MAY
2024

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

FREIGHTWAVES | Ryder Ever better.

Production down, expectations up

April 24, 2024 | 9 a.m.

Overview

The freight market continues to battle overcapacity, but there are signs that capacity will exit faster in 2024 than it did in 2023. With that said, the more niche markets are likely to burn off capacity more slowly than the general dry van freight market.

A hotter-than-anticipated inflation report has tempered expectations for interest rate cuts at upcoming Federal Open Market Committee meetings. Fed Chairman Jerome Powell has reiterated the group's data-reliant position, noting how recent news from the economy has shown resistance to quantitative tightening. The labor market in particular continues to be a pillar of a robust economy.

Removing the near-term possibility of rate cuts has had deleterious effects on the construction sector. Demand for housing was unexpectedly low in March, as the patience of would-be homebuyers and construction firms alike in waiting for lower interest rates is wearing thin. March's housing starts saw notable weakness in both the single- and multifamily markets.

Domestic oil production fell in March, frustrating expectations of a continued rise. The U.S. Energy Information Administration forecasts gradual but steady growth in production until Q3 2024, at which point production should spike to new all-time highs.

Crude oil prices have not reacted to recent turmoil in the Middle East, as de-escalatory efforts from all parties have quelled fears of an expanding war. Demand weakness from China continues to be a headwind against OPEC's goal of higher prices. The cost of refined products has, however, gone up after Russian capacity was taken offline in March.

Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

Active daily rig count (y/y change)

Permian Basin	286 (-16.4%)
Gulf Coast Basin	66 (-227.5%)
Anadarko Basin	54 (-18.2%)
Total	**634 (-21.3%)**

Crude oil prices per barrel (y/y change)

WTI crude	$82.883 (+5.15%)
Brent crude	$87.01 (+7.95%)
Brent WTI Spread	**$4.63 (-17.2%)**

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Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than for drivers in any other mode. This is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, harming not only drivers and their equipment but also fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly during loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, side grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

Truck capacity outlook

The trucking capacity outlook is showing signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

The interesting growth areas haven't necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early '21.

With rates falling rapidly, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			
Total For-Hire Fleets, Tractors and Trailers				**Percent Change since February 2022**		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			
Total Private Fleets, Tractors and Trailers				**Percent Change since February 2022**		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers have to report the data only once every two years, so the growth over the past two years is evident from the rise in July's numbers compared to February's. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers have to report this number only biennially, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers having to report only once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			

Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			

Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market, and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.

Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629

Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262

Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, having to report counts to the FMCSA only once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

National economic outlook

The U.S. economy continues to be on strong footing as the labor market — at least the headline number — is resilient and consumers continue to spend. The elephant in the room is inflation trends after two hotter-than-expected readings for the Consumer Price Index.

At the most recent Federal Open Market Committee meeting, Federal Reserve officials opted to hold the federal funds target range, the overnight borrowing rate for banks, unchanged for the fifth consecutive time. The current federal funds range sits at 5.25% to 5.5%.

Analysts across the country have been expecting three cuts to the federal funds rate throughout 2024, and eyes now turn to the April 30-May 1 meeting for the next possibility. But given the challenging inflation data, the likelihood of a rate cut at the next meeting has dwindled. The next possibility for an interest rate cut would then be at the June 11-12 meeting.

Many still believe that three interest rate cuts this year are possible, but the later in the year they are pushed, the less likely they become.

The Consumer Price Index, one of the most widely used measures of inflation, came in at 0.4% month over month, matching the increase from February as well as being the second-largest increase over the past year. The increase wasn't enough to wipe out all the gains in retail sales, which is a positive overall.

What is concerning is that over the past two months, the 12-month running total for the CPI has been increasing, breaking the monthslong downtrend. The 12-month running total for the CPI currently sits at 3.5%, still above the Federal Reserve's long-term target of 2%. The Federal Reserve prefers the Personal Consumption Expenditures index (PCE), but the reversal in trend lines for the CPI is concerning nonetheless.

The increase isn't just the headline number. Core CPI, which is the CPI excluding the more volatile food and energy prices, has broken the downtrend as well. Core CPI increased by 0.4% m/m, matching the headline increase. Over the past 12 months, core CPI has increased by 3.8%, above the headline number, driven largely by increases in shelter prices.

Speaking of shelter prices, which make up the vast majority of the core CPI component, they increased by 0.4% m/m and are 5.7% higher y/y. Shelter prices lag other components of CPI naturally, but the increases are still an area to watch as consumers seek relief from higher prices.

One bright spot in the CPI report was limited price increases in food. Overall food prices increased by just 0.1% m/m. Over the past year, food prices have increased by 2.2%, well below the headline CPI number. Food-at-home prices were flat in March and just 1.2% higher than they were in March 2023. Food-away-from-home prices jumped by 0.3% m/m and are 4.2% higher y/y.

Energy prices continue to live up to their volatile reputation after rising 1.1% m/m in March, following the 2.3% m/m increase in February that was preceded by four months of lower prices. Energy prices were up 2.1% y/y in March. Gas prices were not immune to the increases, rising 1.7% m/m, and are now up 1.3% y/y.

