the AEGIS Desk

January 25, 2021

AEGIS reiterates near-term caution for WTI prices with rise in OPEC+ supply.

Trade recommendations are fluid and are for informational purposes only. Commentary is as of October 2, 2020, 8AM.

Hedge Trading Trends

Hedge emphasis among our clients has largely been dictated by lender requirements.

1. The winter strip lost some value this week, putting a damper on hedging activity
2. Oil prices falling below $40.00/Bbl also made hedging unattractive
3. Overall hedging activity remains low compared to prior weeks

Recent Recommendations

AEGIS recommendations are tailored to the individual profiles of clients, but there are some trades that have become worth considering given current market conditions. We explain those below, and in the table that follows.

WTI prices slipped below $40.00/Bbl this week. AEGIS remains wary that prices could move lower in the near term. Consider swaps or tight collars to mitigate price risk.

We are still bullish on natural gas and collars make the most sense for 2021-2022. However, stick with swaps through December.

Recent Recommended Trades and Structures

Commodity Tenor Recommended Structure Notes CME Hot-Rolled Coil (steel) 2H 2021 Call Options **Consumer:**
Backwardation in the steel curve allows strikes near current cash prices at reasonable cost. Aluminum: Platts Midwest Premium 2H 2021 Swaps **Pure Consumer:**
In the absence of a liquid options market, add to existing hedges by layering in modest amount of swaps taking advantage of slight backwardation. Dampen impact to profit margins if supply chain issues persist and LME remains elevated
Processor:
Maximize use of pass through pricing in physical contracts. Consider working a sell order in 1Q2022 to protect against possible removal of or significant exemptions to Section 232 tariffs LME Aluminum 2Q 2021 Swaps **Extruder:**
Hedge priced purchases and inventory in excess of priced sales to protect against inventory risk, reduced cash flow, and earnings volatility from "metal

lag"
Consumer:
Consider buying inexpensive much out-of-the-money call options to protect against prices at which profit-margin reduction severely threatens cash flow NYMEX Henry Hub Apr21-Oct21 Swaps or Tight Collars **Producer:**
AEGIS is constructive on natural gas given strong underlying fundamentals. Use a combination of swaps and collars to protect the Summer '21 strip. NYMEX Henry Hub Apr21-Oct21 Tight Collars **Consumer:**
Barring poor weather, we see risk for higher natural gas prices. Use narrow collars before call premia increase. NYMEX Henry Hub Nov21-Mar22 Wide Collars **Producer:**
Call skew is prevalent next winter. Use wider collars to give yourself upside price exposure without sacrificing too much downside. NYMEX Henry Hub Nov21-Mar22 Swaps or Tight Collars **Consumer:**
Similar to summer, we see risk for higher natural gas prices. Use swaps, or tight collars, to mitigate price risk. Call premia for this tenor is fairly low at the moment. NYMEX WTI Bal 2021 Swaps **Producer:**
AEGIS recommends swaps for the remainder of the year, as opposed to less attractive costless-collar structures. We feel risk is more weighted towards the downside, at least in the near term. NYMEX WTI Bal 2021 Swaps or Collars **Consumer:**
For clients who's budgets can tolerate current prices, we would recommend swaps. Otherwise, preserve some access to better pricing with collars. You are not overly penalized on call premia at the moment. NYMEX WTI Cal 2022 Collars or Three-Way Collars **Producer:**
Use collars in these tenors to give yourself upside price exposure as demand potentially recovers. NYMEX WTI Cal 2022 Swaps **Consumer:**
The global market may be buoyed by the expectation that demand is fully recovered by 2022. Use swaps to mitigate further price appreciation.

Big Questions

Answers to these questions are usually client-specific, but we're fielding

multiple inquiries on these topics:

1. My hedge book is under water, what are some of my options?

Adjustments will depend on the client, the book, financial situation, etc. If a collar is under water, you could consider buying back the call or buying a call spread to give yourself more upside. However, this is usually expensive. If a swap is underwater, you could consider transforming it into a three way. This would involve buying a call at the swap strike and then selling a put, below the swap strike, and selling a call, above the swap strike, to create a synthetic three-way collar.

Furthermore, if you have additional unhedged barrels, you could consider adding more hedges to raise your W.A. floor/ceiling. You could also look at enhanced structures as well, but that comes at a cost.

1. What are some hedge strategies for Non-Op players who do not control the timing of when their production comes online?

Puts would be the safest way to hedge. You can sell calls once production comes online to recoup most of your costs from purchasing puts.

We continue to monitor oil, gas, NGLs, and regional markets for hedging opportunities. To learn more and see AEGIS opinion and recommendations, go to AEGIS View publications, or contact info@aegis-energy.com. Like what you see? Share this article with the button on the bottom right of your desktop. Market questions or comments? Contact us at view@aegis-energy.com.