Flash note
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My monthly inquiries into major developments in the energy sector point to an increase in the price of energy

What follows is a selection of those developments during the last month in the energy industry, that I consider relevant to the point of representing a potential driver for the price of energy.

(Bullish price factor) – Russia is set to cut output in March in response to western sanctions, though Deputy PM Novak said today the 500K bpd cut will only apply to March for now. The cut will be made from January levels of 9.9M barrels, and Russia will watch how the situation develops before any other decisions are made beyond March. US Treasury Department official Ben Harris said that “the recent Russian announcement that it would cut crude output by 500K bpd did not represent an attempt to weaponize oil in retaliation for international sanctions but, came about because Moscow could not sell the oil”. US Deputy Treasury Secretary also said that the US and its allies will impose new sanctions to crack down on Russia's efforts to evade sanctions, focusing on the transshipment of oil through bordering countries. Novak says 80% of Russia's oil exports headed to friendly countries. All said, reports point that Russia's seasonal plans to crank up refinery maintenance in the spring will cut demand for crude as feedstock, helping the country weather the production cuts.

(Bullish price factor) – IEA says that China’s reopening could help push Brent back above $100 pbl in 2023. Evidence that China’s demand is growing is that Russian exports of discounted crude and fuel oil to China hit a record in January, rising to 1.66M bpd according to Kpler, surpassing the previous record set in Apr-20. The buying was likely driven by private refiners, though some state-owned processors are starting to show more interest.

(Bullish price factor) – Analysts from four major consultancies see China's crude imports hitting record levels in 2023, rising by 500K-1M bpd this year and possibly topping 2020's record 10.8M bpd level. Demand for gasoline and jet fuel has risen in China, though recovery in demand for diesel and naphtha may take longer given slower recoveries in the country's manufacturing and property sectors.

(Bullish price factor) – China now has the world's highest refinery capacity, though it remains underutilized. Total refinery capacity topped 18.4M bpd in 2022, moving ahead of America's 17.6M bpd as of December. However, China's total refined product output for the year represented a utilization rate of ~70%, while US refinery utilization exceeded 90%. The underlying question is: What would happen to the price of crude oil if China brings the capacity utilization of its refineries to 90%?

(Bullish price factor) – Saudi Arabia says OPEC+ production deal will remain in place throughout 2023. Saudi Energy Minister Abdulaziz bin Salman said the OPEC+ output deal struck in October 2022 "is here to stay for the rest of the year, period." Prince Abdulaziz's remarks join those of multiple other OPEC+ cartel-member officials who have indicated the group's production will remain unchanged this year. Note that the cartel is scheduled to hold a full ministerial meeting in June.

(Bullish price factor) – Some 100K barrels of Venezuelan oil are coming to the US this month. Chevron is shipping more than 100K barrels of Venezuelan heavy crude to the US this month under a special license to operate in the sanctioned country. The article notes that this tops the ~75K exported to the US in January. This operation feeds the idea that there is a certain situation of crude oil shortage even within the USA, given that this country must now export a lot of energy to the rest of the world.

(Bullish price factor) – Russia's "shadow" tanker fleet struggling to get the job done. The shift in Russian oil trade toward Asian buyers has increased Moscow's reliance on its own tanker fleet, but the voyages are far longer, a problem for Moscow since many of the ships were designed for trade in the Baltic, Black, or Mediterranean Seas. Russian-owned fleet is nowhere near large enough to ship all of its crude exports from western ports, and it remains reliant on some European-owned vessels (despite price-cap restrictions against transporting Russian oil above $60/barrel).

(Bullish price factor) – M&A boom amid shale producers a sign of an increasingly scarce supply of quality drilling sites and declining yields at existing wells. The industry remains highly fragmented, with companies looking to snap up rivals with the best drilling prospects.

(Bullish price factor) – OPEC's Secretary-General al-Ghais cautioned that international climate talks should aim for an orderly energy transition but observed that the oil industry has been plagued by years of underinvestment. “Adding $500B in annual investments could be required through 2045”. Saudi Aramco chief Amin Nasser argued this weekend an automatic bias against conventional energy projects is resulting in troubling underinvestment, noting that alternatives are not able to immediately replace fossil fuels.

(Bearish price factor) – Russian crude exports surge just ahead of planned output cuts, and after a plunge in Kremlin's revenues from crude exports: Russia exported 3.6M barrels of crude from its ports in the week to Friday, a 26% increase w/w, with multiweek highs from all of its terminals. The surge came after Russia said that it planned to cut its output by 500K bpd in March and after inflows to the Kremlin from crude-export duties have plunged since the start of the year as both crude prices have fallen and the gap between Brent and Russia's Urals have widened. Given the collapse in the Kremilin's income, it is foreseeable that Moscow will decide to increase its oil exports, even if they are at historic discounts.