

WEBVTT

00:00:10.376 --> 00:00:20.916

<v SPEAKER_1>Hello, everyone, and welcome to Energy Security Cubed, one of the world's foremost energy security podcasts presented by The CGAI, or Canadian Global Affairs Institute.

00:00:20.916 --> 00:00:24.596

<v SPEAKER_1>I'm Kelly Ogle, Managing Director here at CGAI.

00:00:24.596 --> 00:00:32.536

<v SPEAKER_2>And I'm Joe Calnan, Vice President of Energy and Calgary Operations at the Canadian Global Affairs Institute.

00:00:33.696 --> 00:00:46.816

<v SPEAKER_1>For today's interview recorded September 25, 2025, we discussed the global oil market, including price expectations, interesting case of Chinese oil demand, and scenarios for future supply.

00:00:46.816 --> 00:00:49.976

<v SPEAKER_2>With us to talk about this is Rory Johnston.

00:00:49.976 --> 00:00:55.356

<v SPEAKER_2>Rory is the founder of Independent Commodity Market Research Platform, Commodity Context.

00:00:55.356 --> 00:01:02.436

<v SPEAKER_2>He's an expert on oil markets and oil history, and a fellow with us at the Canadian Global Affairs Institute.

00:01:02.436 --> 00:01:04.316

<v SPEAKER_1>Great to have you back, Rory.

00:01:04.316 --> 00:01:07.856

<v SPEAKER_1>It's always a pleasure talking to you about crude oil markets.

00:01:07.856 --> 00:01:08.716

<v SPEAKER_1>Let's dive right in.

00:01:09.796 --> 00:01:13.536

<v SPEAKER_1>Let's start with the latest Dallas Fed Energy Survey.

00:01:13.536 --> 00:01:15.356

<v SPEAKER_1>The quarter was a tough one.

00:01:15.356 --> 00:01:21.816

<v SPEAKER_1>Low oil prices, tariffs, and a sluggish global economy are weighing on producers.

00:01:21.816 --> 00:01:26.116

<v SPEAKER_1>What were your main takeaways from this latest energy survey, Rory?

00:01:26.116 --> 00:01:47.136

<v SPEAKER_3>Yeah, so I think for those that aren't aware, the Dallas Federal Reserve's Quarterly Energy Survey is an invaluable source of both hard detail about price expectations and activity levels, but I think also a lot of really softer nuanced views about how people in this industry are really thinking about it.

00:01:47.136 --> 00:02:04.756

<v SPEAKER_3>I would say the couple of main takeaways, one on the price expectations, the US shale patch, I think everyone right now, across the broader oil analytics and kind of market research space, the consensus is pretty clear that we are currently entering a stage of oversupply.

00:02:05.096 --> 00:02:31.896

<v SPEAKER_3>It's hit already, and we'll talk about that a little bit later as to why it hasn't hit prices more already, but that surplus is only going to get worse over the next year, unless one of a couple of things happens, unless either OPEC kind of decides to pull back on its planned production increases, or demand re-accelerates in a very meaningful way, particularly in China, which again, we'll talk about because we are seeing some green shoots there.

00:02:31.896 --> 00:02:36.716

<v SPEAKER_3>The other thing that could happen is US shale production rolling over quicker than expected.

00:02:36.716 --> 00:02:39.416

<v SPEAKER_3>So that kind of plays into this discussion.

00:02:39.416 --> 00:02:52.656

<v SPEAKER_3>But I think what's interesting is that in terms of price expectations, the US shale patch executives that are surveyed and provide comments, they generally see prices leveling out around current levels.

00:02:52.916 --> 00:02:53.316

<v SPEAKER_3>i.e.

00:02:53.316 --> 00:02:55.216

<v SPEAKER_3>not a subsequent crash coming.

00:02:55.216 --> 00:02:56.496

<v SPEAKER_3>So I think that is informant.

00:02:56.496 --> 00:03:13.576

<v SPEAKER_3>While they have cut back on production capex and kind of growth plans, we haven't yet seen them kind of fully incorporate a view of, let's say, where the IEA sees prices going into the low 50s, potentially even the 40s if this surplus persists.

00:03:13.576 --> 00:03:23.236

<v SPEAKER_3>And I think what you even see is in the ranges, there's at least one person of that survey that sees crude prices at \$200 a barrel in five years.

00:03:23.236 --> 00:03:38.256

<v SPEAKER_3>So I would say there's an expectation that the vibe, at least in terms of pricing, is that the worst is likely in, at least this is coming from the corporate sector in the States, and that the upside, the balance of risk is to the upside going forward.

00:03:38.256 --> 00:03:51.716

<v SPEAKER_3>So that's actually not the mix that you would expect if you were to see the US shale patch roll over as quickly as I think many people are anticipating.

00:03:53.896 --> 00:03:59.116

<v SPEAKER_1>What's your, like there's lots of people quoted, but anonymously in the survey.

00:03:59.496 --> 00:04:03.436

<v SPEAKER_1>What are some of the things you've seen as quotes about the survey?

00:04:03.436 --> 00:04:12.636

<v SPEAKER_3>Yeah, and I think this is, I mean, again, and on the hard data, we saw like a modest re-acceleration from super depressed Q2 levels, but we're still in contraction.

00:04:12.636 --> 00:04:16.896

<v SPEAKER_3>You know, the hard data is pretty mixed to dower.

00:04:17.596 --> 00:04:24.156

<v SPEAKER_3>And then the anonymous survey comments, this is where things get especially spicy.

00:04:24.156 --> 00:04:32.396

<v SPEAKER_3>And we were just talking in the, you know, as we got on this call before we started recording about how these, these comments are almost never positive.

00:04:32.396 --> 00:04:40.776

<v SPEAKER_3>No matter who's in the White House, the US shale patch and US oil and gas executives don't seem to love the federal

government.

00:04:40.776 --> 00:04:45.296

<v SPEAKER_3>And that has continued kind of fairly violently through these latest comments.

00:04:45.976 --> 00:04:50.636

<v SPEAKER_3>Some of my favourites that I'd love to share, I've got three on the go here.

00:04:50.636 --> 00:04:57.956

<v SPEAKER_3>One starts off, I think this is the one I've seen quoted most coming out of this meeting, which is, quote, we have begun to see the twilight of shale.

00:04:57.956 --> 00:05:00.736

<v SPEAKER_3>The writing is on the wall.

00:05:00.736 --> 00:05:05.316

<v SPEAKER_3>They note a shift towards international prospects from previously US onshore only firms.

00:05:05.316 --> 00:05:09.156

<v SPEAKER_3>So these were your kind of core US onshore independence.

00:05:09.156 --> 00:05:12.176

<v SPEAKER_3>Like what we really talk about, we mean the shale patch.

00:05:12.176 --> 00:05:13.756

<v SPEAKER_3>They're increasingly looking abroad.

00:05:14.376 --> 00:05:20.516

<v SPEAKER_3>And I think the quote that really in this kind of broader quote is a fairly long quote, so I won't read the entire thing.

00:05:20.516 --> 00:05:26.556

<v SPEAKER_3>They finish off kind of with the US isn't running out of oil, but she sure is running out of \$60 a barrel oil.

00:05:26.556 --> 00:05:29.596

<v SPEAKER_3>And I think that's really reflects my view on this as well.

00:05:29.596 --> 00:05:36.256

<v SPEAKER_3>The US could produce if, you know, if cost was no option, if price was no option, they could produce gobs more oil.

00:05:36.256 --> 00:05:40.856

<v SPEAKER_3>But at current levels, we've already begun to see drilling activity slow.

00:05:41.116 --> 00:05:46.136

<v SPEAKER_3>As I mentioned, the Dallas Fed Activity Index remains in contraction.

00:05:46.136 --> 00:05:48.096

<v SPEAKER_3>So this is the contracting industry at these prices.

00:05:48.096 --> 00:05:49.816

<v SPEAKER_3>So these clearly aren't sustainable.

00:05:49.816 --> 00:06:00.416

<v SPEAKER_3>But I think for a lot of people that say US shale is rolling over and that will sow the seeds for \$200 a barrel oil, no, US shale has not peaked at over \$100 a barrel.

00:06:00.416 --> 00:06:02.976

<v SPEAKER_3>It's just peaked at 60, maybe even \$70 a barrel.

00:06:02.976 --> 00:06:05.496

<v SPEAKER_3>So I think that's an important differentiation.

00:06:05.496 --> 00:06:20.936

<v SPEAKER_3>And in terms of the kind of panic that you're seeing in this industry, there was, quote, there's uncertainty from the administration's policy, has put a damper on all investment in the oil patch, quote, those who can are running for the exits.

00:06:20.936 --> 00:06:22.736

<v SPEAKER_3>That's not a great sign either.

00:06:22.736 --> 00:06:36.396

<v SPEAKER_3>Again, there's not a lot of optimism in the shale patch right now, which is interesting despite the fact that the price view actually seems relatively more optimistic than I think what a lot of analysts are saying and kind of officially formally forecasting.

00:06:36.916 --> 00:06:44.156

<v SPEAKER_3>So if we're this dour with these price forecasts, how much more dour will things become if prices slumped even lower?

00:06:44.156 --> 00:07:00.256

<v SPEAKER_3>And then the final one, just in terms of, I think, summarizing the entire sense of disappointment, I think, with the US shale patch, which I think would surprise no one, was squarely behind President Trump in the election, the drill baby drill mantra.

00:07:00.256 --> 00:07:07.756

<v SPEAKER_3>I think there was a lot of optimism around the new Energy Secretary and slashing regulations, cutting the regulatory burden.

00:07:07.756 --> 00:07:10.076

<v SPEAKER_3>But I think this comment really sums it up.

00:07:10.076 --> 00:07:12.216

<v SPEAKER_3>The US shale business is broken.

00:07:12.216 --> 00:07:20.276

<v SPEAKER_3>What was once the world's most dynamic energy engine has been gutted by political hostility and economic ignorance.

00:07:20.276 --> 00:07:27.016

<v SPEAKER_3>The previous administration vilified the industry, buried it in regulation, and cheered the flight of capital under this environment.

00:07:28.136 --> 00:07:31.596

<v SPEAKER_3>And then now the current administration is finishing the job.

00:07:31.596 --> 00:07:44.596

<v SPEAKER_3>And it just doesn't seem like that is, it's not the kind of comments you would expect to rebound onto the Trump administration, given how squarely the Trump administration was, at least rhetorically, behind the US shale patch.