Despite the persistent inflation pressures, consumers have shown they still have the propensity to spend. It aligns with the old adage: Never doubt the American consumer's ability to spend money.

March's retail sales surprised to the upside, which was needed after a hotter-than-expected inflation report. Retail sales increased by 0.7% m/m in March, surpassing analysts' expectations of a 0.3% m/m increase. The increase was a slowdown from the increase in February, when retail sales grew by 0.9% m/m, but that was likely skewed due to severe winter weather that impacted spending in January. Retail sales were 4% higher than they were this time last year. The growth is even more impressive when excluding motor vehicles and gasoline stations. Retail sales excluding motor vehicles, parts and gasoline stations were up 4.9% y/y.

The strength in retail sales in March stemmed primarily from growth in nonstore retail, which increased 2.7% m/m and is 11.3% higher year over year, and miscellaneous store retailers, which increased by 2.1% m/m and 6.1% y/y.

Labor market

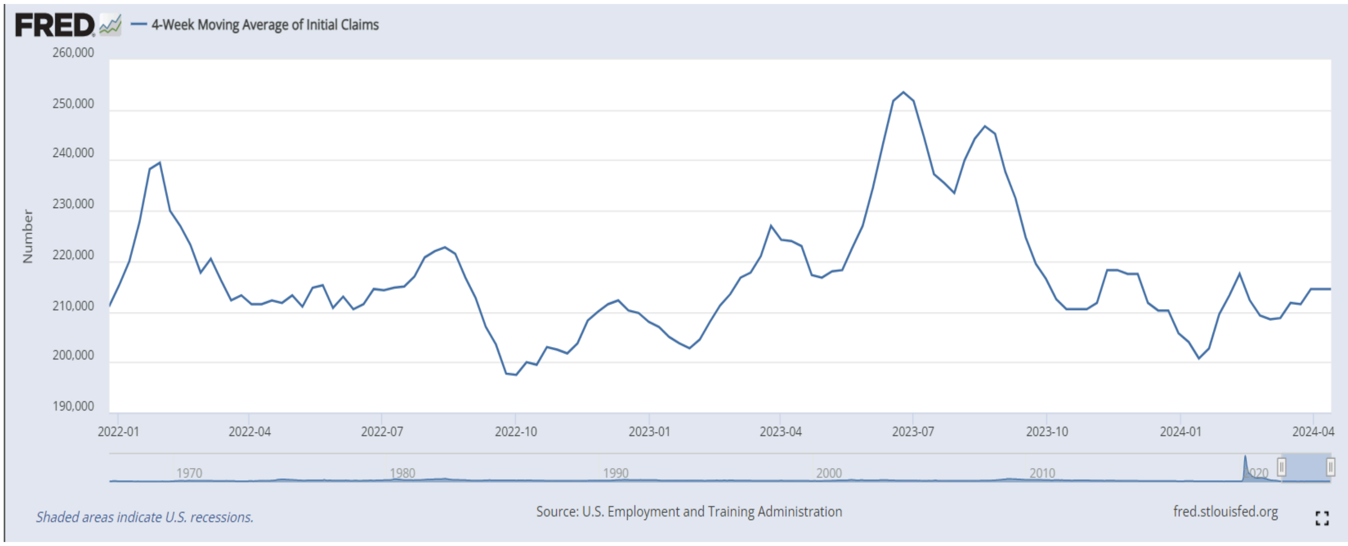


Chart: FRED, four-week moving average of initial jobless claims.

The labor market remains fairly resilient as the jobs report in March was strong and initial jobless claims have started to level off.

For the week ending April 13, the most recent week for which data is available, initial jobless claims were flat week over week at 212,000, 5.4% lower than they were the same time last year. Since the beginning of the year, initial jobless claims have hovered around the 210,000 mark, similar to where they were prior to the COVID-19 pandemic.

Continuing jobless claims keep inching higher. For the week ending April 6, the most recent week for which data is available, continuing claims increased by 2,000, to 1,812,000. Continuing claims were 4.3% higher than they were for the same period a year prior.

In March, the jobs report showed headline job growth of 303,000 from February, well ahead of analysts' expectations of 200,000. The increase in payrolls caused the unemployment rate to inch lower, dropping to 3.8% in March from 3.9%. This happened even as the labor force participation rate edged up slightly.

Looking under the hood highlights how the labor market may not be as resilient as it appears, given where hiring trends have been the strongest. In March, 23% of the increase in nonfarm payrolls originated from government hiring. Government payrolls rose by 71,000 in March, with much of the increase at the local government level.

Leisure and hospitality was again responsible for a large portion of the increase in nonfarm payrolls, adding 49,000 jobs during March. Restaurant and bar hiring accounted for 28,300 of the added leisure and hospitality payrolls.

Combining leisure and hospitality with government hiring, the two sectors accounted for nearly 40% of the added payrolls in March. Health care was also an area of growth, adding 72,300 jobs in March. Nearly two-thirds of hiring in March stemmed from these three sectors: health care, hospitality and government.

The unemployment rate edged lower during March, decreasing by 10 basis points to 3.8%. The unemployment rate remains 30 basis points higher than it was this time last year. Given the unemployment rate is still sub-4%, the Federal Reserve's decision to raise the federal funds rate over the past year hasn't crippled the labor market.

