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Flash Note: Review of the global energy market & oil price projection.

In my monthly review of the complex energy industry, I have collected all the information that may have an impact on the price of crude oil for the coming months, and I have ordered the data according to whether they are bullish or bearish drivers for the energy (oil and gas) price. The truth is that, as often happens, all events never coincide in the direction of influence on the price. This time around, as always, we have supportive and negative factors, so it is very difficult for me to project a bullish or bearish view for oil. That being said, I would maintain my historical recommendation of a reasonable 2023 range for crude oil between $75-100 a barrel, which means that today, with Brent at $76, it is a buy.

Relevant information in the energy sector:

(Bearish price factor) – Russia's finance minister admits "problems" with oil revenues: FT reported that Russia's finance minister Siluanov acknowledged issues with oil revenues this year, which have fallen to their lowest level in years, underscoring the impact of western sanctions. Siluanov blamed global discounts for why energy revenues fell by more than 50% in Q1 23, with energy revenues in the first four months of the year falling to the levels not seen since the start of the pandemic. That was despite Russian oil exports continuing to rise, with April exports the highest for any month since the invasion of Ukraine. It therefore seems clear that Moscow must compensate for the drop in income caused by the strong discounts applied to its crude, with an increase in exports. Although it is increasingly complex to carry out such increase in Russian crude exports (given the lack of ships willing to transport Russian crude and the lack of insurance companies willing to insure them), Moscow's effort to sell more crude to compensate the low prices can put a lot of barrels in the global markets. Russia's Putin also said that its 500K bpd voluntary production cuts announced in February were meant to support global oil prices. However, Bloomberg noted broad skepticism over whether Russia has cut production, with four-week average shipments the highest since at least the start of 2022.

(Bearish price factor) – EIA revises up Permian drilling count, implying that drilling rig productivity has been higher than past estimates: Reuters reported that the US EIA revised its data for the number of drilled but uncompleted wells in the Permian at the end of 2022 from 843 to 1069. The revision didn't affect its estimated crude production in the region of 5.3M bpd, saying operators had already submitted their crude production to states, but it clearly shows that drilling productivity is growing fast. The agency's estimate for 2022 well completions was also raised. These revisions suggests that active drilling rigs were about 10% more productive over the past two years than previously thought. US production is set to hit a new annual record this year, with the EIA saying production will rise by 200K bpd over the next 12 months to 12.6M bpd.

(Bearish price factor) – New Mexico production rose ~400k bpd to 1.8M bpd, outpacing any other state and accounting for more than half of the nation's overall gain. Total production in the US was up 600K-700k bpd to 11.9M bpd last year. Texas remains the biggest producer with nearly 5.3M bpd compared to the 1.8M bpd for New Mexico in February. However, New Mexico could make further gains, with the number of drilling rigs, a barometer for future production, up five so far this year compared to an eight-rig decline in Texas.

(Bullish price factor) – India considering refilling its strategic petroleum reserve: India plans to import 9.2M barrels of oil to fill empty reserves, though the grades and timing are under discussion. It is not clear if India would purchase Russian oil or from its traditional suppliers in the Middle East. India earlier this year allocated enough funds in its budget this year to cover purchases of around 10M barrels (or 7M barrels of non-sanctioned oil, according to the IEA). India's last purchase for its reserve was in 2020, buying at an average of $19 a barrel.

(Bullish price factor) – DOE announces plans to repurchase oil to replenish strategic reserves (SPR), the first of a three-part SPR replenishment plan, but it may have to do so at higher prices: The SPR volume stands at 362M barrels, the lowest since Oct-1983, but prices for sour crude (the grade the White House buys to refill the SPR), have risen ahead of the expected purchases, as well as from dynamics like tighter supplies from OPEC+ production cuts. The Biden administration is targeting a purchase range of $67 to $72 a barrel, though could end up paying more than that. However, some traders said that the volume of crude is too small to significantly tighten global markets.

(Bullish price factor) – Hedge funds' positions suggest most bearish oil outlook in more than a decade: The trading positions of non-commercial managers across all major oil contracts reflects the most bearish outlook since at least 2011. It adds that positioning across fuel-based contracts is at their most bearish since early in the pandemic. The positioning is consistent with broad expectations of a coming recession.

(Bullish price factor) – OPEC highlights risk from oil and gas underinvestment: OPEC Secretary General al Ghais, speaking at a conference in Dubai, argued that the world needs more than $12T in new oil and gas investments to avoid market volatility that could imperil global growth. Al Ghais said the world needs to focus on reducing greenhouse gas emissions, but major investments are needed in all energy sectors. We suspect that with his words, Al Ghais is preparing us for new production cuts in order to defend the price of crude oil and using the lack of investment (caused by environmental policy in Europe and West) as an excuse for the potential price increase.

(Bullish price factor) – China is stepping up checks on older vessels: The Chinese maritime authority is carrying out heightened safety scrutiny of foreign ships that are at least 15 years old, highlighting safety concerns across the growing fleet of aging ships carrying Russian oil. At least two tankers that are at least 20 years old have been delayed in making deliveries of crude to China, including one carrying Russian oil that has sat near the same port for nearly a month. These old ships waiting near Shandong lack the standard insurance. A Bloomberg article said that if China were to insist on vessels having industry-standard insurance cover, Russian cargoes would then be subject to the G7 $60 price cap. Therefore, it seems clear that Russia is turning to old ships, in many cases off the radar of the authorities, to transport its crude oil to distant ports in Asia and avoid the price cap limit imposed by the West on the Russian oil at 60 usd. However, at any time there could be an accident, and the West will increase scrutiny and sanctions on any transport. This could make it even more difficult to transport Russian crude and generate spikes in shortages.