00:07:44.816 --> 00:07:52.836

<v SPEAKER_3>And they appointed the CEO of one of the largest oil field service or fracking companies to actually lead the energy department.

00:07:53.116 --> 00:08:04.396

<v SPEAKER_3>So I think that really sums up how bad things are going and the sense of disappointment, if not outright betrayal, from the US shale producers.

00:08:04.396 --> 00:08:05.816

<v SPEAKER_1>Can we just stay with this for a minute?

00:08:06.136 --> 00:08:09.356

<v SPEAKER_1>And I'm going to go off script a little bit, Rory, but...

00:08:09.356 --> 00:08:11.016

<v SPEAKER_1>Please.

00:08:11.376 --> 00:08:13.556

<v SPEAKER_3>Kelly, unscripted is my favorite Kelly.

00:08:15.496 --> 00:08:26.336

<v SPEAKER_1>A couple of things from an operational perspective that I

note regularly in the discussions about shale, more so from an operational perspective.

00:08:26.336 --> 00:08:35.436

<v SPEAKER_1>One, number one, you know, I'm seeing the gas oil ratios in the basins increase.

00:08:35.436 --> 00:08:43.976

<v SPEAKER_1>That means that you've got less, like it's, the more gas you produce, the less drive the reservoir has and you've got quicker declines.

00:08:43.976 --> 00:08:50.176

<v SPEAKER_1>Like it's, as you run out of really good rock, you have higher gas or gas oil ratios.

00:08:50.176 --> 00:08:55.296

<v SPEAKER_1>And that's detrimental to longer term production sustainability.

00:08:55.356 --> 00:09:09.656

<v SPEAKER_1>Number one, number two, water disposal and water injections becoming a problem in these basins from, you know, long term injection of water floods and things like that.

00:09:09.656 --> 00:09:20.136

<v SPEAKER_1>And you're seeing micro fracturing of reservoirs and possible, you know, in Oklahoma, they've had, they can tie earthquake activity directly to water injection.

00:09:20.136 --> 00:09:22.136

<v SPEAKER_1>I don't, what's your view on this Rory?

00:09:22.136 --> 00:09:31.516

<v SPEAKER_1>Because I think that at the end of the day, that the higher GORs and the more water at operating costs and or lower recovery rates.

00:09:31.516 --> 00:09:34.196

<v SPEAKER_1>So is that not part of the equation here too?

00:09:34.196 --> 00:09:34.476

<v SPEAKER_3>It is.

00:09:34.476 --> 00:09:59.536

<v SPEAKER_3>I think if we look at kind of the economics of your typical shale well, I think what we've seen over the past couple years, I mean, in all commodity industries, it's essentially a tug of war between declining geologic, you know, geological kind of value of the resource, like the quality of the reserve in the ground, and then

the increases in technology and know-how to kind of get it out.

00:09:59.536 --> 00:10:02.896

<v SPEAKER_3>And that has, you know, that has always been a tug of war.

00:10:02.896 --> 00:10:12.716

<v SPEAKER_3>What we've seen over the past decade is the US shale patch that technology and expertise run rapidly ahead of any of the very real declines in the quality of the rock itself.

00:10:12.716 --> 00:10:26.296

<v SPEAKER_3>But I think as those, you know, as the lowest hanging fruit was picked, that, you know, the decline rate of those, of that geology itself, if anything, you know, kept pace or accelerated.

00:10:26.296 --> 00:10:29.116

<v SPEAKER_3>That, at the same time, you've had lower oil prices.

00:10:29.116 --> 00:10:31.516

<v SPEAKER_3>So, you know, the revenue side is getting impressed.

00:10:31.516 --> 00:10:44.356

<v SPEAKER_3>And the rest of the cost, even, you know, even agnostic to the actual quality of the geology, you have a bunch of increases in costs from things like US steel tariffs that have been imposed by the Trump administration.

00:10:44.356 --> 00:10:46.296

<v SPEAKER_3>That was also covered in the Dallas Fed survey.

00:10:46.436 --> 00:10:57.436

<v SPEAKER_3>And yeah, you know, a lot of companies were saying that, you know, between 25% and 50% of their feed of their of their operational equipment, that, you know, a good chunk of that was coming from China.

00:10:57.436 --> 00:11:02.296

<v SPEAKER_3>So you were going to see cost increases, not necessarily life or death cost increases.

00:11:02.296 --> 00:11:04.076

<v SPEAKER_3>But, you know, this is the death of a thousand cuts.

00:11:04.076 --> 00:11:07.616

<v SPEAKER_3>And I think that as you increase costs, you decrease revenue.

00:11:07.616 --> 00:11:23.576

<v SPEAKER_3>And there's this ever steady march of, you know, you're

you're you're using up or depleting your tier one acreage that I think was just that those costs are only going to steadily increase going forward, unless we have another step change in technology, which is always possible.

00:11:23.576 --> 00:11:29.796

<v SPEAKER_3>But I think at this stage, you know, it seems unlikely that we have a massive boost in productivity.

00:11:29.796 --> 00:11:35.296

<v SPEAKER_3>And now it's really about operationalizing the reserves you still have, those tier two, tier three reserves.

00:11:35.296 --> 00:11:40.776

<v SPEAKER_3>So those are going to be higher cost, which is going to require higher prices in order to justify.

00:11:40.776 --> 00:11:42.756

<v SPEAKER_2>This all sounds like good news for OPEC, for sure.

00:11:44.156 --> 00:11:47.856

<v SPEAKER_3>Yes, yes, they're not heartbroken, surely.

00:11:47.856 --> 00:11:53.316

<v SPEAKER_2>But just to risk us going way over time here and going off script a little bit more.

00:11:53.316 --> 00:12:12.076

<v SPEAKER_2>Something else that I found interesting from the Energy Survey, and I should have included this in the script, is a question about whether this fracking technology, the hydraulic fracturing, whether that technology will be spread beyond the United States and Argentina.

00:12:12.836 --> 00:12:24.736

<v SPEAKER_2>And I guess the question is like, and maybe this is a question that either of you could answer or take a shot at, why is it that this technology hasn't spread worldwide already?

00:12:24.736 --> 00:12:34.736

<v SPEAKER_2>Because it does seem like good technology, of course, like, you know, costly, but it seems like a way to get oil out that normally would be completely unachievable.

00:12:34.736 --> 00:12:38.416

<v SPEAKER_2>So why is it that it's confined to US, Canada?

00:12:38.536 --> 00:12:45.676

<v SPEAKER_2>US, Canada makes sense, Argentina a little bit less sense, but then why not the rest of the world if Argentina?

00:12:46.156 --> 00:12:47.776

<v SPEAKER_3>I can let you go first, Kelly, if you have any...

00:12:47.776 --> 00:12:49.536

<v SPEAKER_3>Go ahead, Rory.

00:12:49.536 --> 00:12:56.276

<v SPEAKER_3>Well, I would say, I mean, the Argentina addendum is a particularly interesting given the news this week of potential US bailouts.

00:12:56.276 --> 00:13:03.176

<v SPEAKER_3>So maybe, you know, some Halliburton crews would be included in the Trump administration's bailout effort for, you know, Argentina.

00:13:03.176 --> 00:13:07.916

<v SPEAKER_3>And, you know, they can send them straight to Vacamorta, which is the big shale deposit in Argentina.

00:13:08.056 --> 00:13:14.376

<v SPEAKER_3>Everyone's excited about in terms of why these, you know, this industry really only exists primarily in the Americas.

00:13:14.376 --> 00:13:18.056

<v SPEAKER_3>And I think predominantly only in North America is because that's what was born.

00:13:18.056 --> 00:13:27.836

<v SPEAKER_3>And I think that it takes a while for this technology, this expertise, this human capital to begin to kind of leach out into the rest of the global industry.

00:13:27.836 --> 00:13:47.276

<v SPEAKER_3>And the reason it, you know, first and foremost, was invented and kind of became a thing in North America was because of a combination of a very permissible regulatory and legal framework around, you know, subsurface ownership, whereas in much of the world, the state owned subsurface.

00:13:47.276 --> 00:13:53.956

<v SPEAKER_3>In North America, particularly in the United States, the, you know, the private owners, so they can kind of say, yeah, sure, drill to your heart's content.

00:13:53.956 --> 00:13:55.176

<v SPEAKER_3>You don't need to deal with Washington.

00:13:55.196 --> 00:13:57.036

<v SPEAKER_3>You don't need to deal with the state government.

00:13:57.036 --> 00:14:00.736

<v SPEAKER_3>You just talk to me, the farmer or whomever that has this land.

00:14:00.736 --> 00:14:01.736

<v SPEAKER_3>So I think there's that.

00:14:01.856 --> 00:14:12.316

<v SPEAKER_3>There's the fact that you had this massive kind of proliferation of smaller wildcatting and kind of more and more entrepreneurial firms that just tried a bunch of different things.

00:14:12.316 --> 00:14:18.956

<v SPEAKER_3>And I think this is the classic advantage of a dynamic capitalist system is that you have a bunch of people trying and a bunch of people failing.

00:14:18.956 --> 00:14:24.256

<v SPEAKER_3>Now, to be to be sure, people lost, you know, gobs of money over this phase.

00:14:24.256 --> 00:14:35.376

<v SPEAKER_3>And we can we've talked, you know, at, you know, at Nausium about the roughly half a trillion dollars that the US shale patch essentially invested and incinerated by overproducing.

00:14:35.376 --> 00:14:53.336

<v SPEAKER_3>That was essentially a subsidy of US equity and US debt investors to the development of this technology and expertise to the rest of the world in the same way that I think in many cases, China has likely lost a bunch of money building out its domination in the EV or solar industry.

00:14:53.336 --> 00:14:55.496

<v SPEAKER_3>But now they have this kind of entrenched foothold.

00:14:55.496 --> 00:15:06.776

<v SPEAKER_3>I think it's very similar in the US shale patch and the kind of these light, tight oil and kind of, you know, horizontal fracturing and hydraulic fracturing and horizontal drilling.

00:15:06.776 --> 00:15:14.176

<v SPEAKER_3>All of this, I think, emerged in North America because that's just where it had the most fertile soil to do so.

00:15:14.176 --> 00:15:27.836

<v SPEAKER_1>Yeah, I would just add, and you mentioned Halliburton, that there's only a few firms in the world, really, that have the

expertise and the amount of, you know, that can mobilize the amount of equipment required.

