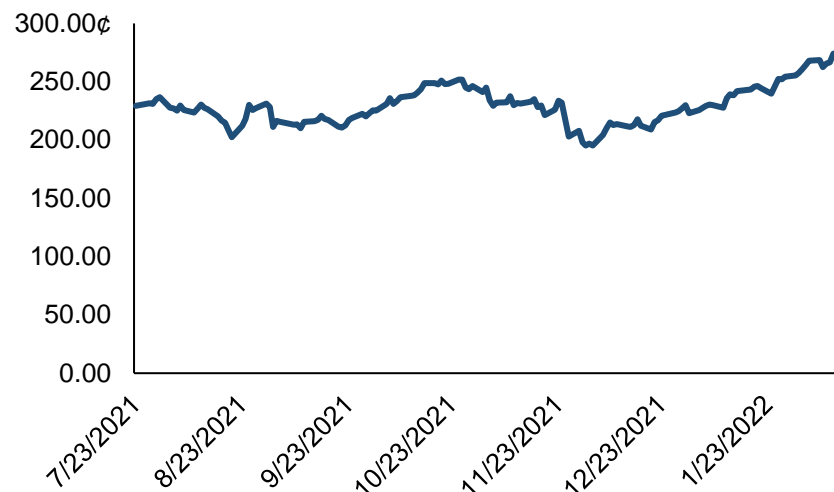




## RBOB Gasoline | Six-Month Price Chart



### Position Details

- RBOB Gasoline | XBJ2C
- Underlying Price: 280.95¢
- Call Backspread
- Expiration Date: March 28, 2022

### Energy Sector

#### Associate

Aidan Martin  
aidanemartin532@gmail.com

#### Analyst

Anthony Cammuso  
acamuso6@gmail.com

#### Analyst

Jacob Kirshbaum  
jacobkirshbaum33@gmail.com

#### President

Luke Palma  
lukepalma25@gmail.com

#### Vice President

Nico Mahramas  
nicomahramas@gmail.com

#### Chief Investment Officer

Joseph Palermo  
joseph.palermo12@gmail.com

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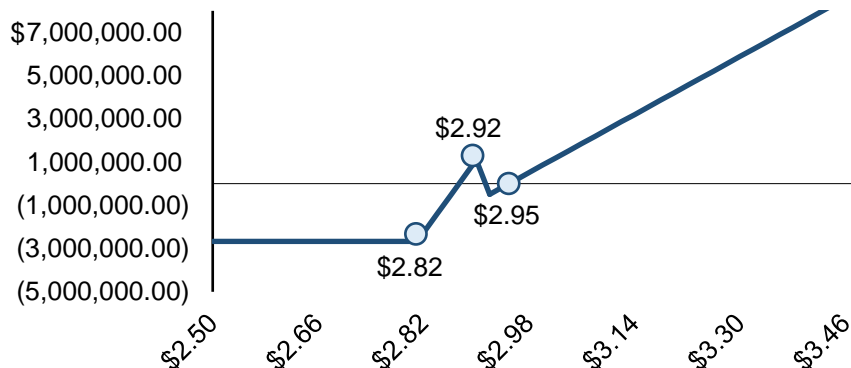
## I. Product & Position Overview

## Product & Position Overview

### Product Description

- **RBOB Gasoline**
  - Reformulated Gasoline Blendstock for Oxygenate Blending (RBOB) is motor gasoline produced from refined crude oil giving the two products a tight correlation
  - Reformulated gasoline is cleaner than most other blends accounting for roughly 30.00% of the U.S. gasoline market
  - RBOB gasoline is traded on the New York Mercantile Exchange (NYMEX)
- **Largest Producers of Gasoline**
  - Producers (k b/d)
  - USA (8.90), China (2.10), Japan (0.92), Russia (0.90)

### Payoff Diagram



### Trade Breakdown

- **Call Backspread**
  - This trade benefits from increases in the underlying with protection against bearish movements
- **Setup**
  - We Buy – 1000.00 OTM 281.00¢ Calls (14.45¢) | XBJ2C
  - We Sell – 2900.00 OTM 290.00¢ Calls (10.65¢) | XBJ2C
  - We Buy – 2300 OTM 292.00¢ Calls (9.92¢) | XBJ2C
  - Max Profit: Theoretically Unlimited
  - Max Loss: (\$2,680,020.00)
- **Expiration**
  - Date: 3/28/2022

### Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **320.00¢ / 302.00¢ / 270.00¢**
  - Breakeven – 287.38¢, 291.38¢, or 294.95¢
- **Methodology**
  - The bull case represents the scenario where prices become elevated to historic 2014 highs. The base and bear cases portray conservative swings in the underlying in either direction based on the current economic situation
- **Hedge Strategy**
  - As a hedge, the sector will open a put backspread position to effectively reverse trade against any bearish movements

