MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Rory Johnston: Oil Markets Under Trump 2.0

January 30th, 2025

Erik: Joining me now is Commodity Context founder, Rory Johnston. Rory, it's great to get you back on the show. Let's start with the big picture for oil markets, inventory fundamentals, where do we stand?

Rory: Thanks for having me, Erik. I'm so happy to be back. Entering into 2025, we're in a really interesting point in this market, because 2024 itself was kind of a funny year after really everything between 2020, even 2019 through to 2022, 2023, we had just absolutely outrageous levels of volatility. We had every possible kind of tail risk you could imagine hitting the oil market, kind of back and forth, back and forth from literally, COVID, turning the industry upside down. Russia invading Ukraine, Houthis blockading the Red Sea. You had Israel and Iran, all of this stuff happening, but at the same time, then 2024 really just slowed down. You had the prices traded in their tightest range since before COVID, we had the overall supply and demand growth even slowed each of those years. You were accelerating coming out of that COVID slump. And then in 2024, it really just kind of ground to a halt. We saw really slow, both supply and demand growth. Now, I think that entering this year with this really low inventory position, particularly on crude oil, we're beginning to see demand re-accelerate a bit faster than we're seeing supply accelerate. So, I see this as a bullish factor heading into the year, and it's supported by the fact that the futures curve remains relatively backwardated, even after this latest pullback. So, I think the market remains kind of fundamentally undersupplied. I saw last year having a modest under supply annual average. I see this coming year, likely, assuming we don't get, and we're going to talk a lot about various policy risks coming down the line, but assuming those don't completely derail us, I see less likely having another modest supply deficit this year. So, if we have a low inventory position and another modest supply deficit, that means we're going to enter an even lower, or we're going to trend towards an even lower inventory position, and I think that means gradually higher prices from here, probably in the kind of, like low 80s Brent basis. And it's not that much higher than we are right now. I think, we're recording this on January 28 and where I'm looking at my screen right now, crudes that are out, $77.60 for Brent. So, I would say probably about 3, 4, 5, bucks higher is probably where I see fair value right now, that's kind of where I see us trending.

Erik: Okay, I agree with your general analysis of fundamentals, kind of pointing higher, pointing in a bullish direction. But hang on a second, President Trump is very vocally saying, I'm going to ask MBS to bring down oil prices. And a lot of people are saying, boy, in the first Trump administration, he said that, and he really pulled it off pretty darn well. Is it right to assume if he did it once, he can do it again? Or are we dealing with different fundamentals in the market that would make it much more difficult for him to do it again?

Rory: Well, it's definitely a different market now relative to Trump's first term. I think COVID, really fundamentally changed a lot of how the oil market works and trades, in terms of kind of the big moving pieces. But in some ways, I think what's interesting is that, so when we talk about the ways that Trump is going to affect the oil market, I think what comes up most frequently is energy dominance, drill, baby drill, on the downside, so more US production means lower prices. And on the other side, it's heavy sanctions on tighter enforcement on Iran and Venezuela, which means lower production or lower exports at least. And then, higher prices. So how do we balance those out? I think, looking at them just at the same level, I think that the sanctions seem more likely to be the thing that Trump himself can pull a trigger on. And what I mean by that is that while I think there is still plenty in the tank for US production growth, should prices go higher from here? I don't think that the few dollars a barrel of UPS of kind of regulatory burden savings that you're going to get from Trump's initial executive orders and efforts to kind of reduce this regulatory burden on US drilling, I don't think a couple bucks effective price difference is going to swing materially. The current trajectory of US production growth, for those that aren't aware, US production growth was exuberantly crazy prior to COVID. COVID sunk it. Everyone was wondering, okay, is this the time where they finally found cash flow discipline. And then 2023, growth re-accelerated and spiked again. And then 2024, it began to slow down. And then 2025, the expectation is going to slow down even further from about 1.5 million barrels a day of growth in 2023 to nearer, kind of 300,000 barrels a day of growth this year. Now, that's going to be kind of awkward for President Trump's administration, if they come in on this energy dominance agenda and 2025 production growth shows some of the lowest growth levels in more than a decade, kind of excluding COVID, that's going to be an awkward narrative mismatch, and it's going to be interesting to see how they try and manage that. Compare and contrast that, though, to the sanctions element, where, by swish of a wrist, Trump can decide to materially increase the sanctions intensity on Iran and Venezuela, and particularly, and potentially take more than a million barrels a day of crude off the market very, very quickly. We've already seen, and we'll talk a little bit, I'm sure, about the Biden administration's final tightening of Russian oil tariffs on the way out. But these do have effects on the market, particularly on the margin, where a lot of the pricing action really, really happens.

Erik: I'll come back to tariffs and Iran and a number of other things in just a minute. But let's go a little deeper on this. Because I'm sure a lot of people listening to you are saying, wait a minute, Rory, the President of the United States has just completely, totally reversed the last President's policy. He's saying, drill baby, drill, as much as you want. We're going to open up everything you want. You got Chris Wright coming in as energy secretary. Why wouldn't that lead to an expectation that we're going to increase US production by a couple million barrels by the end of 2025, why would it be so low? What is the constraining factor? Is it geological? What's the problem?