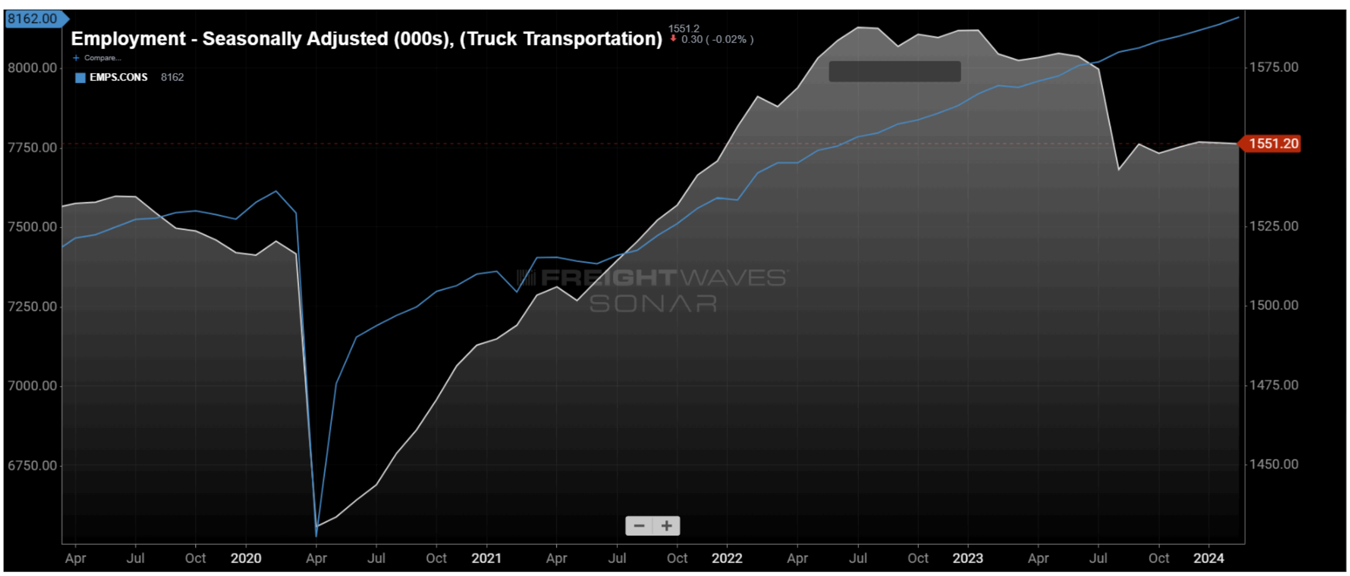


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (blue, left axis).

The transportation sector continued to see growth in the number of payrolls in March, but the growth was far less robust than in February. The overall transportation sector added 1,200 jobs during March, compared to the over 20,000 added in February. The sector has 6,540,500 payrolls, down 31,400 from the same period last year. Truck transportation was the primary driver of growth during the month, adding 5,100 jobs.

The oil and gas sector experienced a slight increase in the number of payrolls in March. The sector saw the number of payrolls rise by 300, erasing half of February's decline. Total oil and gas sector payrolls are currently 119,500, up 3,300 over the past year.

The construction industry is rapidly expanding payrolls after another month of significant growth. The construction industry added 39,000 individuals to payrolls in March, increasing the m/m growth from February's gain of 26,000. Total employment in the industry was 8,211,000 in March, up 270,000 from the same period last year. The growth in the industry continues to be primarily driven by specialty trade contractors, which added 25,200 jobs during March.

Job openings broke their downward trend in February, increasing during the month for the first time since November. Openings in February rose by 8,000, to 8,756,000, over a million openings fewer than the same month last year. Even with the uptick in openings, there were just 1.36 openings per unemployed individual during February, down from 1.44 in January.

The construction industry experienced a significant increase in the number of job openings in February. In February, the number of job openings in the industry increased by 16,000 m/m. The construction industry had 441,000 openings in February, up 32,000 from February 2023.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — had another significant decrease in the number of openings in February. Openings in February came in at 982,000, a decrease of 65,000 from the previous month. The 982,000 marks the lowest number of openings in the sector since May 2020. The reduction in the number of openings was driven by reductions in wholesale and retail trade, which saw openings decline by 31,000 and 35,000, respectively.

The quit rate, which is the number of resignations during the month as a percentage of total unemployment, was flat in February at 2.2%. The quit rate for the trade, transportation and utilities sector increased by 0.2%, to 2.5%. The quit rate for the construction section was unchanged in February at 1.9%.

