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Flash Notes
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We may be in the upper part of a stable range for oil. This would be good news.

A number of reasons make me think that we could be in the upper part of a new long-term range for the price of oil. If what I say is true, these would be excellent news for financial markets in general, and risk assets in particular.

The reasons I refer to are the following:

1. OPEC+ agreement was in danger of imploding at its December meeting amid acrimony around troubled states such as Venezuela and Libya as well as pressure from the US to keep prices low. Intervention from Russia was critical to resolving the crisis. As OPEC has recently lurched from crisis to crisis, Russia has used its influence as a major global producer to help. However, there has been recent uncertainty about whether Russia will continue to cooperate in the group's production-cut pact beyond June. In fact, reports have been released saying that Russian Finance Minister Anton Siluanov pointed his country faces a dilemma, either to lose market share to the US or quit the OPEC+ deal. Siluanov added that if the deal is abandoned, oil prices would go down but could pressure shale (where production costs are higher). The minister stressed there had been no decision made about the OPEC+ agreement beyond June.
2. EIA's monthly Drilling Productivity Report shows US crude output from seven major shale formations is expected to rise in May to hit a record of 8.46M bpd. The largest change is expected in the Permian, where output is expected to rise to a new peak of 4.14M bpd. Production growth in the Permian and other basins had slowed in response to Q4's price slump as well as spending cuts driven by investor pressure to focus on earnings growth, though it observes major oil companies are boosting their shale presence, particularly in the Permian.
3. Norway's oil industry is concerned about this month’s Labor party policy shift towards abandoning support for drilling off the Lofoten islands. This puts further risks on the country's oil licensing policies and exploration incentives ahead of the 2021 elections. The shift is the first example of climate policy considerations having a meaningful

impact on the oil policy. If this legislative trend spreads, producers may start thinking about rapidly monetizing their reserves.

4. Canada’s Alberta opposition leader Jason Kenney's party has taken the lead ahead of the provincial election. As a result of this, Premier Rachel Notley's party promised imminent federal approval for the 590K bpd Trans Mountain pipeline extension if she wins, while Kenny has promised to threaten British Columbia with an oil embargo to push the stalled project ahead. This means more transportation capacity, less bottlenecks, and more production.

Of course, there are short-term factors that can keep the price of oil well supported, for example, the fact that that Saudi Aramco's major crude buyers in Asia have received full-term allocations for May crude loadings, even as the kingdom continues to reduce production as part of the OPEC+ agreement. But the structural trends that point to an oil price within a narrow and historically low range are increasingly evident. And this is god news.

Best