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Summary of the factors that will drive oil prices in the short-term: "Still with some positive bias"

- **(Price Positive) – Economic hit from an oil price shock at $100 may be far lower for the US than in 2011.** Analysis findings point that oil price hitting $100/barrel will reduce US GDP by just about 40bp in 2020. Less of a hit than the oil shocks seen in the past. The reasons behind this greater resilience stems from a reduction in the energy required to produce a unit of economic output, and the fact that the US has become less of an oil importer. Thanks to this greater US resilience, the rest of the world would suffer less as well, with a projected oil price at $100 hitting global output by ~20bp in 2020. This undoubtedly encourages both conventional and non-conventional producers to continue to raise the price of crude oil upwards without fear of short-circuiting the global economic cycle.

- **(Price Positive) – White House says market can withstand significant Iran reduction.** The Trump administration released a memo arguing that supplies in the global oil market are plentiful enough to withstand a significant reduction in Iranian exports. In our view, the statement paves the way for the reintroduction of efforts to curb Iran's exports, with sanctions due to take effect in November.

- **(Price Positive) – Pemex preparing to test crude for import.** Mexico's state-run oil company Pemex expects to begin testing light crudes as soon as July for possible import as it looks to boost margins at its domestic refineries. Pemex has hardly ever imported crude (preferring to process domestic supplies), but may be looking for oil similar to its own Isthmus grade, the production of which is declining in Mexico.

- **(Price Neutral) – Iran asks China to maintain imports despite.** A senior official at Iran's state-owned National Iranian Oil Company (NIOC) held meetings with top executives at Sinopec and state oil trader Zhuhai Zhenrong to ask them to maintain imports after US sanctions kick in. The executives made no firm commitments but said they would take their cues from Beijing and are still assessing the possible impact of sanctions. Under the previous sanctions regime from 2012-15, Chinese companies took up nearly half of Iran's oil exports.

- **(Price Negative) – The IEA says "higher prices could constrain demand".** In its latest monthly oil market report, the International Energy Agency (IEA) cut its 2018 demand-growth forecast by 40K bpd, saying that following a 75% rise in crude prices since June 2017 "it would be extraordinary if such a large jump did not affect demand growth." At the same time, it increased estimates for non-OPEC output growth by 85K bpd.

- **(Price Negative)** – Saudi Arabia raises prospect of increasing output which could threaten the OPEC+ deal An agreement aimed at strangling the global energy market. Saudi Arabia said it would "mitigate the effects of any supply shortages," a sentiment later shared by Kuwait. Much of the equation depends on Russia, which must weigh its alliance with Iran against its oil partnership with Saudi Arabia. Russia could be tempted to boost production of Urals crude to offset the decline of Iranian shipments to Europe.

Long-term factors suggest a downward structural trend for the price of crude oil

- Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is dictated by the amount of time for which they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers' interests to keep the oil price low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

- Growing environmental problems will gradually tighten legislation and production levels: The value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems that will likely continue to put big pressure on the market for fossil fuels over the coming decades, Riyadh's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as possible.

- Are OPEC producers able to structurally fix prices? Back in the 1970s or the early 2000s, the exporters' cartel agreed to cut output and the approach worked well, as the principal competition was among oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil should easily be offset (in theory) by a quick increase in shale oil production. While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well, achieving a considerable increase in the price of oil, this has been at the cost of a loss of market share, meaning that OPEC producers are no longer able to fix prices without bearing costs.

- The re-entry of Iran was a game changer, equivalent to a structural change in the global energy market. The influence of this as a long-term driver will depend on the number of countries that will continue to adhere to the 2015 agreement with Iran. For now, experts point out that the US withdrawal from the agreement, and the sanctions regime, may affect some 500bpd of Iranian production. No doubt an aspect that puts some upward pressure on the price, but that remains to be seen if it justifies a sustained upward trend.

- Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

Regards