Housing and construction

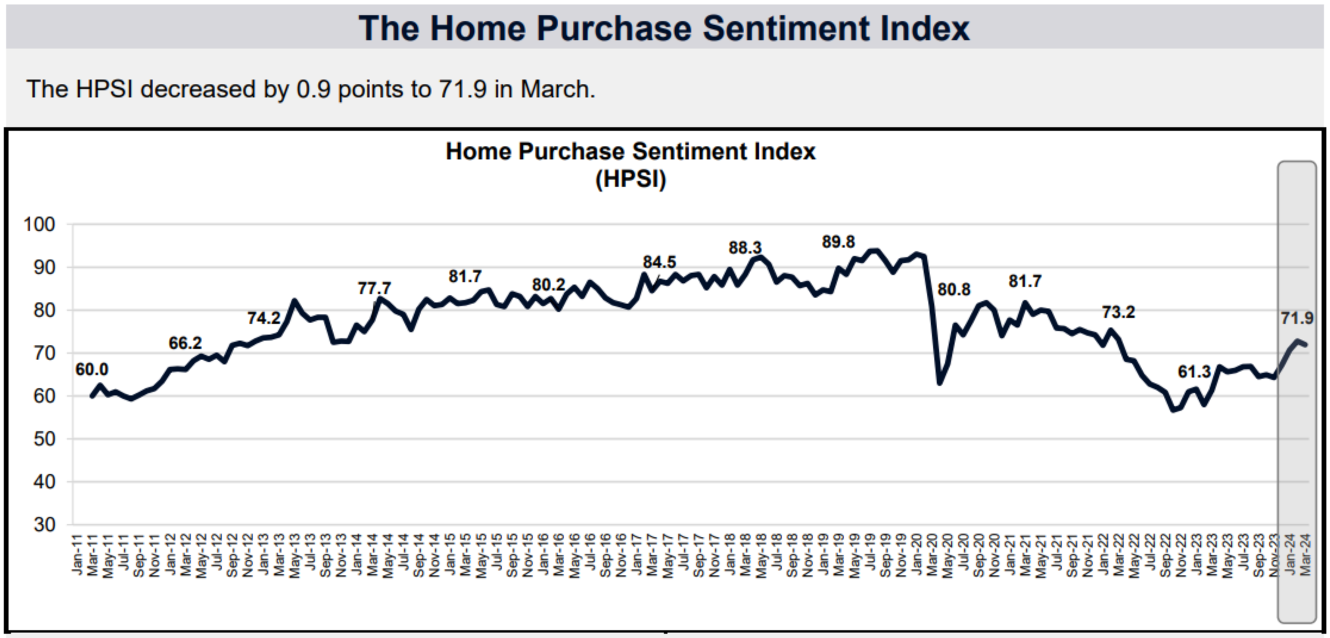
With inflation still higher than the Fed's target of 2%, the likelihood of interest rate cuts continues to be pushed later in the year, which could also mean fewer cuts in 2024 than many expected. Even with that potential risk, housing had a decent start in April. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending April 12, mortgage applications increased by 3.3%.

The Fed's decision to pause interest rate hikes but not fully pivot to cuts, yet, has created an environment in which mortgage rates have been on the rise since mid-December. The average 30-year fixed-rate mortgage, according to Freddie Mac, has jumped to 7.1%, the highest it has been so far in 2024 and the first time it has been above 7% since the first week in December. The 30-year rate is now 71 basis points higher than it was this time last year and is up 23 bps from the previous month.

Rising mortgage rates finally started to create a drag on home purchase sentiment in March. Fannie Mae's Home Purchase Sentiment Index (HPSI) fell by 0.9 points m/m to 71.9. The decline in the HPSI was the first of 2024, but the index is still well above where it was this time last year.

Despite increases in mortgage rates throughout February, Fannie Mae's Home Purchase Sentiment Index (HPSI) rose another 2.1 points m/m to 72.8. The increase was slower than that of the previous two months but brought the overall index to the highest level since March 2022.

Doug Duncan, Fannie Mae's senior vice president and chief economist, in the April 8 release of the HPSI stated, "the HPSI remained relatively flat in March, but we're seeing signs that consumers may be adjusting their expectations for the housing market to better accommodate the higher mortgage rate and home price environment."



Source: Fannie Mae Home Purchase Sentiment Index.

The slight decline in the overall HPSI can be attributed to respondents changing beliefs that mortgage rates are going to decline over the next 12 months. In the Fannie Mae survey, 34% of respondents expect that mortgage rates will increase over the next 12 months compared with 29% who expect declines. In March, 35% of respondents expected lower mortgage rates while 32% expected higher rates. This shift is likely short term as it appears that the Federal Reserve will cut interest rates, just not to the degree many believed earlier in the year.

After a strong February, housing starts plummeted in March. Housing starts dropped 14.7% m/m to a seasonally adjusted annual rate of 1,321,000, the lowest level since August 2023. Total housing starts were down 4.3% y/y in March, but much of the decline, especially y/y, is due to softness in multifamily.

