Green Drake™ Advisors, LLC
175 Strafford Avenue, Suite One
Wayne, PA 19087
(610) 687-7766 Voice
(610) 300-3211 Fax

www.greendrakeadvisors.com

Views From the Stream

October 31, 2024

The Monthly Letter covers two topics this month. First, we\take a look at Natural Gas for the first time in almost a decade. Natural Gas appears the victim of a confluence of forces that came together over the past several years. These forces initially overstated true demand for the resource. As these forces reversed, fortune turned against the industry with a hostile Presidential Administration, natural disasters, and mild winter weather, resembling some of the warm winters back in the 1970s. With Natural Gas Storage already full, prices continue to come under pressure. But facilities get repaired, weather normalizes, and rapidly growing electric demand should lead to increased use of Natural Gas for heating and electric production. These forces should unfold over the next several years, reversing the drop in Natural Gas prices. Second, as always, we close with brief comments of interest to our readers on a variety of current topics relevant to the economy and the markets.

Natural Gas: Buying Straw Hats In Winter

For those of us who grew up in the 1960s and 1970s, the weather seemed an important factor. Some years, we can remember the eye of a hurricane passing right over our house in the NYC Suburbs. Other years, we can remember violent thunderstorms that knocked out the power to not only our town, but to all of NYC as well. We can remember summers where you could cook an egg on the pavement. Considering we had no air conditioning when I grew up and only a big attic fan, those were nights where sleeping downstairs or out on the screen porch seemed a good alternative. And then we had winters that would not end. I remember one year when my parents sent me out to shovel the driveway and the wind had blown the snow above the top of the garage doors. While I loved the snow as a kid, I did not love it this much. But, there were also winters with little or no snow where the sled stayed in the garage despite the calendar. I remember one Thanksgiving where I wore short sleeves and shorts all day to help my Mom prepare in the kitchen. I only relinquished my comfort when my Dad told me to get dressed as the guests would arrive soon. For my young self, weather turned out to be a big deal.

For Natural Gas, weather dictates many of the factors impacting the industry and the ability of the industry to earn a living. If there is a hot Summer with large demand for electricity, Cooling Degree Days rise and suck up gas that might remain in storage. If there should happen a cold Winter, then Heating Degree Days soar, drawing down storage and driving up prices. Of course, the opposite occurs with a cool Summer or a warm Winter. With a cool Summer, storage enters the Winter already high, hurting prices. And if there is a warm Winter, storage remains high driving prices down as well.

Green Drake™ Advisors, LLC
175 Strafford Avenue, Suite One
Wayne, PA 19087
(610) 687-7766 Voice
(610) 300-3211 Fax

www.greendrakeadvisors.com

And it is not just the weather in the United States that impacts the industry anymore. With Liquified Natural Gas (LNG) exports utilizing 15%+ of the industry's output and continuing to grow, energy demand overseas can have an outsized impact on the commodity. In 2022 when the wind did not blow in Europe, Europe required numerous cargoes of LNG to make up for the missing power. Thus, US LNG exports soared to the Continent. However, with the wind normalizing in 2023 and 2024 as well as competition from other countries, those cargoes no longer found a home there. Thus, that Supply needed to find a place in the US or elsewhere in the globe. This backup of Supply provided an extra does the industry did not need. In addition, with Hurricane Beryl knocking out Freeport's LNG facility in 2023, the industry lost a portion of its ability to export production. Weather does have an impact on the industry.

Lastly, the Biden Administration favored all things Green and not hydrocarbon. This led to everything from blocking pipelines needed to transport Natural Gas to trying to put carbon emission limitations on drilling. All the rules were designed to raise the industry's costs and make it less economic to drill. In addition, there were regulations designed to lower future Natural Gas Demand such as the proposal to ban new natural gas stoves, which met with huge opposition around the country. Lastly, the Administration proposed and Congress passed large subsidies for Green Energy, such as Solar, Wind, and Hydrogen. These actions changed the economic equation for end users as they weighed the pros and cons as well as the costs of Natural Gas vs. Green Energy.

