Flash Note
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Oil - The era of dialectics at the service of politics. Our outlook

Oil minister's of the countries joining the newly announced output cut agreement have pointed out that *"the goal of coordinated output cuts is to bring inventories down to their five-year average and that price is never a goal".* Well. Unequivocal demonstration of the dialectic at the service of politics.

The concerted manipulation of the energy market by traditional producers is a factor as powerful in the short term as reprehensible since it comes from an oligopolistic action contrary to the principles of the free competition. Such a decision of a synchronized manipulation of oil output results in an increase in price of all the energy imported for all consuming countries with the consequent increase in inflation, which is equivalent to a tax across the entire population. Exactly the same effects as imposing an import tariff. What if Donald Trump imposes 50% tariff on all imported products? Would the WTO have the right to denounce it without first denouncing the artificial rise in global energy prices?

Obviously, one can not project any reasonable fundamental price under these conditions of manipulation. However, here are some other offsetting news in these last two days, that make me feel comfortable with our vision of cheap oil in the future.

US Shale Industry:

- North Dakota breakeven prices as low as $21/barrel. Data from ND's Department of Mineral Resources suggest that the state's breakeven price for crude production averaged $24/barrel, with the breakeven in the state's most active county averaging $21/barrel. These levels put the Bakken Shale play in economic competition with nearly any other play in the world, including Saudi Arabia.
- US shale explorers are boosting drilling budgets 10 times faster than the rest of the world. North American drillers plan to lift their 2017 outlays by 32% to $84B, compared with just 3% for international projects. Much of the increase is flowing into the Permian Basin. Wood Mackenzie estimates that new spending will add 800K barrels of NA crude this year, <u>equivalent to 44% of the reductions announced by the Saudi and Russian led group.</u> In fact, the OPEC, in its last monthly report, sharply

raised its forecast for oil supply from non-member countries in 2017. Outside producers would boost supply by 950K bpd this year, up from 580K bpd expected previously.

- June's figures: Data from the US Energy Information Administration's Drilling Productivity report, higher drilling activity may lead to a 122K bpd increase in production for June, bringing the total to 5.4M bpd and hitting the highest levels since May 2015. The EIA report revised its December numbers higher, meaning US shale production will have gained ~617K bpd for the December-June period!
- As a result, US shale groups surge back to life and calls for the US to become an energy powerhouse do not appear far fetched, with shale producers coming out of the downturn stronger than ever before. E&Ps are proving that they are able not just to stay in business, but increase production as well, with oil prices still below $50. They have cut costs by about 40% in the past three years, and many are now at the point where they are covering their spending from operating cash flows.

Market Rebalancing:

- Vitol executive says market players not seeing the expected destocking. He said that while inventories were shifting, with cargoes moving from the Atlantic Basin into Asia, the overall drawdown that many hoped for had not yet materialized. He added that the market had continued to confound expectations since OPEC and other producers agreed last year to cut output.
- Libya is pumping most oil since 2014, with crude output exceeding 800K bpd, and would be almost 1M bpd if it weren't for a disagreement between the state-run National Oil Corp and Libya's Presidential Council.

Said all the above, I have the impression that the agreements to freeze production by the OPEC's members (and Russia), are intended to prevent the price from sinking further, without the real capacity to effectively push prices up significantly.

Best regards,

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