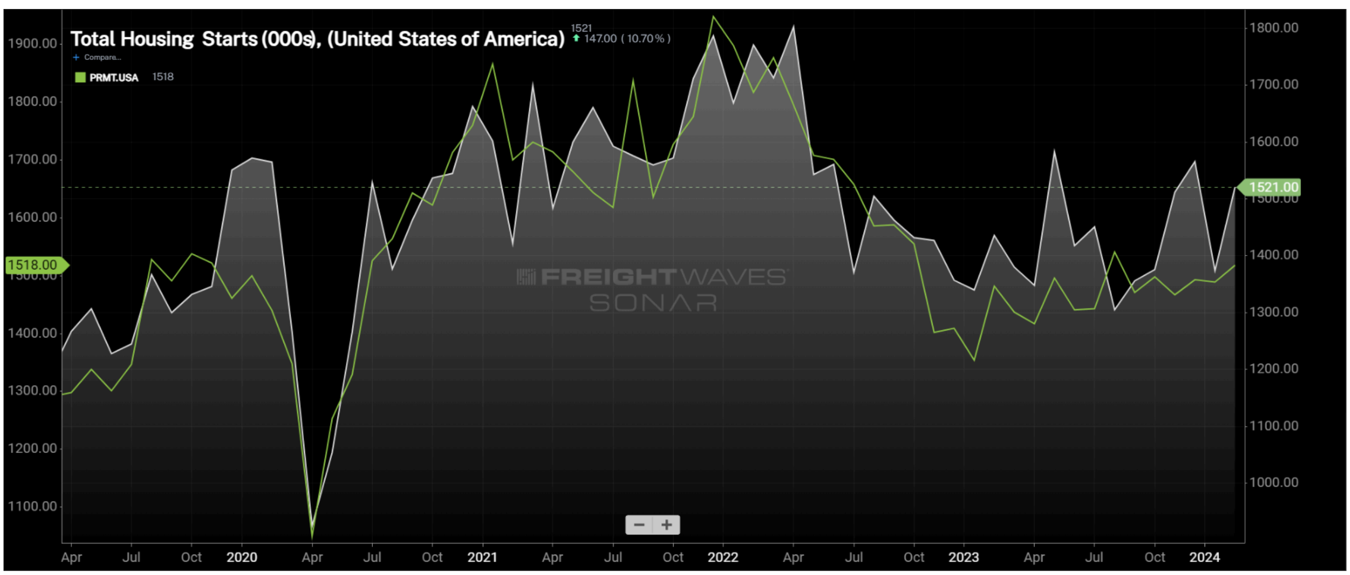
Single-family housing starts dropped by 12.4% m/m in March, but February was the highest seasonally adjusted annual rate of the past 12 months, so the drop is something to monitor but not to be concerned with at the moment. That is because even with the decline m/m, single-family housing starts are up 21.2% y/y.

The more concerning trend has been the decline in multifamily housing starts. Multifamily housing starts dropped by 20.8% m/m in March and 43.7% y/y. The declines during the month brought the seasonally adjusted annual rate to just 290,000, the lowest level in over a year.

The West was the only region that experienced an uptick in housing starts, rising 7.1% m/m and 48.1% y/y. The largest region in the country, the South, saw housing starts drop by 17.8% m/m and 11% y/y.

Despite the higher interest rate environment, construction spending remains elevated compared to the prior year. In February, which is the latest data surrounding construction spending, total spending fell 0.3% m/m, but total construction spending was 10.7% higher than it was in February 2023.

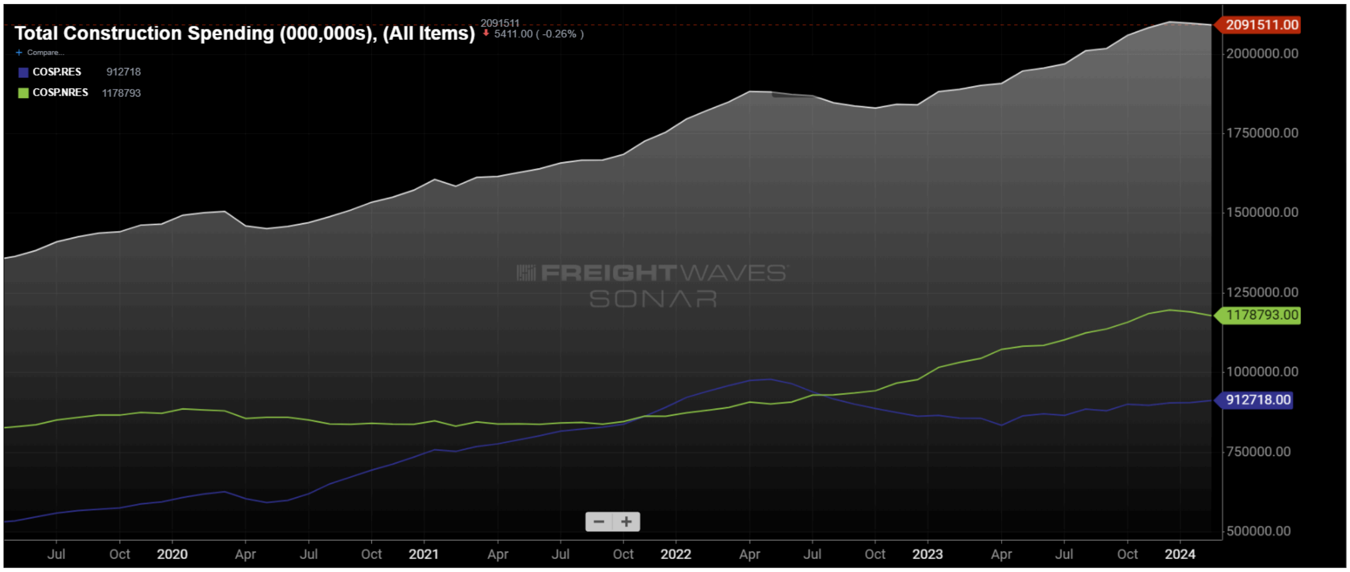
In addition to housing starts, permits saw a healthy increase in February, rising 1.9% m/m and 2.4% y/y. Permit levels are just shy of the highest level of the past year. Single-family permits rose by 1% and are 29.5% higher than in February last year.



