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Flash note
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Short-term bullish pressures for crude oil. But very bearish in the Mid-term (and that's good news)

I have lowered my target range for crude oil, going from the previous US$ 90-120pbl range, to a new 90-110pbl, thus slightly lowering the upper band, but I anticipate further downward revisions across the range if everything continues to evolve in the same way on the global energy game board. Here are the supporting arguments for this (pro-market) view.

Only two factors that can keep crude high in the short term:

1. (Shot-Term Bullish price factor) – EU continues to work toward sanctions on Russian oil: The EU is meeting (on May 16th) to continue to discuss details of a sixth round of sanctions on Russia. The proposed package continues to include a ban on Russian oil imports, which continues to be stalled by Hungary as it seeks guarantees over its own energy supplies. The EU officials have to publicly pressure Hungary on its position, while targeting a May 30-31 summit as the moment for agreement on a phase ban on Russian oil. Germany plans to stop importing Russian oil by year-end even if the EU fails to agree to a ban. German officials say deals with alternative suppliers are progressing (the EU is receiving shipments of oil from the US Strategic Petroleum Reserve (SPR), with two tankers of high-sulfur SPR crude heading to Italy and the Netherlands, while another shipment of SPR crude was delivered to the Netherlands on 26-Apr.). German officials believe they can solve the remaining logistical problems in the next six or seven months. Russia still makes up around 12% of German oil consumption, though that's already down from 25% from before the war.

2. (Bullish price factor) – Crude processing in China falls to two-year low but this is about to change in the coming weeks: China's crude processing fell to 12.66M bpd in April, the lowest since Mar-20. The decline was driven by the latest round of lockdowns as part of the country's zero Covid policy, though independent refiners are set to boost rates as restrictions are loosened.

Five drivers that will strongly push down the price of crude oil in the medium term:

1. (Bearish price factor) – Iran can double oil exports if there's sufficient demand: An official from Iran's National Iranian Oil Co said that the country has capacity to double oil exports if there's sufficient demand and said that Iran will exert maximum effort to recoup its crude oil market share and revive its customers. Iran is believed to sell as much as 1M bpd abroad, while the government's budget forecasts sales of 1.4M bpd through Mar-23. The comments also come amid the latest talks over the nuclear deal, with recent negotiations between EU and Iranian officials going better than expected. To this regard, the EU's Foreign Minister Josep Borrell said that his team's talks with Iranian officials were "positive enough" to warrant reopening talks with Tehran about its returning to the 2015 nuclear deal. Negotiations, which had developed the broad outlines of a deal, have been on hold for some time following some last-minute Russian demands and the thorny issue of the terrorist designation for Iran's Revolutionary Guard Corps. It adds, however, that Western officials remain skeptical that the US will agree to remove the terrorist label from the IRGC.

2. (Bearish price factor) – Venezuela sets a goal of tripling its crude oil production this year: Iranian shipments to Venezuela are already 48% higher than the full-year 2021 figure as Caracas works to blend its thick crude for export. Venezuela pumped 697K bpd in March, but officials are targeting a return to ~2M bpd this year. Although this seems optimistic, it will depend on the political attitude of Venezuela and the West.

3. (Bearish price factor) – Saudi Arabia and Iraq plan to grow capacity over coming years: Platts reported that Saudi Arabia said its output is set to reach up to 13.4M bpd by the end of 2026 or early 2027, up from current capacity of 12M bpd (though is producing only 10.4M bpd), as it looks to ramp up work in the neutral zone fields with Kuwait. Reuters also reported that Iran's oil minister said today that the country plans to increase its production to 6M bpd by the end of 2027, up from the latest estimates of 4.46M bpd. The lack of OPEC+ spare capacity has been a key dynamic in global oil markets in recent months as the group has struggled to keep up with its increasing quotas, though in the near-term, the group has continued to widen its expectations for supply to outpace demand this year.

4. (Bearish price factor) – US shale volumes could return to pre-pandemic levels by October: Energy analysts believe utilization levels for pipelines from the Permian Basin to the Gulf Coast is expected to hit its pre-pandemic level of 77% by October and ~80% by year's end (vs 70% in April) as Permian production climbs toward a predicted 5.7M bpd next year. Oil rig counts in the Permian are up ~14% so far this year, and notes that more energy firms have discussed capital-raise plans to add more rigs and boost production.

5. (Bearish price factor) – The EU is preparing to loosen its environmental standards as it moves away from Russian oil: FT reports that under an emerging plan sparked by the need for the bloc to move away from Russian oil, the EU

would allow companies to build wind and solar projects without the need for an environmental impact assessment.

Just hope the information provided, our data processing, and our conclusions help you clarify the horizon.

Best regards