00:15:27.876 --> 00:15:28.836

<v SPEAKER_3>Totally.

00:15:28.836 --> 00:15:41.036

<v SPEAKER_1>You know, there's, it's like, if anyone who's ever been on a giant frac in a, like in the Montney or any area in Texas, it's an enormous footprint.

00:15:41.036 --> 00:15:43.976

<v SPEAKER_1>Well, it's not, sorry, it's not an enormous footprint.

00:15:43.976 --> 00:15:45.056

<v SPEAKER_1>It's a small footprint.

00:15:45.056 --> 00:15:55.916

<v SPEAKER_1>It's a couple of acres of equipment, but it's a lot of equipment and a lot of expertise that isn't just, you don't just set those people a fire like tomorrow.

00:15:56.136 --> 00:16:00.936

<v SPEAKER_1>Like it's, there's a lot of learnings for the crews.

00:16:00.936 --> 00:16:13.796

<v SPEAKER_1>There's a lot of things that have to happen sequentially, supply chains, sand, fresh water, all those things are, you know, you just don't go into a third world country and decide you're going to do that.

00:16:13.796 --> 00:16:25.556

<v SPEAKER_1>Like, so it sort of hinges on somebody like Halliburton, Schlumberger, that they, the entities that can do this.

00:16:25.556 --> 00:16:26.896

<v SPEAKER_1>And you're going to see it though.

00:16:26.896 --> 00:16:37.076

<v SPEAKER_1>Like if we, you know, if you get in a band of, well, Rory can better comment where that, where the price point is that allows that in other jurisdictions.

00:16:38.696 --> 00:16:45.736

<v SPEAKER_1>But I see, I foresee that we, you know, that this will happen in other parts of the world.

00:16:45.736 --> 00:16:48.576

<v SPEAKER_1>Argentina, you know, I operated there.

00:16:49.056 --> 00:16:49.436
<v SPEAKER_1>Oh, interesting.

00:16:49.436 --> 00:16:51.696
<v SPEAKER_1>Three years ago.

00:16:51.696 --> 00:16:58.616
<v SPEAKER_1>And the, it was, the jurisdiction, like operating in Argentina was always available.

00:16:58.616 --> 00:17:05.856
<v SPEAKER_1>The rock wasn't really good enough until the advent of horizontal drilling and multi-stage fracking.

00:17:05.856 --> 00:17:10.576
<v SPEAKER_1>Like it just, it wasn't as good as other jurisdictions.

00:17:11.716 --> 00:17:27.616
<v SPEAKER_1>So it's interesting what's happening there now because again, you're accessing reservoirs that 20 years ago would have looked like the geologist would go buy that in one morning of viewing the stratigraphs, stratigraphy and it would be onward.

00:17:27.616 --> 00:17:31.476
<v SPEAKER_1>That that's changed with the ability to access this tight rock.

00:17:31.476 --> 00:17:35.816
<v SPEAKER_1>So it's, I think it's, I think we're in a very exciting time actually.

00:17:35.816 --> 00:17:45.836
<v SPEAKER_1>And, and I think that you're going to get into more of that, Joe, with where the curves look, what the future of the future price looks like.

00:17:45.836 --> 00:17:46.756
<v SPEAKER_2>Yeah, absolutely.

00:17:46.756 --> 00:17:46.936
<v SPEAKER_2>Yeah.

00:17:48.276 --> 00:17:59.916
<v SPEAKER_3>Just to say one thing on that, I think there's often this kind of beleaguered, you know, almost verging on kind of perennial depression in the oil industry around kind of, oh my gosh, we're producing too much.

00:17:59.916 --> 00:18:02.896
<v SPEAKER_3>Oh my gosh, we're kind of, we're keep depressing the

price.

00:18:02.896 --> 00:18:06.176

<v SPEAKER_3>But I think to Kelly's point, I think it is incredible.

00:18:06.176 --> 00:18:12.736

<v SPEAKER_3>The degree to, you know, this is an industry that half a century ago, people said was on the verge of peak production.

00:18:13.656 --> 00:18:39.516

<v SPEAKER_3>And the ability of engineers and geologists to find new resource, to make it economic, and not just to kind of prevent that kind of, you know, \$500 crude prices, but to actively crush repeatedly, almost determinedly, the price is, wow, not great for oil and gas investors or, you know, let's say the Canadian economy or the Alberta Treasury via royalties.

00:18:39.516 --> 00:18:41.216

<v SPEAKER_3>That's obviously a negative story.

00:18:41.676 --> 00:18:44.536

<v SPEAKER_3>But for the rest of humanity, it's fantastic.

00:18:44.536 --> 00:18:46.656

<v SPEAKER_3>Again, I mean, the same idea is shale.

00:18:46.656 --> 00:18:58.176

<v SPEAKER_3>I mean, this is the, in the same way that people talked about the, you know, the millennial subsidy of, you know, us all having cheap Ubers and cheap other things when all of, you know, VC capital was funding it.

00:18:58.176 --> 00:19:10.596

<v SPEAKER_3>Same thing happened with the development and, you know, all of this investor funded upstream efficiency improvements is, it subsidized the rest of the world and kind of prevented an energy crisis.

00:19:10.636 --> 00:19:13.076

<v SPEAKER_3>And I think that is the opportunity cost.

00:19:13.296 --> 00:19:17.376

<v SPEAKER_3>You know, it's really hard to ignore or forget the counterfactual.

00:19:17.376 --> 00:19:19.676

<v SPEAKER_3>And the counterfactual was very, very bleak.

00:19:20.536 --> 00:19:21.336

<v SPEAKER_2>Yeah.

00:19:21.336 --> 00:19:33.276

<v SPEAKER_2>I think hopefully people who listen to this podcast would know how the trajectory of energy prices in, you know, 2008, 2009, prior to the financial crisis and then after the financial crisis, you said oil prices popped right up again.

00:19:33.276 --> 00:19:36.076

<v SPEAKER_2>And that would be a much poorer world for sure.

00:19:36.116 --> 00:19:37.056

<v SPEAKER_3>Absolutely.

00:19:37.056 --> 00:19:37.476

<v SPEAKER_2>Yeah.

00:19:37.476 --> 00:19:49.996

<v SPEAKER_2>So and I think that fracking is going to be the technology used for the majority of oil production, you know, 2200, 2300, because we'll still need oil even hundreds of years from now.

00:19:49.996 --> 00:20:03.376

<v SPEAKER_2>But to get into oil time spreads, and this is, you know, of course a, you know, for people who don't know, I'm not exactly an equities analyst or an analyst of crude oil pricing specifically.

00:20:03.596 --> 00:20:05.776

<v SPEAKER_2>And maybe Rory could explain these a little bit.

00:20:05.776 --> 00:20:14.116

<v SPEAKER_2>But we're seeing a very unusual shape for the oil market for much of 2025, and this is specifically oil futures.

00:20:14.116 --> 00:20:19.916

<v SPEAKER_2>The Brent crude oil futures curve has been in a quote unquote smile shape for some time now.

00:20:19.916 --> 00:20:24.756

<v SPEAKER_2>So downward sloping for the next few months and upward sloping from that point on.

00:20:24.756 --> 00:20:31.996

<v SPEAKER_2>So Rory, can you explain to our listeners what this shape for the oil futures curve implies about the market?

00:20:32.896 --> 00:20:33.456

<v SPEAKER_3>Absolutely.

00:20:33.456 --> 00:20:43.136

<v SPEAKER_3>So I think just to, you know, your quick term structure

or essentially when people taste term structure or time spreads or any of this terminology, calendar spreads is another word you'll hear.

00:20:43.136 --> 00:20:53.336

<v SPEAKER_3>Essentially, all they're talking about is the difference in price or the spread between various futures contracts further or kind of near term in the future.

00:20:53.336 --> 00:21:00.456

<v SPEAKER_3>So when we look, when you look at the oil price on your screen, typically what you're looking at is the front month futures contract for Brent or WTI.

00:21:01.016 --> 00:21:04.416

<v SPEAKER_3>And then there's another month and then another month after that and kind of goes forward.

00:21:04.416 --> 00:21:07.856

<v SPEAKER_3>And as you chart that, it creates a curve.

00:21:07.856 --> 00:21:15.316

<v SPEAKER_3>As oil analysts and various hedgers will tell you, there's two general shapes to this future curve.

00:21:15.316 --> 00:21:17.196

<v SPEAKER_3>You can either have it downward sloping.

00:21:17.196 --> 00:21:22.656

<v SPEAKER_3>And again, these shapes are typically durable and persistent across the entire curve.

00:21:22.656 --> 00:21:31.576

<v SPEAKER_3>So in backwardation, where the curve slopes down rather than, I think, as many people think, that's bad for the oil outlook, it means that currently prices are strong.

00:21:31.576 --> 00:21:36.676

<v SPEAKER_3>Essentially, it's incentivizing you to release stocks today rather than put them into storage.

00:21:36.676 --> 00:21:38.976

<v SPEAKER_3>In Contango, where it slopes upwards, it's the opposite.

00:21:38.976 --> 00:21:48.056

<v SPEAKER_3>It's basically reflecting surplus storage today, a discount on current barrels, and essentially an economic incentive to buy them today and store them and release them back into the market later.

00:21:48.056 --> 00:21:50.236

<v SPEAKER_3>That's what we saw during COVID.

00:21:50.236 --> 00:21:53.216

<v SPEAKER_3>That's what we saw during the 2016 bust.

00:21:53.216 --> 00:21:55.236

<v SPEAKER_3>That's what we saw during 2008.

00:21:55.836 --> 00:22:04.636

<v SPEAKER_3>All of these kind of moments flooded the market, and someone needed to catch that knife of surplus barrels, store them and put them into storage.

00:22:04.636 --> 00:22:16.636

<v SPEAKER_3>If the Contango is large enough, super Contango, it's called, you can live off hedge funds, renting tankers, chartering them, filling them with 2 million barrels of crude, and just floating them right off the coast, and basically just pocketing the difference.

00:22:16.636 --> 00:22:19.956

<v SPEAKER_3>I think that is the two general shapes, backwardation and Contango.

00:22:19.956 --> 00:22:24.896

<v SPEAKER_3>Backwardation is bullish, sure markets are tight, Contango bearish, markets are loose.