Source: FreightWaves SONAR. Total U.S. housing starts (white) and total new build permits (green).

March's sour taste toward housing flowed into existing home sales. According to the National Association of Realtors, existing home sales fell by 4.3% m/m in March as sales dropped in the Midwest, South and West regions, while sales in the Northeast rose. Existing home sales were 3.7% lower than they were in March 2023.

The average purchase price for an existing home continued to show y/y growth. The median existing home price was $393,500 in March, up 4.8% y/y and the highest price ever seen in March.



SONAR: Total construction spending (white), residential construction spending (blue) and nonresidential construction spending (green)

Residential construction spending kept the total construction spending decline from being more severe. Residential construction spending increased by 0.7% m/m to a seasonally adjusted annual rate of $912.7 billion. Residential construction spending was 6.5% higher than it was the previous year. The increase was solely due to increased spending on new single-family homes. New single-family home construction spending was up 1.4% m/m and 17.2% y/y. This increased investment is needed as supply in the housing market is challenged and demand remains resilient despite higher mortgage rates.

Nonresidential construction spending had a challenging month as spending was down 1% m/m. Even with the decline, nonresidential construction spending was 14.2% higher than it was the previous year. These gains are impressive given the increases in interest rates over the past year. The seasonally adjusted annual rate for nonresidential construction spending totaled $1.2 trillion in February.

Among the categories of nonresidential construction spending, only transportation spending experienced an increase m/m. Transportation construction spending increased by 0.7% m/m and is 6.6% higher y/y.

Oil market

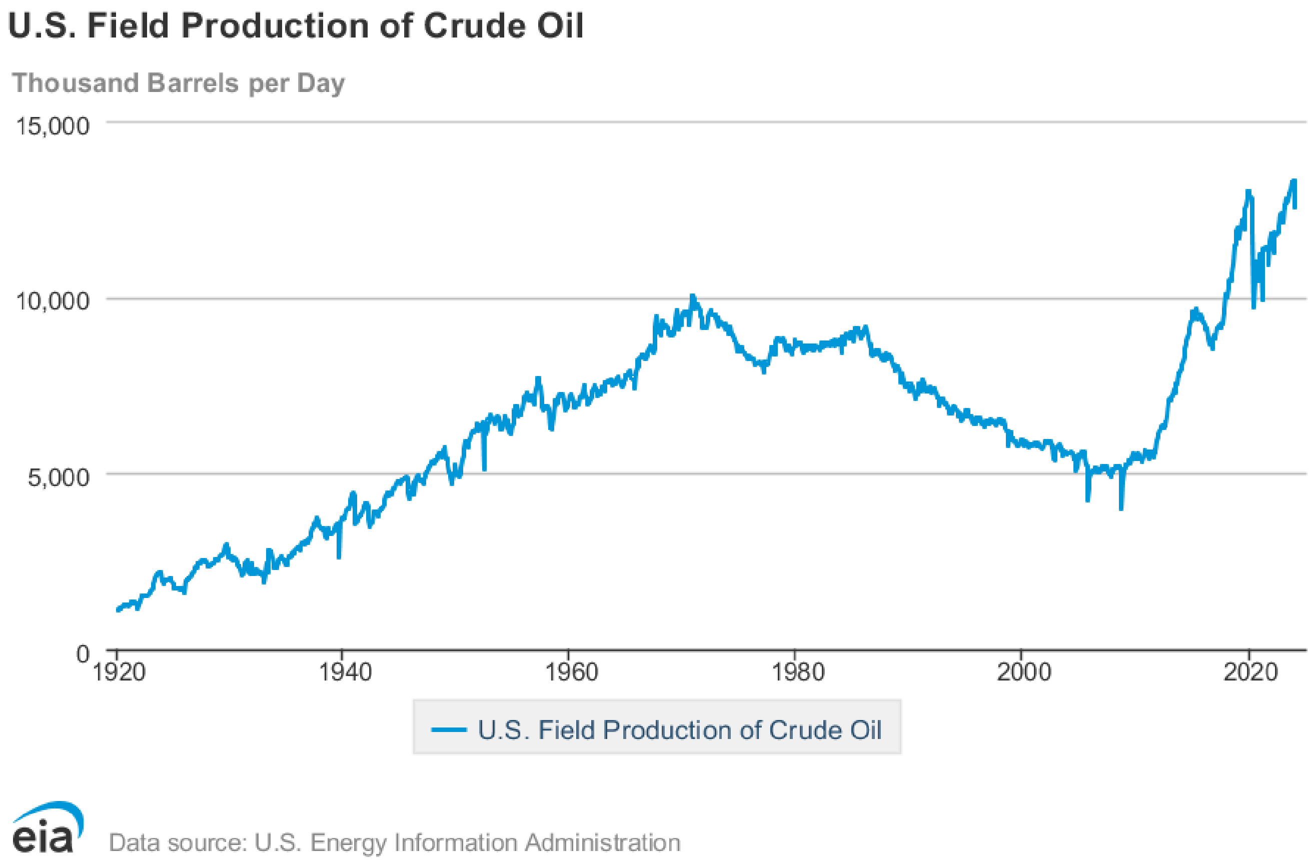
In mid-April, Iran launched an attack on Israel comprising hundreds of missiles and drones. This strike was ultimately rendered ineffective by the air defenses of Israel and the U.S., plus an assortment of Sunni-led countries — including Saudi Arabia — with vague contributions to the defense. Less than a week later, Israel followed through on its promise of retaliation: The country targeted the Iranian province of Isfahan, which contains nuclear facilities and an air base. The extent of the damage, however, is yet unknown and has been downplayed by Iran's leadership.

