Flash note
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Concerned about the role that crude oil may play in inflation and the UST yield? Well, don't worry

In my usual review of the information coming from the world of energy, I have concluded that, extracting the noise and considering only the relevant drivers, everything makes me think that the price of crude oil will remain stable or could even drop a little.

In any case, the most relevant thing is that as soon as the market and investors observe that the price has an important fundamental resistance to continue increasing, then the feeling of risk for a much more expensive crude will dissipate, and with it, the belief that the IRR of the UST bond should continue to rise.

Remember the strategy defined in the Andbank Corporate Opinion for WTI: Buy <USD55; Sell> USD65. Last week the WTI reached $66, today is trading at $61, so it seems like it is a good strategy, which I am not going to change for the moment.

Below I summarize the most relevant developments in the world of energy, which indicate that a reasonable price could be set around current levels.

- **(Price Negative)** – China may be increasing Iranian oil purchases routed through third-party countries. China is also ramping up imports from Venezuela: Chinese data showed the country didn't import any Iranian crude in February for the first time since August. However, the official data are at odds with third-party data, which showed Iranian flows have expanded exponentially, and are likely being routed through Oman and Malaysia, two countries that have seen a surge in Chinese purchases this year. Analysts estimate that China is currently buying close to 1M bpd of sanctioned crude, condensate, and fuel oil from Iran, the most in almost two years. Analysts also see China's oil purchases from Venezuela growing as well. The presence of a major buyer for these two countries has reduced the incentive for either country to negotiate with the US, either on a return to the 2015 nuclear deal for Iran, or to hold credible democratic elections for Venezuela. Meanwhile the US has reminded China that firms helping to import sanctioned crude could risk sanctions of their own.

- **(Price Negative)** – Aramco CEO says China energy security is company's highest priority for the next 50 years: Aramco CEO Amin Nasser told the China Development Forum that Saudi Aramco will ensure China's energy security will be the company's biggest priority for the next 50 years and beyond. Saudi Arabia retained its position as China's top supplier year-to-date, with volumes up 2.1% to 1.86M bpd through February. However, China has pledged to bring carbon emissions to a peak before 2030 and to reach carbon neutrality by 2060, and China's National Petroleum Corp's research institute have also forecast that Chinese oil demand will be capped at 14.7M bpd by around 2025 under Xi's climate pledge.
- **(Price Negative)** –Thursday's March 18th slump in oil price was a case of too far, too fast: The sharp decline experienced on Thursday 18th came amid technical indicators suggesting that prices had risen too quickly. The OPEC+ decision to maintain production curbs, the most bullish positioning in a year, and an attack on a Saudi oil facility helped propel crude higher, and this came when US fuel refiners are struggling to recover from February's deep freeze and a slowdown in the pace of oil exports.
- **(Price Negative Short-Term, Positive Medium-Term)** – Slow return for US refineries becoming a drag on crude prices: US oil refineries are running at only ~80% of capacity after a major winter storm shut down most operations across the US Gulf energy belt last month, which is having the impact of pushing down physical crude prices just at a time when energy demand is on the rise. While refining margins are currently near their highest level for the past year, that has not tempted refiners to boost production and instead these firms are happy to keep selling from inventory (~28 days of supply industrywide) rather than increase output.
- **(Price Negative)** – Mexico officially announces 1.2B barrel discovery in Tabasco: Mexico's state-owned Pemex officially announced yesterday the discovery of a large 1.2B barrel onshore field in the state of Tabasco, which it expects to produce near 300K bpd of oil and a significant amount of gas by the end of 2021, with crude output seen reaching 323K bpd in 2023. Although the estimates could be revised lower and there remains a question about whether the current administration will be able to attract private capital to help Pemex boost overall production, the discovery of the field, which has been teased in recent weeks, means the potential to put more oil in the market.
- **(Price Neutral-Negative)** – India's imports on US crude suggest that OPEC's decision to cut production could lose leverage in pushing prices higher. Platts reports that while India's surge in crude inflows from the US for February partly stems from evolving demand trends, it also reflects New Delhi's objection to OPEC+'s surprise production cuts and has prompted the country to diversify its import basket. While analysts are unclear about whether this is a permanent trend, it is a signal that Indian refiners are getting increasingly comfortable with US crudes. In the same way, other countries could feel inclined to do the same, which would mean a source of diversification of supply.