00:22:24.896 --> 00:22:29.676

<v SPEAKER_3>I mentioned that those are typically persistent along the entire structure of the curve.

00:22:29.676 --> 00:22:43.216

<v SPEAKER_3>But in moments where you're shifting between them, where you're going from a backwardated market, which is where we've been for the last three years, to potentially a market defined by oversupply, as I mentioned earlier, that's what most of the outlooks are currently showing.

00:22:43.216 --> 00:22:46.196

<v SPEAKER_3>My own data is showing that we've already started to peak back into oversupply.

00:22:48.016 --> 00:22:56.916

<v SPEAKER_3>That, I think, that you're going to be pushing down the front of the curve, essentially depressing the backwardation and pushing us towards contango.

00:22:56.916 --> 00:23:01.076

<v SPEAKER_3>What's funny about the current curve, you mentioned this idea of a smile.

00:23:01.076 --> 00:23:04.956

<v SPEAKER_3>The curve is currently both backwardated and in contango.

00:23:04.956 --> 00:23:06.736

<v SPEAKER_3>That's really, really weird.

00:23:06.736 --> 00:23:13.716

<v SPEAKER_3>And over the course of the past quarter century or more, the curve has only really existed in this state about 1% of the time.

00:23:13.856 --> 00:23:20.216

<v SPEAKER_3>It's a very, very rare curve structure, and it typically occurs during these transitional phases in the market.

00:23:20.216 --> 00:23:25.756

<v SPEAKER_3>What's interesting is that while there's a lot of information in the curve, most of the information is not in the price level.

00:23:25.756 --> 00:23:31.536

<v SPEAKER_3>It's not like the market saying that the price will be \$69 in a year or whatever it happens to be.

00:23:31.536 --> 00:23:32.776

<v SPEAKER_3>It's in that shape.

00:23:32.776 --> 00:23:34.916

<v SPEAKER_3>But the main information is at the front of the curve.

00:23:34.916 --> 00:23:40.536

<v SPEAKER_3>That's that part that's actually saying, this is we're currently oversupplied or we're currently undersupplied.

00:23:40.536 --> 00:23:58.076

<v SPEAKER_3>But what's weird is that the main movement in the curve over the past couple months, particularly since April and the announcement of both Trump's reciprocal tariffs with the Liberation Day announcement, as well as that was when OPEC announced that it was tripling the pace of production increases.

00:23:58.076 --> 00:24:01.536

<v SPEAKER_3>That combination made everyone exceptionally bearish.

00:24:02.096 --> 00:24:08.916

<v SPEAKER_3>Typically, I would say that the futures curve does not reflect a discretionary forecast of the market in aggregate.

00:24:08.916 --> 00:24:12.216

<v SPEAKER_3>But in this moment, I actually think it is to a certain

degree in a weird way.

00:24:12.676 --> 00:24:16.016

<v SPEAKER_3>And it's not again that it's saying that the price is going to be X tomorrow.

00:24:16.016 --> 00:24:24.496

<v SPEAKER_3>It's the market is generally starting to say that over the next year, we expect backwardation to vanish and contango to reemerge.

00:24:24.496 --> 00:24:28.416

<v SPEAKER_3>IE this surplus will begin to take hold of the market.

00:24:28.416 --> 00:24:32.216

<v SPEAKER_3>But what's weird is it's been like this for months and months and months now.

00:24:32.216 --> 00:24:38.116

<v SPEAKER_3>I get this point, I need to double check, but this might be the longest period of time we've actually spent in this transitional shape.

00:24:38.116 --> 00:24:49.656

<v SPEAKER_3>And what's kind of really bound up and confounded the market is that while those surpluses keep appearing on paper, they're very clearly not affecting market pricing yet because the front of the curve remains backward.

00:24:49.656 --> 00:24:58.056

<v SPEAKER_3>In fact, two weeks ago, it actually looked like we were finally beginning to see Brent and WTI drift back towards prompt contango.

00:24:58.056 --> 00:25:14.296

<v SPEAKER_3>And I think for market watchers and risk managers, I think that's when you really need to be concerned, because once that front bid falls out of the market and you actually flip it to contango, that's where you tend to have a lot more downside and prices can drop really, really fast and really, really sharply.

00:25:14.296 --> 00:25:26.096

<v SPEAKER_3>But what's happening now is essentially the market, specular participants are saying, look, we think this market, everyone believes this surplus is coming and we're going to bet that the curve shape is going to shift into contango.

00:25:26.096 --> 00:25:27.636

<v SPEAKER_3>I think that's what we're seeing.

00:25:27.636 --> 00:25:32.976

<v SPEAKER_3>But because the market has remained tighter than expected, that front of the curve has remained peaked up.

00:25:33.356 --> 00:25:41.476

<v SPEAKER_3>So it's this weird kind of, almost this game of chicken in the futures curve around who's going to be right.

00:25:41.476 --> 00:25:53.656

<v SPEAKER_3>And I think, and I know that we're about to talk as well about Chinese inventory, I think that's actually been one of these stories that has helped explain what's happening in a really weird way.

00:25:53.656 --> 00:26:07.996

<v SPEAKER_3>And essentially, while we have, and again, IEA data, EIA data, my own independently assessed data, basically everyone except OPEC itself, now thinks that the market is in some degree of current kind of nominal oversupply.

00:26:07.996 --> 00:26:16.436

<v SPEAKER_3>The issue is that say we're oversupply by a million barrels a day, give or take, that's actually a pretty big surplus in most moments.

00:26:16.436 --> 00:26:25.096

<v SPEAKER_3>But China in the second quarter of this year, bought a million barrels a day through the entirety of the second quarter and stocked it into inventory.

00:26:25.096 --> 00:26:33.096

<v SPEAKER_3>That's really weird, particularly given that if they had just waited, the market probably would have fallen into contango and it could have got for cheaper.

00:26:33.096 --> 00:26:46.836

<v SPEAKER_3>But second, the fact that they were buying such a voracious pace, strategic stock building or just inventory building period, in a backward-aided market, as I mentioned earlier, you don't get paid to store an inventory unless the market is in contango.

00:26:46.836 --> 00:26:48.536

<v SPEAKER_3>What's going on here?

00:26:50.456 --> 00:26:51.816

<v SPEAKER_3>Sorry, Kelly, you're going to say?

00:26:51.816 --> 00:26:54.676

<v SPEAKER_1>Well, let's talk about China.

00:26:54.676 --> 00:27:00.956

<v SPEAKER_3>I think a lot of it comes down to perceptions within Beijing of acute energy insecurity.

00:27:00.956 --> 00:27:09.856

<v SPEAKER_3>I think a lot of what we've seen, I'm writing a piece right now essentially around how this perception of energy insecurity is currently tugging the oil market in both directions.

00:27:09.856 --> 00:27:18.096

<v SPEAKER_3>Currently, the most bullish factor in the oil market and the most bearish factor in the oil market are both driven by perceptions of Chinese insecurity.

00:27:18.496 --> 00:27:35.016

<v SPEAKER_3>To finish this thought, the reason that the curve, at least in my view, has not flipped into contango, has not weakened, has not completely collapsed, is that China has been buying these barrels, again, a million barrels today, 90 million barrels over the quarter.

00:27:35.016 --> 00:27:48.976

<v SPEAKER_3>That's a lot of oil, and that's oil that wasn't allowed to basically compete in or wasn't left to compete with all the rest of the barrels in the world, where that's where you would have seen pressure to depress into contango and the incentive to come into market.

00:27:48.976 --> 00:27:51.656

<v SPEAKER_3>Why are they building so much inventory?

00:27:51.656 --> 00:28:10.176

<v SPEAKER_3>There are a half dozen theories, but I think most of them boil back down to the fact that China, while demand growth has slowed marketly, and I think that's also because of firm efforts from Beijing to reduce dependence on foreign oil, it itself is beginning to build up.

00:28:10.176 --> 00:28:11.216

<v SPEAKER_3>It still consumes.

00:28:11.216 --> 00:28:15.656

<v SPEAKER_3>It's the largest importer, second largest global consumer.

00:28:15.656 --> 00:28:19.336

<v SPEAKER_3>There's still a massive dependence on this foreign oil.

00:28:19.336 --> 00:28:23.256

<v SPEAKER_3>I think it's like 11 million barrels a day of crude imports.

00:28:23.256 --> 00:28:26.096

<v SPEAKER_3>They need to maintain some stability there.

00:28:26.216 --> 00:28:29.696

<v SPEAKER_3>Otherwise, they could face a lot of economic hardship if that was ever interrupted.

00:28:29.696 --> 00:28:31.436

<v SPEAKER_3>Now, why would it be interrupted?

00:28:31.436 --> 00:28:32.596

<v SPEAKER_3>Glad you asked.

00:28:32.596 --> 00:28:41.556

<v SPEAKER_3>I think in this moment, it's one of these things of I think the only thing we can say in the current global order is that things are becoming less secure and more uncertain in that environment.

00:28:41.556 --> 00:28:48.896

<v SPEAKER_3>And in the sense of precarity that China is currently in, it makes total sense that they're stocking up as much as they can.

00:28:48.896 --> 00:28:51.996

<v SPEAKER_3>Some people are like, well, maybe they're preparing to invade Taiwan.

00:28:51.996 --> 00:28:52.316

<v SPEAKER_3>Maybe.

00:28:53.536 --> 00:28:55.996

<v SPEAKER_3>But I think in any case, they're going to need oil.

00:28:55.996 --> 00:29:09.816

<v SPEAKER_3>And I think if you rewind 50 years, the United States was in its exact same position in the 1970s, a precarious global order and outsized and seemingly growing dependence on on imported oil.

00:29:09.816 --> 00:29:10.436

<v SPEAKER_3>And what do they do?

00:29:10.436 --> 00:29:13.436

<v SPEAKER_3>They tried to juice domestic production, which China has done.

00:29:13.436 --> 00:29:15.456

<v SPEAKER_3>Chinese production has risen very quickly.

00:29:15.456 --> 00:29:20.516

<v SPEAKER_3>You've seen attempts to reduce the energy or oil intensity of the economy in the United States in 70s.

00:29:20.556 --> 00:29:24.176

<v SPEAKER_3>It was cafe standards and other energy efficiency drives in China.

00:29:24.176 --> 00:29:32.736

<v SPEAKER_3>Now it's pushing hard as they physically can on electrification, which again, I think the United States would have done if EVs were a thing in the 70s.