Naturally, these developments in the broader Israel-Hamas war spooked commodity markets, which feared rapid escalation that would disrupt the trade of oil in the Middle East. But while these attacks did threaten to send Brent crude prices above $100 per barrel for a spell, their effect has been limited as both Israel and Iran appear to work toward de-escalation. In fact, Brent quickly fell to prices below their highs prior to the Iranian attack.

This limited rise and swift fall has affirmed oil traders' wait-and-see approach to pricing for geopolitical risk, which has been tested several times since the fallout of Russia's invasion of Ukraine in February 2022. Given that this year is host to a presidential election in the U.S. with an incumbent candidate, the current administration is focused on restraining energy prices in the interim. As such, the Biden administration is unlikely to impose sanctions on Iranian oil anytime soon, since the market exists in a relatively fragile state.

In March, gross domestic oil production tumbled to 12.93 million barrels per day (bpd) from February's short-lived resurgence to 13.08 million bpd, falling 150,000 bpd m/m. Production figures from previous months continue to be revised, though February's data was quite close to its initial reading of 13.07 million bpd.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) forecast that domestic crude oil production would rise by 30,000 bpd m/m to 13.1 million bpd. While the EIA overshot the mark on both the monthly gain and the final reading, it retains a growing optimism about production rising in 2024, especially as oil demand is set to hit all-time highs in the coming months.



After factoring in March's losses and revisions to prior months' data, the EIA predicts that domestic crude oil production set an all-time high in December that will not be surpassed until August 2024 at the earliest. The EIA continues to predict that the full years of 2024 and '25 will outpace 2023's production average of 12.93 million bpd. In April, the EIA projects that crude oil production will rebound by 110,000 bpd m/m to 13.04 million bpd.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The Baker Hughes active rig count for the U.S. as a whole totaled 619 rotary rigs as of April 19. This latest count marks a brutal decline of 17.8% y/y, continuing a series of y/y losses not sustained since April 2021.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy market, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	54	-1	-1.8%	-12	-18.2%
Appalachia	41	-2	-4.7%	-12	-22.6%
DJ Basin	10	-2	-16.7%	-9	-47.4%
Gulf Coast Basin	66	-5	-7.0%	-25	-27.5%
Permian Basin	286	1	0.4%	-56	-16.4%
Williston Basin	37	0	0%	-2	-5.1%
San Joaquin Basin	3	-3	-50%	1	50%
Other	137	-10	-6.8%	-57	-29.4%
Total	**634**	**-22**	**-3.4%**	**-172**	**-21.3%**

Source: Enverus daily active rig count as of April 22.

After a record-setting wave of mergers and acquisitions, operators in the Permian Basin are now setting their sights on innovative methods of extraction. Per a report from Bloomberg, Diamondback Energy — the largest independent shale producer in the Permian — signed a nonbinding letter of intent with U.S. nuclear startup Oklo Inc. Oklo CEO Jacob Dewitte said Diamondback was one of many exploration & production firms interested in deploying small nuclear reactors to power their drilling operations, marking a shift from reliance on diesel generators and local power grids. Although this technology is still some years out from seeing use in the field, it underscores a broader turn toward sustainable operations in the sector.

