

Tankers and Natural Gas: Two beneficiaries of oil rout

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The big news over the last few weeks were the developments in the oil markets and how the West Texas Intermediate (WTI) May contracts went negative as they came up on expiry.

We spoke with Chase Taylor of Pinecone Macro Research on 25 April about his thesis to be bullish on natural gas and tankers that can store oil at sea to capitalize on higher future expected oil prices.

- Taylor believes the carnage and even the negative oil prices we saw in May WTI contracts are likely to repeat in June, as there doesn't appear to be any short-term demand spike to clear the storage.

While a number of investors believe the tanker trade is a 5- to 10-year theme, Taylor believes the economics are particularly attractive over a shorter horizon.

- He considers the day rates that tankers are earning as so high that the one-year cash flow a number of these tankers will earn is greater than their current market capitalization—with the bullish thesis not yet priced in.

While a number of investors think of natural gas and oil as two elements of the same trade, Taylor has a very different outlook for natural gas.

- Supply shrinkage: 40% of natural gas production is coincident with oil development, and well shut-ins with the oil collapse will bring down natural gas production.
- While oil demand is seeing a massive hit with reduced driving and travel, natural gas is not seeing the same drop.
- This is a classic supply-and-demand-balance question, and it appears supply will drop more than demand.
- Taylor sees natural gas potentially doubling from its current less than \$2 to over \$4.

Please listen to the full conversation with Chase Taylor below.

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