00:29:32.736 --> 00:29:35.876

<v SPEAKER_3>Again, it's just the it's it's the new cafe standards.

00:29:35.876 --> 00:29:43.116

<v SPEAKER_3>And now I think the final piece of that troika, if you will, is the is the build out of China's SPR.

00:29:43.116 --> 00:29:53.756

<v SPEAKER_3>The United States at this stage, as we've discussed in this podcast before, has been generally starting to wind back or wind down its SPR, given that it is now a net petroleum exporter.

00:29:53.756 --> 00:29:58.196

<v SPEAKER_3>China, absolutely still an overwhelmingly dominant importer.

00:29:58.196 --> 00:30:00.896

<v SPEAKER_3>And now I think it's trying to cover that with with SPRs as well.

00:30:00.896 --> 00:30:06.716

<v SPEAKER_3>So that and again, the final thing I'll say on this is that, well, a lot of people think inventory builds are bearish.

00:30:06.716 --> 00:30:11.396

<v SPEAKER_3>I think that's true in commercial terms because something has to be driving them to rise in the first place.

00:30:11.396 --> 00:30:13.156

<v SPEAKER_3>Strategic inventories are the opposite.

00:30:13.516 --> 00:30:20.116

<v SPEAKER_3>Strategic inventories in my mind are essentially stores of potential supply and demand driven by policy rather than by markets.

00:30:20.116 --> 00:30:24.536

<v SPEAKER_3>So when Beijing says fill the SPR, it's not going to

weigh in markets.

00:30:24.536 --> 00:30:25.616

<v SPEAKER_3>If anything, it's going to support them.

00:30:25.616 --> 00:30:28.896

<v SPEAKER_3>It's going to show up as demand that wouldn't otherwise be there.

00:30:28.896 --> 00:30:39.596

<v SPEAKER_1>Especially in the command economy where you don't have to disclose what you paid or how much or what, you know, all the economic factors that make you have that SPR, which is interesting.

00:30:40.336 --> 00:30:43.416

<v SPEAKER_1>And it adds to my next question, Rory.

00:30:43.736 --> 00:30:47.216

<v SPEAKER_1>You talked about how they've been hoovering up all this oil.

00:30:47.216 --> 00:30:49.096

<v SPEAKER_1>How much more do they want?

00:30:49.576 --> 00:30:56.616

<v SPEAKER_1>And are we able to quantify China's SPR in any way?

00:30:56.616 --> 00:31:13.476

<v SPEAKER_1>Because it isn't like, you know, when the US discloses it, the IEA, the formation of the International Energy Agency was for this purpose of Western democracies that needed to have oil in inventory.

00:31:13.476 --> 00:31:15.216

<v SPEAKER_1>How big is the Chinese SPR?

00:31:15.376 --> 00:31:19.716

<v SPEAKER_1>And where is it relative to capacity?

00:31:19.716 --> 00:31:25.976

<v SPEAKER_3>So the challenge, as you note, is that there is no, you know, we don't get explicit data on how much is in the Chinese SPR.

00:31:25.976 --> 00:31:31.756

<v SPEAKER_3>Essentially all the inventory data we get from China period comes from essentially two types of sources.

00:31:31.756 --> 00:31:42.396

<v SPEAKER_3>On one hand, we do have some very rough kind of estimations of certain privately held crude oil stocks published by

companies like Oil Chem or MySeal.

00:31:42.396 --> 00:31:45.296

<v SPEAKER_3>They, you know, weekly reads very similar to the EIA.

00:31:45.296 --> 00:31:51.596

<v SPEAKER_3>These are privately held crude oil ports at Chinese kind of major ports, very private.

00:31:51.596 --> 00:32:03.836

<v SPEAKER_3>And what's interesting is they look very, very similar to US crude stocks, you know, declining in backwardation, rising in contango, like exactly what you'd expect from private, economically incentivized stocks.

00:32:04.456 --> 00:32:23.156

<v SPEAKER_3>The rest of Chinese inventory, on the other hand, given that they do not release statistics, we essentially get glimpses of by estimates made by various companies like Kairos or Kepler or Vortexa that do these satellite based estimations, essentially because most of these oil tanks have floating roofs.

00:32:23.156 --> 00:32:28.536

<v SPEAKER_3>And you can tell essentially how full they are by how high that roof is or how large the shadow cast.

00:32:28.536 --> 00:32:31.756

<v SPEAKER_3>Very cool, very cool estimation method, but it's a bit indirect.

00:32:31.836 --> 00:32:36.436

<v SPEAKER_3>So we can't tell exactly, is this particular tank SPR?

00:32:37.076 --> 00:32:40.576

<v SPEAKER_3>There are people that estimate or kind of think this.

00:32:40.576 --> 00:32:57.636

<v SPEAKER_3>But I think the other thing is that there's a bit more of a dotted line between explicitly strategic stocks and commercial stocks or commercial stocks, quote, air quotes there, held by Chinese state owned oil companies, which dominate the industry that essentially take their marching orders from Beijing.

00:32:57.636 --> 00:33:05.096

<v SPEAKER_3>So what we've seen even earlier this year is they've had new energy laws signed that mandate various commercial strategic storage.

00:33:05.096 --> 00:33:14.596

<v SPEAKER_3>Now, is there a real difference between proper, you know,

SPRs and commercial strategic storage held by state owned enterprises?

00:33:14.596 --> 00:33:15.076

<v SPEAKER_3>Sure.

00:33:15.076 --> 00:33:19.236

<v SPEAKER_3>Maybe there's a difference somewhere along the line, but I think they're functionally the same thing here.

00:33:19.236 --> 00:33:27.916

<v SPEAKER_3>And I think the main my main point is less that what you call each individual stock, it's more about how they behave and how they're incentivized by the market.

00:33:27.976 --> 00:33:40.176

<v SPEAKER_3>And what we know is that the stocks that we've been building in China right now, largely coming from those non-private inland stocks that we don't get the same quality of data on, but it's been happening through backward-aided markets.

00:33:40.176 --> 00:33:46.896

<v SPEAKER_3>So in my read, you can't have economically incentivized builds in strongly backward-aided markets.

00:33:46.896 --> 00:33:53.136

<v SPEAKER_3>Like they were building during the Iran crisis, which like that was very, very, those were really spiky backward-aided markets.

00:33:53.136 --> 00:33:57.716

<v SPEAKER_3>You were getting the exact opposite economic signal, and they were building strategic stocks straight through that.

00:33:57.756 --> 00:34:02.376

<v SPEAKER_3>So I think that's why I would call them as a whole, strategic.

00:34:02.376 --> 00:34:06.296

<v SPEAKER_3>And I would say probably, now I think the question is, how much further can they go?

00:34:06.296 --> 00:34:11.156

<v SPEAKER_3>Most estimates I've seen put overall Chinese kind of tank capacity at only around 60%.

00:34:12.216 --> 00:34:15.716

<v SPEAKER_3>So there's a lot more upside that they could theoretically buy.

00:34:15.716 --> 00:34:22.556

<v SPEAKER_3>They could probably buy half a million to a million barrels a day, in a steady state for the next couple of years.

00:34:22.556 --> 00:34:23.796

<v SPEAKER_3>The question is, will they?

00:34:23.796 --> 00:34:34.936

<v SPEAKER_3>And I think that's one of the big challenges of forecasting this market, is that we don't know when they're going to finally stop, because we don't have a firm economic signal of when they're buying.

00:34:34.936 --> 00:34:54.356

<v SPEAKER_3>I think the only thing that we can be sure of is that what we've seen with Chinese more opportunistic commodity stockpiling in the past, is that when prices fall, that, and I don't mean the structure, I mean the actual flat, like just the price of seeing your screen, when that price falls, the buying tends to increase and then vice versa.

00:34:54.356 --> 00:34:56.276

<v SPEAKER_3>If it increases, probably decreases.

00:34:56.276 --> 00:35:05.396

<v SPEAKER_3>With this latest reality we've seen in crude, maybe that buying gives up a little bit, which paradoxically brings us back to a weaker market where they are buying again.

00:35:05.956 --> 00:35:19.656

<v SPEAKER_3>As long as China is the tail leading the dog, I think we're going to keep seeing this back and forth thing of structure as Chinese buyers decide, eh, maybe not today and then start buying again tomorrow.

00:35:19.656 --> 00:35:27.336

<v SPEAKER_2>We should jump back into the supply side here, I think, because of course, it's both supply and demand we have to worry about.

00:35:27.336 --> 00:35:30.076

<v SPEAKER_2>We should touch on what OPEC is doing specifically.

00:35:30.076 --> 00:35:36.296

<v SPEAKER_2>So a couple of weeks ago, and of course Rory, I know you love talking about OPEC, so I'm going to get into this.

00:35:36.296 --> 00:35:40.976

<v SPEAKER_3>OPEC loves me talking about OPEC too, I'm absolutely sure of it.

00:35:41.416 --> 00:35:42.156

<v SPEAKER_2>I'm sure.

00:35:42.576 --> 00:35:48.016

<v SPEAKER_2>A couple of weeks ago, OPEC Plus, and so you have the regular OPEC players and then OPEC Plus.

00:35:48.016 --> 00:35:53.336

<v SPEAKER_2>We're going to talk about Russia in another section here, so we'll just focus on OPEC though.

00:35:53.336 --> 00:35:59.056

<v SPEAKER_2>But OPEC Plus did agree to raise oil production in October by 137,000 barrels per day.

00:35:59.056 --> 00:36:03.336

<v SPEAKER_2>So this accelerates the cartels plan to regain market share.

00:36:03.336 --> 00:36:08.276

<v SPEAKER_2>So I think we can definitively say at this point that OPEC's price defending days are over.

00:36:08.276 --> 00:36:10.516

<v SPEAKER_2>They're really trying to recapture the market.

00:36:11.116 --> 00:36:18.376

<v SPEAKER_2>So how much additional production can the traditional OPEC players return to the market, Rory?

00:36:18.376 --> 00:36:19.716

<v SPEAKER_3>Yeah, so I think there's a couple of things here.

00:36:19.716 --> 00:36:31.376

<v SPEAKER_3>I think one thing that we've definitely seen in the market makes all of this discussion a bit cloudier is that there's now increasingly large splits between production estimates from various sources.

00:36:31.376 --> 00:36:41.116

<v SPEAKER_3>Historically, everyone basically tracked what we call the secondary source aggregates or what OPEC publishes every month in its monthly oil market report.