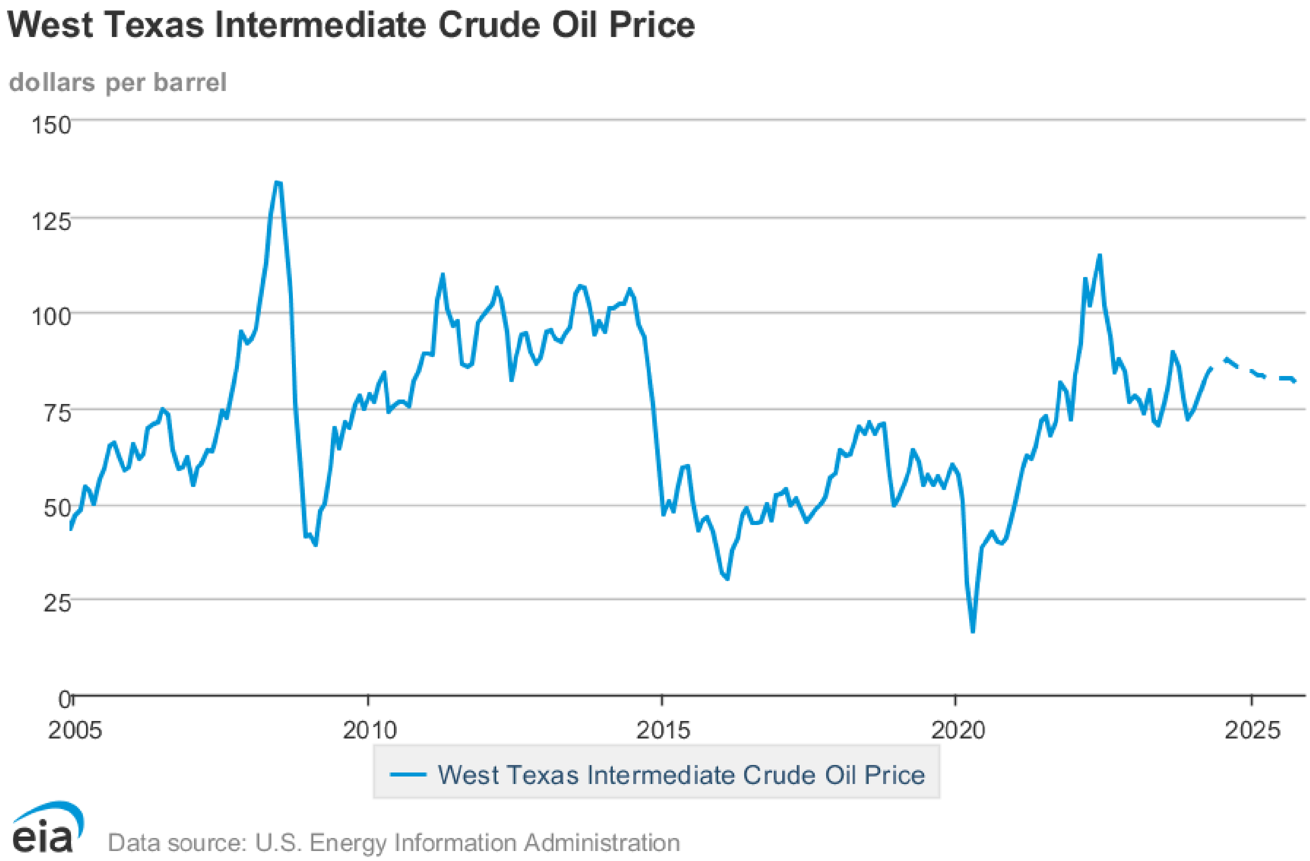
Crude prices near $87/bbl at start of April, though de-escalation in the Middle East has overbalanced bullish concerns

Oil prices started April on a hot streak when Saudi Aramco, the world's top crude oil exporter, raised the prices for most of its crude grades. This decision was announced days after OPEC's recent meeting of the Joint Ministerial Monitoring Committee, in which the group held its previously set production quotas unchanged. While the market has not seen the tightness that Saudi Arabia and others would like, it appeared as though prices were about to inflect in their favor — all the more so when the aforementioned military actions between Israel and Iran occurred in the following week.

But de-escalatory efforts made since by Israel, Iran and other connected parties have quelled most of the fears surrounding turmoil in the Middle East, even if not all traders have bought into the ensuing talks of peace. Prices were also tempered by the release of the International Energy Agency's latest Oil Market Report, in which the IEA lowered its demand forecast for 2024 by 130,000 bpd. Per its latest forecast, global crude demand will rise 1.2 million bpd y/y this year. Unsurprisingly, the IEA's forecast stands in stark contrast to OPEC's, which predicts a more bullish gain of 2.2 million bpd y/y in 2024.

For now, prices of West Texas Intermediate crude (WTI) — a domestic benchmark — are down nearly $4/bbl from early April's high of $86.91/bbl, with oil having a dubious potential for gains in the short term. Despite WTI's vulnerability to certain possible geopolitical shocks, such as the absolute closure of the Strait of Hormuz, the recent surge in domestic production has all but insulated U.S. oil prices from the influence of OPEC. The Biden administration has used this cushion to impose sanctions on Russia and Venezuela without fear of consequence. Even so, 2024 is still an election year and so if new developments threaten to drive domestic prices higher, one can safely expect swift mitigation from the government.

EIA projects WTI will peak at $87.50/bbl in August, but many traders see potentially deeper rally



The EIA's latest Short-Term Energy Outlook, published in early April, became slightly more bullish on near-term WTI prices. In March, the EIA had forecast that Brent spot prices would command an average premium of $4.85/bbl over WTI in 2024 and of $4.50/bbl in 2025. But in April, the spread narrowed slightly to $4.77/bbl in 2024, though the EIA did reaffirm its 2025 forecast of a $4.50/bbl premium. The EIA continues to believe that global oil consumption will outpace supply throughout most of 2024.

Despite the momentary diffusion of price tensions around the conflict in the Middle East, commodity traders are bracing for higher oil prices this summer. Notably, Morgan Stanley raised its Brent outlook by $4/bbl in April, now expecting the grade to average $94/bbl during the third quarter. This latest hike follows one in March, when the bank raised its Q3 Brent forecast by $10/bbl, citing uncertainty caused by OPEC and the then-recent drone attacks on Russian refineries.

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