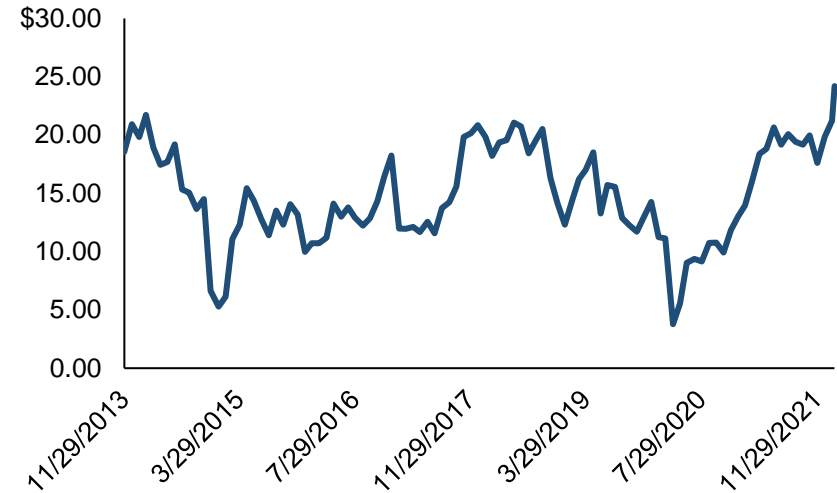
## I. Macroeconomic Thesis

## Macroeconomic Thesis

### Macroeconomic Summary

- **Rising Crude Oil Demand**
  - Crude oil prices continue to increase, up roughly 12.00% in the past month, leading to surging energy prices
  - U.S. implied oil demand hit an all-time high in the first week of February with rising concerns over forecasts of demand reaching pre-pandemic levels of 100.00 mm b/d by 2Q2022
  - OPEC+ countries have failed to meet expectations, underperforming by 700.00 k b/d during January
    - OPEC+ remains positioned to increase output in March, despite mounting pressure
- **Increase in Travel Demand**
  - For the week of February 6, 2022, the U.S. saw a 50.00% decline in new covid-19 cases from the week prior while hospitalizations decreased by 16.09%
    - Globally new cases dropped 17% in the same period while falling 31.00% over the last 14.00 days
  - From February 6 to February 13, TSA reported an increase in travel numbers, rising to 74.17% of pre-pandemic levels
- **Diminishing Stockpiles Continue to Effect Supply**
  - Crude oil stockpiles fell to 410.4 mm barrels, the lowest level since 2018, 11.00% under the five-year average
    - Out of the last 81 weeks, crude inventories have declined in 56 of them, losing 273.00 mm barrels
  - Distillate fuel inventories plummeted 930.00 k barrels, 19.00% below the five-year average

### RBOB/WTI Crude Crack Spread



### Market Pros & Cons

- RBOB/WTI Crude Crack Spread
- Continuing Geopolitical Tensions Throughout Europe
- Iran Nuclear Talks
- Expected Record U.S. Oil Output



## I. Risk Analysis

## Risk Analysis

### Directional & Magnitude Risk

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- **Delta Analysis**
  - The position has a Delta of 0.1177
  - The call backspread has a positive delta because it benefits from bullish movements in the underlying
- **Gamma Analysis**
  - The position has a Gamma of 0.1916
  - Given that this position is out of the money, the gamma is lower and will benefit from increases in the underlying

### Implied Volatility Risk

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- **Vega Analysis**
  - The position has a negative Vega of (0.0013)
  - The Vega of the short calls and long calls cancel each other out resulting in a minimal Vega
    - As the implied volatility changes it will have little effect on the outcome of the trade

### Time Risk

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- **Theta Analysis**
  - The position has a Theta of 0.0007
  - Due to the position of the short calls, the theta is positive. As the underlying increases towards the strike of the short calls, the theta will become negative because of the long calls
    - This trade has a slightly positive theta which will have little effect on the price of the position

### Interest Rate Risk

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- **Rho Analysis**
  - The position has a Rho of 0.0000
  - This trade has a neutral Rho value
    - This suggests that interest rates will have little to no effect on the position because of the neutrality