00:36:41.116 --> 00:36:57.456

<v SPEAKER_3>That's firms like S&P Global Commodity Insights and Argus and historically the IEA and others that basically all submitted estimates for what Saudi Arabia is producing, what Kuwait is producing, and that it was averaged to kind of isolate any errors.

00:36:57.456 --> 00:37:04.576

<v SPEAKER_3>And that was the kind of official or quasi-official data used for tracking quota compliance and production policy.

00:37:04.576 --> 00:37:11.976

<v SPEAKER_3>That, unfortunately, now you're seeing very, very large splits, particularly for countries like the United Arab Emirates, Iraq, and Kuwait.

00:37:11.976 --> 00:37:23.116

<v SPEAKER_3>These countries are all, by my estimates and by the IEA's estimates, my estimates are based off of visual tanker tracking movements and estimated disappearances internally in refineries, et cetera.

00:37:23.116 --> 00:37:34.276

<v SPEAKER_3>They're showing much higher production for those three countries, upwards of a million barrels a day more from those countries than what you're seeing reflected in the OPEC secondary data.

00:37:34.276 --> 00:37:36.716

<v SPEAKER_3>What that means, I think, is one of two things.

00:37:36.936 --> 00:37:41.236

<v SPEAKER_3>I think you can take a more bearish or bullish view of this phenomenon.

00:37:41.236 --> 00:37:44.956

<v SPEAKER_3>The bearish view is, look, these countries are cheating.

00:37:44.956 --> 00:37:51.416

<v SPEAKER_3>Now, they can increase production by X million barrels a day, and they're going to keep overproducing that quota by a million barrels a day.

00:37:51.416 --> 00:37:52.736

<v SPEAKER_3>That would be bearish.

00:37:52.736 --> 00:38:12.816

<v SPEAKER_3>I think more likely, and I think what we're probably seeing, the philosophy driving OPEC, and I would even push back a little bit and say, I don't know at this stage if it is, I would totally agree that there is, to a degree, an abandonment of the extra firm hawkish pricing support that we'd seen over the past couple of years.

00:38:12.816 --> 00:38:17.676

<v SPEAKER_3>Saudi is very clearly targeting 80, 90 plus Brent crude.

00:38:17.676 --> 00:38:22.616

<v SPEAKER_3>That I think they've admitted, you know, raising the white flag, we're turning in.

00:38:22.616 --> 00:38:26.136

<v SPEAKER_3>But I think this question of market share is an interesting one.

00:38:26.136 --> 00:38:48.356

<v SPEAKER_3>I think on one level, it's absolutely true, kind of arithmetically, but I think in some cases, one of the things that's incentivizing or driving OPEC and particularly Saudi policy here is an increasing recognition and admittance that the numbers we see on OPEC reports are increasingly kind of silly and no longer reflect reality.

00:38:48.356 --> 00:38:53.936

<v SPEAKER_3>That's a politically difficult thing to acknowledge for OPEC, which is at its core a political alliance.

00:38:55.156 --> 00:39:18.296

<v SPEAKER_3>I think what's probably an easier thing for them to do, particularly as they are trying to reestablish baselines to see how much everyone can actually produce, rather than going through the really complicated, onerous process of getting what they were planning on doing, getting consultants and whatever else, and trying to convince members that this is what the consultants' average says their capacity is, they're just going to say, produce as much as you want.

00:39:18.296 --> 00:39:21.296

<v SPEAKER_3>We're going to unwind all the production cuts on paper.

00:39:21.296 --> 00:39:22.016

<v SPEAKER_3>Go at it.

00:39:22.016 --> 00:39:23.596

<v SPEAKER_3>Show us how much you can produce.

00:39:23.976 --> 00:39:30.516

<v SPEAKER_3>And I think that is indisputably bearish in the immediate term, because it means a lot more OPEC oil coming to the market.

00:39:30.516 --> 00:39:43.316

<v SPEAKER_3>But I think what it does is one, any current price pain typically gets reflected in price premium later, just as some of the demand gets juiced today, some of the supply gets contracted, particularly stateside in the higher cycle.

00:39:43.316 --> 00:39:55.176

<v SPEAKER_3>But on the other hand, it also reveals to the market a truer reflection of what we're really talking about in terms of true OPEC spare capacity or even true OPEC-held production held off market.

00:39:55.176 --> 00:40:02.276

<v SPEAKER_3>At the height of these cuts, you were seeing something like almost 6 million barrels a day theoretically held off the market.

00:40:02.276 --> 00:40:05.856

<v SPEAKER_3>Best, that was 3 or 4 million barrels a day.

00:40:05.856 --> 00:40:15.076

<v SPEAKER_3>All the rest is what I would call paper cuts, cuts that were made formally, but were made by producers that were already producing below their quotas.

00:40:15.076 --> 00:40:18.096

<v SPEAKER_3>So it really didn't reflect any actual cuts to production.

00:40:18.096 --> 00:40:48.336

<v SPEAKER_3>I think what OPEC is trying to do, and again, I should say OPEC and specifically Saudi as de facto leader, is trying to clean out some of that nonsense and get the organization back to a more stable footing, where it can be, I think, a more reliable, hopefully return to, I think, this more technocratic, kind of price agnostic market manager from where it has been over the past couple of years, which was an increasingly hawkish, increasingly aggressive, active participant in the oil market.

00:40:48.336 --> 00:40:52.816

<v SPEAKER_3>I think that worked well for OPEC very briefly.

00:40:52.816 --> 00:41:04.236

<v SPEAKER_3>But inevitably, this is the reason why the time and time again, OPEC has tried this historically and it always backfires because market forces inevitably prevail and they end up holding way too much oil off market.

00:41:04.236 --> 00:41:10.096

<v SPEAKER_3>This is what we saw when Saudis tried to unilaterally balance the oil market in the early 1980s.

00:41:10.136 --> 00:41:13.556

<v SPEAKER_3>And eventually, the King just said, this is ridiculous, opened the taps.

00:41:13.556 --> 00:41:21.236

<v SPEAKER_3>And that's how we essentially got the last, the lost half decade, the lost decade between the late 80s and the early 90s.

00:41:21.236 --> 00:41:26.296

<v SPEAKER_3>That was what really caused that, was this attempt to

balance the market that eventually had to unwind.

00:41:26.296 --> 00:41:31.196

<v SPEAKER_3>I think what we're dealing with right now is a similar phenomena, although albeit to a smaller degree.

00:41:31.196 --> 00:41:35.976

<v SPEAKER_3>I think that spare capacities are much smaller now than we were talking about back in the 80s.

00:41:35.976 --> 00:41:41.576

<v SPEAKER_3>But again, I think a similar kind of theoretical structure or framework that we can follow for where it goes from here.

00:41:41.576 --> 00:41:50.296

<v SPEAKER_3>I think the one thing we don't know about OPEC right now, I think the most important question for their policy guidance is we know that they have abandoned their upside price target.

00:41:50.296 --> 00:41:54.616

<v SPEAKER_3>We still don't really know where their pain price threshold is.

00:41:54.616 --> 00:42:04.936

<v SPEAKER_3>What so far they've been very, very happy to keep pumping crude in the market, but prices have held in the 60s, which is a reasonable price for Brent in most markets and most in most moments.

00:42:06.556 --> 00:42:10.016

<v SPEAKER_3>Would they keep being so aggressive if prices were in the 40s?

00:42:10.016 --> 00:42:10.816

<v SPEAKER_3>I don't know.

00:42:11.356 --> 00:42:21.496

<v SPEAKER_3>My guess is no, but we can't confirm that until we actually see what those price levels reveal in terms of revealed preference from the organization.

00:42:21.496 --> 00:42:33.056

<v SPEAKER_1>That's interesting because as much as you've got all these sophisticated modeling, AI, all these things, and the market just decides what the price is going to be.

00:42:34.896 --> 00:42:36.456

<v SPEAKER_3>It's the beauty of it.

00:42:36.456 --> 00:42:37.596

<v SPEAKER_1>Yes, it is.

00:42:38.376 --> 00:42:41.996

<v SPEAKER_1>It's about as elastic as anything that's ever existed.

00:42:41.996 --> 00:42:48.996

<v SPEAKER_1>There's a couple of big geopolitical uncertainties around markets, Rory, and I'd like to touch on those.

00:42:48.996 --> 00:42:53.136

<v SPEAKER_1>One is physical and sanction risk to Russian supply.

00:42:53.136 --> 00:43:05.096

<v SPEAKER_1>In recent weeks, Ukraine has made very effective strikes on Russian refineries, potentially forcing Russia to import fuel rather than produce it domestically, which is really something different.

00:43:05.096 --> 00:43:06.996

<v SPEAKER_1>It's a step change, I think.

00:43:06.996 --> 00:43:15.176

<v SPEAKER_1>And President Trump has also taken an interesting turn, claiming in a social media post that Ukraine could recover all of its territory with the right assistance.

00:43:15.176 --> 00:43:17.696

<v SPEAKER_1>Well, that's a fairly open-ended comment.

00:43:17.696 --> 00:43:23.956

<v SPEAKER_1>But it opens the door for possible moves by the US to put economic, more economic pressure on Russia.

00:43:23.956 --> 00:43:29.196

<v SPEAKER_1>Have we seen any impact on crude oil and refined markets from this particular narrative?

00:43:29.196 --> 00:43:31.716

<v SPEAKER_3>I think it's absolutely helping drive things higher right now.

00:43:32.216 --> 00:43:39.636

<v SPEAKER_3>And I mentioned earlier that two weeks ago, Brent and WTA locally were going to drift back into Contango.

00:43:39.636 --> 00:43:52.776

<v SPEAKER_3>Over the past two weeks, we've seen a pretty straight line rally in Brent prompt spreads back to, at least as of last night, I haven't looked at it this morning yet, but was upwards of almost a dollar a barrel prompt spread, which is a very steep backwardation.

00:43:52.776 --> 00:43:56.296

<v SPEAKER_3>Not that it's similar from some of the levels we saw last with Iran.

00:43:56.296 --> 00:44:02.216

<v SPEAKER_3>So, I mean, these were very, very kind of peaky markets, certainly not loose in the same way.

00:44:02.216 --> 00:44:04.656

<v SPEAKER_3>I think a lot of that is being driven again.

00:44:04.656 --> 00:44:10.496

<v SPEAKER_3>Most estimates show the market veering, if not already in surplus, kind of heading that direction.