However, as my Dad used to say: "If you don't like the weather, wait 24 hours. It will change." And it appears the weather will change radically for Natural Gas. The first obvious change stands LNG. Europe's weather normalized and the negative demand impact stands behind the industry. In addition, the Freeport LNG facility knocked offline by Hurricane Beryl in 2023, came back fully online in July, 2024. Thus, demand for Natural Gas rose as exports resumed. In addition, the EU may import more LNG from the United States in order to forestall potential tariffs from the incoming Trump Administration. This would further impact US Natural Gas positively.

As to the weather, with storage full, prices retreated to low levels. And with a La Nina forecast to develop this year, weather should prove milder than normal. However, that merely means the bad news is already reflected in the price. And with prices already reflecting the slightly warmer than normal forecast, any deviation would prove positive for the industry. And, in fact, winter should prove backended under these conditions, which could boost the industry this coming Spring.

Lastly, the Administration in Washington will change in January. With the current Biden Administration pushing legislation to subsidize Green Energy and regulations to penalize hydrocarbon based fuel, Green Energy stood a large beneficiary from both direct and indirect policies of the Federal

Green Drake™ Advisors, LLC
175 Strafford Avenue, Suite One
Wayne, PA 19087
(610) 687-7766 Voice
(610) 300-3211 Fax

www.greendrakeadvisors.com

Government. The new Administration clearly plans to undo much of the largesse bestowed upon the Green Energy industry. This includes repealing, through legislation, many of the subsidies and tax incentives passed in the last Congress as well as undoing many of the regulations put in place by the EPA that favored Electric Vehicles, Electric Heat Pumps, Windmills, Solar, and other Green Energy. In its place, they will substitute policies that favor the Oil and Natural Gas Industry. As part of this, they likely will move to limit a state's ability to interfere with drilling on Federal lands and probably will act to end a number of states moves to prevent new interstate pipelines under the Commerce Clause of the Constitution. This authority already exists. However, the Biden Administration allowed states to prevent drilling and new pipelines as part of their Green Energy policies.

For Natural Gas, the playing field got tilted away in 2021. This included moves by the Biden Administration to limit production of all hydrocarbons, to make use of Natural Gas and Oil more costly, and to effectively ban their use by making it impossible to meet new environmental standards. This tilt will go away starting in January 2025 as the Trump Administration once more occupies 1600 Pennsylvania Avenue in Washington, D.C. For Natural Gas it truly experienced a Winter driven by legislative and regulatory measures. However, it appears Summer will arrive finally as the incoming Administration will take office in less than 75 days. With Winter still here but Summer coming into view, Buying Straw Hats In The Winter seems a wise policy before the full blaze of the Sun, from the change in Administration, shines upon the industry.

GREEN DRAKE ADVISORS

Green Drake™ Advisors, LLC
175 Strafford Avenue, Suite One
Wayne, PA 19087
(610) 687-7766 Voice
(610) 300-3211 Fax

www.greendrakeadvisors.com

Semi Done, Back To Basics, and Keep on Trucking

Finally, we close with brief comments on Semi Done, Back to Basics, and Keep on Trucking. First, SMIC, the large Chinese foundry, expects pressure on pricing and volumes for mature semiconductors. This makes complete sense as China just brought on capacity equivalent to 25% of Global Capacity. No industry can absorb this type of growth in a short period. With semiconductors associated with AI the only semis exhibiting strong growth, we see the industry as Semi Done. Second, clothing sales for basics, such as undergarments, continue to improve. After shrinking significantly over the past 24 months, it appears that volumes are bottoming and turning up. With this data, we see the consumer moving Back To Basics. And Third, trucking firms have endured a brutal two year downturn, with rates dropping significantly. However, firms like JB Hunt have begun to report better pricing and volume growth. For the firms that have survived the downturn, we say: Keep On Trucking.

In Closing

Should you have any questions on how the above issues or the items discussed in our accompanying cover letter impact your family's financial position or your business's future as well as the potential actions you could take in response, please do not hesitate to contact us. We welcome the opportunity to discuss this with you.

Yours Truly,

Paul

Paul L. Sloate
Chief Executive Officer