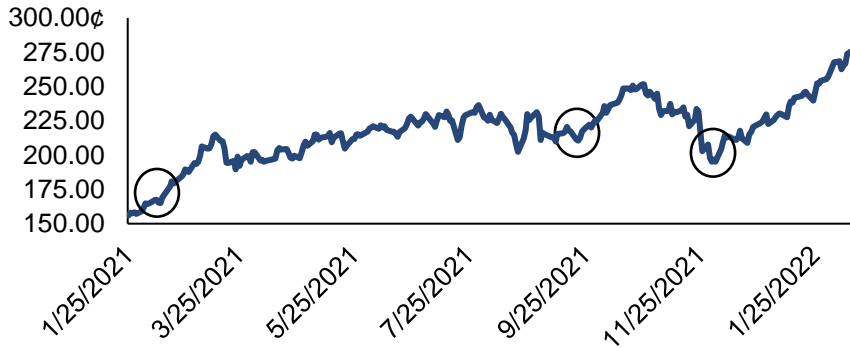




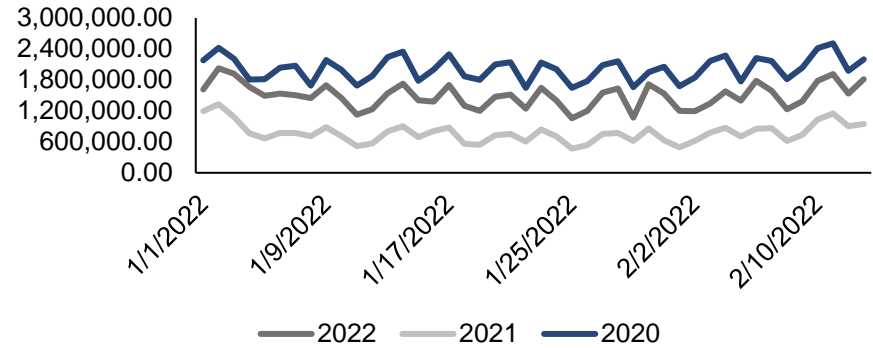
## I. Technical Bias & Fair Value

## Technical Bias & Fair Value

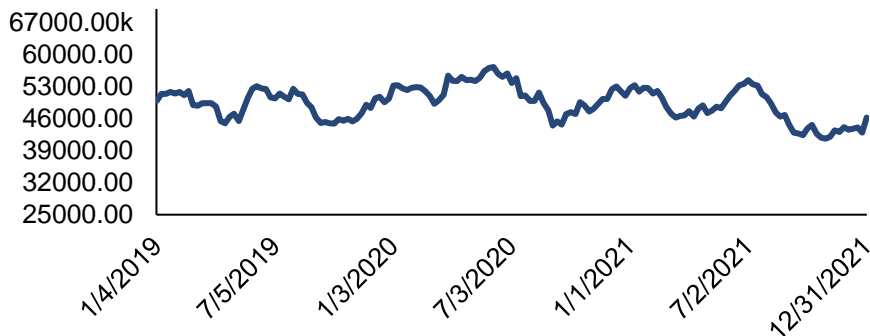
RBOB Gasoline | One-Year Price Chart



TSA Checkpoint Travel Numbers



RBOB Inventories



### Synopsis

- On February 10, 2021, extreme winter storms hit Texas causing the worst energy infrastructure failure in the history of the state
  - During September 2021, an energy crisis emerged in Europe due to heightened demand and shortages of supply
  - By December 1, 2021, the first cases of the Omicron variant were found within the U.S. causing extreme sell offs
- TSA checkpoint records reveal that the number of travelers has roughly doubled since the same time last year
- RBOB inventories declined dramatically over the past three-months, falling to eight-year lows and resulting in increases in spot prices

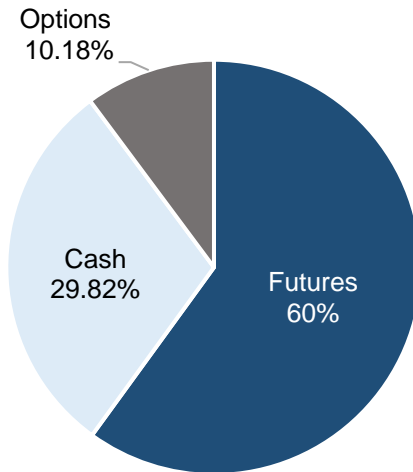


## I. Capital Allocation

## Capital Allocation

### Allocation Breakdown & Portfolio Implications

- The Sector plans to allocate 60.00% of the portfolio towards futures, 30.00% towards options, and 10.00% towards cash
- This pitch will utilize roughly one-tenth of our options allocation. This will allow the final two pitches to have access to the remaining 19.82% of cash holdings. The 2.68% RBOB options position will allow the sector to reverse trade or hedge more effectively with the remaining cash while also allowing it to be allocated for future positions
- The sector believes that RBOB Gasoline will experience notably bullish movements in the short term due to supply and demand, geopolitical tensions, and declining covid-19 cases



### Portfolio vs. Benchmark Allocation Weights