00:44:10.496 --> 00:44:19.756

<v SPEAKER_3>So I think geopolitics and risk and perceptions of potential vulnerabilities of Russian supplies, I think explains a lot of that recent rally back higher.

00:44:19.756 --> 00:44:22.596

<v SPEAKER_3>One of the things that's really interesting, so you mentioned a couple of different things there.

00:44:22.596 --> 00:44:24.916

<v SPEAKER_3>So one is the refined product market.

00:44:24.916 --> 00:44:41.196

<v SPEAKER_3>So even outside of the refining attacks, which have been very, very effective by the Ukrainians using a combination, I mean, largely drones, Russia has always been a major exporter of diesel and a minor exporter of gasoline.

00:44:41.196 --> 00:44:49.556

<v SPEAKER_3>What we've seen over the past year or so is routinely moves from Moscow to ban the export of gasoline.

00:44:49.556 --> 00:44:54.936

<v SPEAKER_3>And you're seeing many widespread reports of gasoline shortages across much of Russia.

00:44:55.236 --> 00:45:01.616

<v SPEAKER_3>And like you said, it kind of pushed them into this weird position of price importer to the degree that it's actually helping.

00:45:01.616 --> 00:45:20.336

<v SPEAKER_3>This is happening at the same time that a major source of gasoline at the Atlantic Basin, the Nigeria's new Dangote refinery, it's gasoline, you know, it's crude processing is still in line, but it's gasoline production and processing units are offline for

potentially the next couple of months that all that together is helping support gasoline prices.

00:45:20.336 --> 00:45:32.656

<v SPEAKER_3>They've fallen off a little bit with the end of the summer driving season, but they're well higher than they would normally be for this, you know, in terms of gasoline refining margins way higher than they would normally be this time of year, about 50% higher, to be honest.

00:45:32.656 --> 00:45:43.636

<v SPEAKER_3>So I think we're definitely seeing strains on Russia's ability to satisfy its own petroleum product domestic demand and consumption requirements.

00:45:43.636 --> 00:46:20.216

<v SPEAKER_3>In terms of these impacts on the broader market, I think what we've one of the other things, I think the really important move we've seen recently over the past couple of months is over the past, essentially, since the Ukrainian government started bombing and attacking Russian oil infrastructure, it's been very, very careful to focus on refining assets and in refined product storage depots, things that were going to hurt Russia's domestic economy without risking spiking global prices, because as everyone knows, Western governments are very sensitive to this.

00:46:20.216 --> 00:46:25.416

<v SPEAKER_3>And I think everyone still remembers what happens in 2022 following Russia's invasion and the spooking there.

00:46:25.416 --> 00:46:33.796

<v SPEAKER_3>So I think there's always this worry that hurting Russia's true capacity to produce or get that product to market could cause an oil price spike.

00:46:33.796 --> 00:46:37.216

<v SPEAKER_3>So up until very recently, they had avoided doing that.

00:46:37.216 --> 00:46:42.596

<v SPEAKER_3>Then they started gradually attacking things like pipelines that fed the ports.

00:46:42.596 --> 00:46:44.976

<v SPEAKER_3>Then it started attacking the port terminals themselves.

00:46:44.976 --> 00:46:58.196

<v SPEAKER_3>And we've seen attacks both predominantly in the Baltic region, but you've seen major attacks that have forced Russia to divert the flow of product and is inevitably capping their ability to export more.

00:46:58.196 --> 00:47:14.596

<v SPEAKER_3>So while OPEC, and you mentioned, we were mentioning earlier, OPEC plus is currently ramping up production across what I call the great eight or the kind of the eight members that are really doing most of the actual production policy right now, which is five members of OPEC and three members of OPEC plus, including Russia.

00:47:14.596 --> 00:47:30.716

<v SPEAKER_3>Russia should be ramping production pretty steadily right now, and it's going to have trouble doing so because even if it could produce more, which I think itself is kind of questionable given the weight of sanctions and the inability to access capital expertise from outside of Russia, they increasingly can't get to market.

00:47:30.716 --> 00:47:33.096

<v SPEAKER_3>So I think this is going to be this other question.

00:47:33.096 --> 00:47:53.896

<v SPEAKER_3>And what's very funny is that for most of the time of OPEC plus' existence, it's been a very strident effort by the membership to kind of treat Russia and Saudi Arabia as kind of peers, the two largest members, the head of OPEC and OPEC plus alliance kind of respectively.

00:47:53.896 --> 00:47:59.196

<v SPEAKER_3>And so for a long time, they had things like the exact same quotas, the exact same cut requirements, like all this stuff.

00:47:59.196 --> 00:48:02.116

<v SPEAKER_3>There is a kind of a you do what I do it kind of situation.

00:48:02.116 --> 00:48:03.716

<v SPEAKER_3>But that's just increasingly untenable.

00:48:03.716 --> 00:48:08.236

<v SPEAKER_3>Saudi Arabia can absolutely increase production by another million barrels a day if they so chose.

00:48:08.236 --> 00:48:09.436

<v SPEAKER_3>I don't think Moscow could.

00:48:09.436 --> 00:48:17.696

<v SPEAKER_3>I think best, we're probably talking another couple hundred thousand barrels a day out of Russia before the before things really start to bind up for them.

00:48:17.696 --> 00:48:21.576

<v SPEAKER_3>And on top of all of this, there's questions of will

there be even tighter sanctions?

00:48:21.576 --> 00:48:35.016

<v SPEAKER_3>There's been a lot of pushback on Indian buying of Russian crude in particular, but also threats against against China and the Trump administration trying to get NATO of all organizations to impose secondary tariffs on these countries.

00:48:35.016 --> 00:48:37.416

<v SPEAKER_3>Again, I think there's nothing.

00:48:38.196 --> 00:48:41.276

<v SPEAKER_3>When I saw that in particular, I think, I mean, a lot of people were just like, okay, it's more of the same.

00:48:41.276 --> 00:48:48.396

<v SPEAKER_3>But I think it's actually like a really interesting anecdote for the entire shift in the way that the global order is working.

00:48:48.396 --> 00:49:01.336

<v SPEAKER_3>The kind of weaponization of trade formally through NATO is actually, I think, a step even beyond the, you know, the Trump administration itself using kind of national security, you know, IEPA sanction, you know, tariffs or whatever.

00:49:01.336 --> 00:49:05.836

<v SPEAKER_3>Like this is actually trying to mesh this into like the North Atlantic Alliance, which is pretty crazy.

00:49:06.916 --> 00:49:18.556

<v SPEAKER_2>Yeah, yeah, I think it's kind of a dangerous avenue to go down, though, because I think it turns trade policy into something that's explicitly aggressive and associated with warfare.

00:49:18.896 --> 00:49:23.456

<v SPEAKER_3>I mean, the famous quote that when goods don't cross borders, troops do.

00:49:23.456 --> 00:49:30.416

<v SPEAKER_3>And I think that's exactly the kind of situation we're risking again, because we've taken free trade and free capital flows for granted.

00:49:30.896 --> 00:49:40.256

<v SPEAKER_3>And now we're risking, you know, nearly a century of, I mean, at least more than half a century of improvements in this area and the peace that it wrought.

00:49:40.256 --> 00:49:41.236

<v SPEAKER_2>Yeah, absolutely.

00:49:41.236 --> 00:49:50.976

<v SPEAKER_1>I was just going to suggest, Joe, that that would be a topic for another day, you know, to talk about that juxtaposition between what you just said, troops and borders and...

00:49:50.976 --> 00:49:52.396

<v SPEAKER_3>I'm always happy to come back, guys.

00:49:52.436 --> 00:49:54.256

<v SPEAKER_1>Yeah.

00:49:54.256 --> 00:50:00.656

<v SPEAKER_2>But another important thing to pay attention to is the UN snapback sanctions on Iran.

00:50:00.656 --> 00:50:00.816

<v SPEAKER_3>Yeah.

00:50:00.816 --> 00:50:09.876

<v SPEAKER_2>So without a deal, apparently all UN members will be quote unquote required to impose sanctions on Iran, including on Iranian oil imports.

00:50:09.876 --> 00:50:16.036

<v SPEAKER_2>And I think that comes in on Saturday, September 27th.

00:50:16.056 --> 00:50:16.316

<v SPEAKER_2>Yeah.

00:50:16.316 --> 00:50:20.616

<v SPEAKER_2>So of course, the main buyer of Iranian oil is China.

00:50:20.616 --> 00:50:23.756

<v SPEAKER_2>So Rory, what happens if China does play along?

00:50:23.756 --> 00:50:28.736

<v SPEAKER_2>And what happens if China doesn't play along with these snapback sanctions?

00:50:28.736 --> 00:50:33.956

<v SPEAKER_3>Well, let's start with if they don't play along, which is essentially what they've done with every sanction barrel to date.

00:50:33.956 --> 00:50:56.016

<v SPEAKER_3>I mean, when you look at, I literally just built a chart yesterday showing like of the big three sanctioned countries, Venezuela, Iran, and Russia, China is by far the overwhelming buyer of Iranian and Venezuelan crude and the first, if not kind of tied for

first or second buyer of Russian crude alongside India.

00:50:56.016 --> 00:51:00.176

<v SPEAKER_3>So clearly there has not been a lot of sensitivity to this.

00:51:00.236 --> 00:51:08.036

<v SPEAKER_3>Could there be a little bit of incremental sensitivity if it's a broad UN sanction rather than just US given the kind of trade tensions between Beijing and Washington?

00:51:08.036 --> 00:51:08.916

<v SPEAKER_3>Maybe.

00:51:08.916 --> 00:51:10.956

<v SPEAKER_3>But I think it's probably unlikely.

00:51:11.536 --> 00:51:14.156

<v SPEAKER_3>And I think that that's potentially what we're going to see here.

00:51:14.156 --> 00:51:29.456

<v SPEAKER_3>If they did follow through, let's say Beijing decided to like really be a global altruist for a hot sec and play along with this, then you'd lose something like a million, a million and a half barrels a day of Iranian supply from the market.

00:51:29.456 --> 00:51:30.236

<v SPEAKER_3>China would still...

00:51:30.236 --> 00:51:31.836

<v SPEAKER_3>That's not going to affect China's consumption.

00:51:31.836 --> 00:51:34.956

<v SPEAKER_3>So they're going to buy a million or a million and a half barrels from elsewhere.

