

## Flash note 09/08/2021

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### Good news also from the energy front

Oil price (WTI) is down sharply this morning, falling -4.0% today after finishing down 2% last Friday. Price fall was -7.7% for the week and -11.8% from July's peak (see the chart).

**What is behind this recent fall in oil price?** The OPEC and its allies increased crude output by 750K bpd in July. More importantly, the OPEC+ coalition has in total added 1.72M bpd of production over the past three months, with an additional 400K bpd set to be added every month from August. Saudi Arabia has now almost entirely unwound its voluntary cut, producing 9.48M bpd, near its quota of 9.50M bpd and the highest since Apr-20.

**And ... What next?** My indicators suggest that supply will no longer be so restricted (this means more supply in the market), and that should help the price of oil to stabilize and stop rising, or even relax even more at somewhat more affordable prices. My latest information on Aramco points to this relaxation in conditions. Saudi Aramco plans to increase its output capacity by 550K bpd by 2025 in a push to reach maximum sustainable capacity for 13M bpd of output. The move comes after a rift between Saudi Arabia and UAE in July in a dispute over oil production levels, with the UAE pushing for a higher baseline quota and production.

**What does this mean for the rest of the financial markets?** As suggested in the title of this note, this is good news for financial markets in general. Recall that one of the investors' concerns was the very high inflation readings in the US, but by decomposing the latest CPI data we could see how the CPI Energy component was higher than 20% YoY. We also said that it would be enough for the price of energy to end the year at the same level as in June for this component to fall to 13% YoY. Well, with these recent falls in the price of energy, which I hope will continue until the end of the year, I think it is very likely that the energy component (within the Headline IPC) will contribute with an even much more moderate reading than that 13 % (let's say something between 5% and 10%). This means that inflation readings could begin to visibly moderate, thus chasing away one of the fears that has paralyzed most investors during the central months of the year.

Chart1: Oil Price (Brent)



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