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Private Bankers

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Everything about the crude oil market and why it can reach $100 per barrel

Hi everyone,

Below is a brief summary of the most relevant events in the energy market during the last month, and our assessment of the drivers that can lead crude oil and energy to rise (or fall)

(Bullish price factor) – IEA's Birol tells in Davos that "energy markets could be tighter in 2023": The IEA's Fatih Birol told an audience at Davos that global energy markets in 2023 could be tighter than many think, citing the possibility of a Chinese rebound sparking very strong demand as well as concerns about huge challenges for Russia's oil industry amid international pressures. Birol voiced concerns about diesel supplies, which could be impacted by product price caps on Russian fuel coming into effect next month.

(Bullish price factor) – Russian budget already pressured by lower oil prices. Moscow needs to take action to raise the price: FT reports that Russian President Putin and his officials may be starting to worry about the financial impacts from the G7's recently enacted $60/barrel price cap, highlighting that "the country's own budget estimates a 23% y/y drop in oil revenues for 2023". Other analysts see an even wider gap. The price of Urals crude, which the Russian government uses to calculate a variety of taxes on the country's oil industry, is near its lowest point since October-November 2020. While there are still importers of Russian crude with a lot of market power (particularly in China and India), these buyers are demanding increasingly wider discounts to Brent (apparently, they are not as good partners or friends as Moscow expected). Although Russia may still be able to cover the losses and continue funding the Ukraine war by borrowing internally and tapping its $148B wealth fund, this is not a sustainable strategy for Russia, so it is very likely that at some point Moscow will take steps to increase the price of its crude abroad.

(Bullish price factor) – GOP-introduced bill to limit presidential authority in ordering releases from the Strategic Petroleum Reserve could result in more energy shortages. The US Energy Secretary Granholm penned a letter to the House Energy & Commerce committee warning about the risk of the new law that limits the authority of the president to release Strategic Petroleum Reserves (SPR), pointing that the law could result in more energy shortages in times of crisis and higher prices at the gasoline pump. The bill's sponsor, Cathy McMorris Rodgers (R-WA) countered that "the current department of Energy had mismanaged the SPR and has no real plan to refill depleted inventories".

(Bullish price factor) – Rapid slowing of output in the Permian Basin shale, according to data from the US EIA. This is only partially offset by signs of output improvement in the Eagle Ford shale field (the nation's second largest after the Permian that posted a mild surge of growth averaging ~17K bpd each month for the second half of 2022 because of its more fragmented ownership, with private firms recently more likely to deploy new rigs than publicly traded companies). However, the Permian Basin remains by far the largest platform, and it is cutting back on production.

(Bullish price factor) – OPEC's al-Ghais points "it is premature to say whether the OPEC+ cartel will need to take action to replace the loss of Russian barrels from the market". In other words. This means that the OPEC+ cartel has no intention of abandoning the pact between its members that keeps production and supply restricted.

(Bullish price factor) – End of the shale boom. In an extensive article, FT looks back at the shale revolution in the US (which enhanced America's geopolitical standing) and argues that high cost, labor shortages, and Wall Street pressure is bringing that transformative era to a close. The article suggests this evolution is likely to have wide-ranging consequences, including firming the position of traditional producers such as OPEC+ members. De facto this means a greater degree of politicization of crude oil, and the use of this asset as a geopolitical weapon. Given this new nature of crude oil, and the increased geopolitical relevance of the OPEC+, this means a more volatile world, which in turn means a higher structural oil price going forward.

(Bullish price factor) – Private drillers idled 11 rigs during the final three months of 2022, while public drillers added 18 rigs. The trend reflects public drillers displacing private companies that dominated the space in the past years. Private companies, that accounted for most of the post-pandemic drilling expansion, have started to pull back with an eye on future monetization.

(Bullish price factor) – Chinese oil demand expected to hit record this year to 16M bpd (almost +1M bpd more than last year). Traffic rebounds and flight gradually recovering are the drivers behind the surge.

(Neutral price factor) – Treasury Department extends creditor protection for Citgo assets to allow the company to continue producing fuels. The US Treasury Department announced a three-month extension of protections on assets of Venezuelan-owned Citgo, which some holders of defaulted Venezuelan debt have been trying to seize. There had been some uncertainty about whether Treasury would further extend these protections after the Biden administration had shifted support away from Venezuelan opposition leader Guaido. The goal is that Venezuela's creditors cannot keep Citgo's assets, and the company can continue pumping fuel.

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