00:51:34.956 --> 00:51:47.916

<v SPEAKER_3>And that would very markedly, very rapidly tighten the global market and essentially push out any of those concerns of acute surplus and put us back into a fairly tight market again, at least through the end of the year.

00:51:47.916 --> 00:51:49.096

<v SPEAKER_3>So I think that is...

00:51:49.096 --> 00:51:50.116

<v SPEAKER_3>That's what we're really talking about.

00:51:50.116 --> 00:51:52.756

<v SPEAKER_3>It's the same thing with all of these sanctions discussions.

00:51:52.756 --> 00:51:53.956

<v SPEAKER_3>China is...

00:51:53.956 --> 00:52:04.616

<v SPEAKER_3>And I was mentioning earlier that China is both the kind of major bearish drag on the market with this electrification drive, the flatlining of its demand, et cetera, et cetera.

00:52:04.616 --> 00:52:07.116

<v SPEAKER_3>But it's also one of the major supports.

00:52:07.156 --> 00:52:10.876

<v SPEAKER_3>And on that drag side, it also can use to buy sanctioned oil.

00:52:10.876 --> 00:52:18.836

<v SPEAKER_3>If it didn't buy sanctioned oil, you likely could not find buyers of equivalent size across the rest of the planet.

00:52:18.836 --> 00:52:20.416

<v SPEAKER_3>So I think that would fall off.

00:52:20.416 --> 00:52:20.976

<v SPEAKER_3>And I think...

00:52:20.976 --> 00:52:29.736

<v SPEAKER_3>So what we're seeing is Chinese policy is doing as much as OPEC or US policy to really balance this market from both ends.

00:52:29.736 --> 00:52:38.056

<v SPEAKER_3>And I think that allows them to also have a little bit of this stick handling mentality of saying like, okay, prices are getting pretty high.

00:52:38.356 --> 00:52:42.376

<v SPEAKER_3>Let's pull back on the SPR purchases for a second here.

00:52:42.376 --> 00:52:43.576

<v SPEAKER_3>And then prices will fall again.

00:52:43.636 --> 00:52:45.416

<v SPEAKER_3>And I think they're in a decent amount of control.

00:52:45.416 --> 00:52:53.816

<v SPEAKER_3>And again, the challenge is that forecasting Chinese economic policy and particularly security policy is pretty hazardous.

00:52:53.816 --> 00:52:57.596

<v SPEAKER_3>So we're at this stage where we kind of have to watch and wait and see.

00:52:57.836 --> 00:53:03.596

<v SPEAKER_3>And I was joking earlier that we're in this world where like everything is, you know, base cases are a fool's errand.

00:53:03.596 --> 00:53:06.196

<v SPEAKER_3>Everything is a scenario analysis at this stage.

00:53:06.196 --> 00:53:18.236

<v SPEAKER_3>And I think that's the way we have to focus on this market, given the kind of rapid proliferation of binary kind of policy driven worlds that this market could find itself in.

00:53:19.476 --> 00:53:21.056

<v SPEAKER_1>Very interesting.

00:53:21.056 --> 00:53:25.676

<v SPEAKER_1>What a wonderful conversation if you want to talk about oil markets.

00:53:25.676 --> 00:53:28.756

<v SPEAKER_1>Rory, thanks so much for coming on the podcast.

00:53:28.756 --> 00:53:29.536

<v SPEAKER_3>Thanks for having me, guys.

00:53:29.996 --> 00:53:30.996

<v SPEAKER_3>I always appreciate the invitation.

00:53:30.996 --> 00:53:32.016

<v SPEAKER_3>I always love chatting.

00:53:32.016 --> 00:53:36.776

<v SPEAKER_2>Just to finish things off, Rory, we always have one last question for our guests.

00:53:36.776 --> 00:53:42.916

<v SPEAKER_2>And I know that the bookcase behind you is currently empty, but I'm sure that you have lots of books lying around.

00:53:42.916 --> 00:53:50.336

<v SPEAKER_2>But what are you reading ideally for pleasure, but could also take a technical tome if that's all you have time for.

00:53:50.336 --> 00:53:56.776

<v SPEAKER_3>So what's fun is that I actually just did a bid, I'm actually not reading a ton at this exact moment.

00:53:56.776 --> 00:53:58.576

<v SPEAKER_3>September has become exceptionally crazy.

00:53:58.956 --> 00:54:04.596

<v SPEAKER_3>But the last book I really dug into was the same book that got me into the oil market in the very first place.

00:54:04.596 --> 00:54:09.376

<v SPEAKER_3>I did a big long 24 hour each way drive out to Cape Bright, Nova Scotia.

00:54:09.376 --> 00:54:22.536

<v SPEAKER_3>And the company that I had for this ride was the newly released reprint audio book of Daniel Yergin's The Prize, which is a roughly 45 hour audio book and kept me plenty engaged.

00:54:22.536 --> 00:54:25.176

<v SPEAKER_3>And I would say that this is the first book on oil I ever read.

00:54:26.116 --> 00:54:29.196

<v SPEAKER_3>And it was like this kind of warm hug going back to it.

00:54:29.196 --> 00:54:37.316

<v SPEAKER_3>Now, I think obviously I know a lot more about the oil market now that I did when I read this book in probably 2013, maybe.

00:54:37.316 --> 00:54:38.596

<v SPEAKER_3>And I think again, it's cliché.

00:54:38.596 --> 00:54:43.056

<v SPEAKER_3>I think almost every oil in a said, like the first book that got him in oil was Daniel Yergin.

00:54:43.056 --> 00:54:43.876

<v SPEAKER_3>And you go back and read.

00:54:43.876 --> 00:54:49.156

<v SPEAKER_3>And I think it's really easy to understand why like the book is impeccably written.

00:54:49.156 --> 00:54:50.396

<v SPEAKER_3>It really hypes a lot of stuff.

00:54:50.396 --> 00:55:03.896

<v SPEAKER_3>I would say the one thing is like, I don't know if everything is as consequential as, you know, I don't know if the British Royal Air Force really only defeated the Luftwaffe because of superior gas, you know, aviation gasoline.

00:55:03.896 --> 00:55:07.316

<v SPEAKER_3>But at the end of the day, I think they're all really interesting antidotes.

00:55:07.316 --> 00:55:12.896

<v SPEAKER_3>And I think the ability to distill something so complicated and such a compelling story was really interesting.

00:55:12.896 --> 00:55:23.496

<v SPEAKER_3>And finally, on that, I would say we've seen, I think the one thing you really realize is that over the course of the oil industry, like some of the, we talk about this unprecedented tumult and uncertainty in the oil industry today.

00:55:24.216 --> 00:55:26.936

<v SPEAKER_3>It's really almost nothing compared to what we've seen historically.

00:55:26.936 --> 00:55:33.396

<v SPEAKER_3>Like oil started as an illumination industry and gasoline was burned as a byproduct.

00:55:33.396 --> 00:55:38.696

<v SPEAKER_3>When we talk about EVs displacing gasoline demand, people just treat it like the barrel is going to die.

00:55:38.696 --> 00:55:44.676

<v SPEAKER_3>I think if you look at the history of the oil industry, someone's going to find a use for those molecules somewhere.

00:55:44.676 --> 00:55:46.196

<v SPEAKER_3>They're just too useful.

00:55:46.196 --> 00:55:48.616

<v SPEAKER_3>Sure, it's going to be a painful economic transition.

00:55:48.616 --> 00:56:02.656

<v SPEAKER_3>But I think at the end of the day, I would say rereading the history, the whole total history of the oil industry, made me much more positive about its future than I think the current feeling, this kind of narrative of we're entirely past the peak.

00:56:02.656 --> 00:56:05.336

<v SPEAKER_3>There have been many peaks in the oil industry and many troughs.

00:56:05.336 --> 00:56:10.616

<v SPEAKER_3>And I think we're, you know, I'm not so confident as to say this is the final peak.

00:56:10.616 --> 00:56:12.776

<v SPEAKER_1>No, we're just in the current one.

00:56:14.136 --> 00:56:16.736

<v SPEAKER_1>Thanks, Rory, always great to chat.

00:56:16.736 --> 00:56:19.516

<v SPEAKER_3>Thanks, guys, and see you in Ottawa next month.

00:56:19.516 --> 00:56:21.216

<v SPEAKER_2>All right, yeah, absolutely.

00:56:21.216 --> 00:56:29.896

<v SPEAKER_2>I guess just flagging that, Rory will be participating in the Energy Security Forum Conference, so please do check it out on our website.

00:56:29.896 --> 00:56:32.976

<v SPEAKER_2>You can see the entire lineup of the speakers.

00:56:32.976 --> 00:56:35.216

<v SPEAKER_2>So with that, I think we'll bring this to a close.

00:56:35.216 --> 00:56:37.616

<v SPEAKER_2>Thanks again, Rory, really appreciate the chat.

00:56:37.616 --> 00:56:38.056

<v SPEAKER_3>Thanks, Joe.

00:56:38.056 --> 00:56:39.256

<v SPEAKER_3>Thanks, Kelly.

00:56:40.476 --> 00:56:46.636

<v SPEAKER_1>Thanks, everyone, for listening to this episode of Energy Security Cubed on the Canadian Global Affairs Podcast Network.

00:56:46.636 --> 00:56:51.136

<v SPEAKER_1>You can find the CGAI Network on iTunes, Spotify and Google Play.

00:56:51.136 --> 00:56:53.336

<v SPEAKER_1>If you like the show, give it a rating.

00:56:53.336 --> 00:56:58.576

<v SPEAKER_1>You can also find the Canadian Global Affairs Institute on Facebook, Twitter and LinkedIn.

00:56:58.576 --> 00:57:06.236

<v SPEAKER_1>If you liked this episode and want to help us keep

creating content, you can support us by donating at [cgai.ca slash](http://cgai.ca/slash) support.

00:57:06.236 --> 00:57:09.336

<v SPEAKER_1>Energy Security Cubed is brought to you by our team at CGAI.

00:57:09.876 --> 00:57:14.916

<v SPEAKER_1>Thanks go out to our producer Joe Calnan and to Drew Phillips for providing our music.

00:57:14.916 --> 00:57:15.816

<v SPEAKER_1>I'm Kelly Ogle.

00:57:15.816 --> 00:57:17.896

<v SPEAKER_1>Thanks for joining us on Energy Security Cubed.