Rory: I think it's a bunch of things. I think partly is geology in that a lot of the best plays have already been drilled. The Permian and other US tight oil plays are entering a more mature phase of their operation. But I think, more generally, I think that US production growth could absolutely re-accelerate to more than a million barrels a day, easily, if prices were over $100 a barrel. I think the issue I take here is more that the White House and the federal government can materially reduce the regulatory burden and make it easier and cheaper for US producers to drill, but they can't force them to drill. They can't force them to produce more. I should say there are ways that they can do that. They are not currently planning on doing that. There's not, like a defense production act that they're going to force drilling in an ANWR, or force drilling in the Permian or something. But you know, who knows we might get to that level. I think that's the issue here is that it is the private company's decision to reduce their pace of growth for their own interests. They don't want to oversupply the market. They want the market to tighten. It’s very, very common that people assume that the President has a lot of control over how much oil is being produced in the country. But I think, I often say that the President has more control over how much oil is being produced in Iran than being produced in Texas. And I think that's proven time and time again by, you've seen some of the strongest years of US production growth under both Democratic and Republican administrations, one of which thinks that oil is great, and the other thinks it's like a threat to the future of humanity. So, I don't think that Texan drillers stop drilling just because the White House doesn't want them to. Sure, the Biden administration and the Obama administration and all various administrations have made it difficult and more expensive in different ways, through various additional regulations, whether it be on things like wastewater disposal or methane flaring and kind of fugitive emissions, other things like that. But again, you can reduce those costs, but that just really in my mind, let's say you have a producer that, it costs them, and these are very, very fake numbers, so let's say it costs them $20 a barrel to drill, and the price is 50 bucks a barrel. So they've got a $30 margin there. But, let's say you have a reduction in the kind of cost of production by $5, well, that kind of increases the effective price they get that in the market by like, five bucks. So, if the price was 50, then maybe it's 55 now equivalent, all else equal, and that's a meaningful difference in terms of accounting at the end of the day. But I don't think it changes the trajectory from dramatically slowing pace of growth to something that they turn around and obviously rev their engines to jump back up. And in fact, we've seen time and time again comments from industry saying, we don't plan to kind of rapidly re-accelerate. And this has kind of been a common thing whenever you see this kind of ‘drill, baby, drill,’ sentiment come up again.

Erik: Let's move on to President Trump's favorite word in the English language, which, of course, is tariffs. Now, first of all, the propaganda that the United States is energy independent is just simply false. It could be argued that North America overall is energy independent, but it still means the US depends on both Canada and Mexico for a lot of petroleum imports. If that stuff is all suddenly tariffed, at least 25% is what the President is talking about, what would that mean? Does that apply to all of the oil imports, and what would the implications be of a 25% tariff on Canadian and Mexican imports?

Rory: This is a question that has dominated most of my life over the past two months. And yeah, it's a massive deal. So, I think it's important to just quickly understand, because you're absolutely right, that the United States does import a lot of crude from both Canada and Mexico and a couple other countries that kind of fills in the gaps in its refinery input slate. But let's talk about why Canada in particular, is kind of a structurally difficult to replace barrel, and I think even more difficult to replace than Mexico. And it really comes down to two things. The first is the kind of crude quality aspect, which I know you're familiar with, and we'll just very, very briefly touch on. And the other is, is the physical infrastructure in place, which is the pipelines. So, on the crude quality, the US refining sector was largely built up and developed before anyone thought we were going to have a shale revolution. So, the expectation was that you're always going to be importing barrels from abroad, increasingly heavy sour or, heavier sour barrels, and that those would need to be processed in the United States. So those refineries invested in equipment to make them better able to do that more profitably over time, as the US shale revolution ramped up. You tried to kind of push more and more of that lighter crude into those refineries, but you ran into problems when basically, if you're not running heavier crudes, you're not making economic use at a lot of that very, very expensive equipment. So that's kind of it. You don't want to turn that into an economic write it off. You still want to use that economically. At the same time, you have limits on how much lighter crude you can push through your refineries because of the additional kind of overheads these lighter hydrocarbons, like naphthas and LPG, etc., that these systems aren't designed to accommodate that share of higher end cut out of the distillation tower coming out. So, if you just run light crude through these, you basically can run nowhere near maximum capacity. So by blending that ultra-light, you know, North Dakota, Balkan as an example, crude in the Midwest, and PAD 2 with really, really heavy Canadian, heavy sour WCS that gets you into that medium grade, that’s exactly what these refiners want to do.

So for context, API gravity is kind of how these barrels are assessed on a gravity or density basis. And the US shales are often 40 degrees API or higher, whereas WCS is 22, and they're averaging, you're trying to get to kind of like that low 30s API in order to, that's what a lot of these Midwest refiners in particular would love to refine at, and that's what they're optimized to refine at. And the other element here is the pipelines. So obviously Canada is one of the only, it's basically the only country on Earth that exports the majority of its oil by pipeline. Virtually every other kind of major crude exporter ships it through their own territory, right to ports, then puts them on to kind of the global oil trade, seaborne oil trade. And then they can be very flexible with wherever they're going to go. Whereas in Canada, our main oil production asset in the oil sands is located in deeply remote northern Alberta. And it was politically unpopular to build various pipelines to the coast, but it was also really far to the east coast. And to the west coast, you need to go across the Rocky Mountains. So, in many cases, it made more sense. It was easier to just put all of these pipelines South drown down into the United States, into the Midwest in particular. So, there's a bunch of these different pipelines, but the largest is Enbridge’s mainline pipeline that goes down towards Chicago and kind of splits out through the Midwest. Those barrels will be very, very hard to replace, because there isn't that same volume of pipeline capacity heading north from the US Gulf Coast into the Midwest. So even if you could find other heavy sour barrels, in order to blend, in order to get that kind of right mix for your refiners, there's no real way of getting those barrels from where you'd be importing them in the Gulf Coast, up into PAD2 in the Midwest.

So, I think those are the reasons why it's really, really important, or why Canada is such an important source of crude for the United States, and why it's very, very difficult to replace, and why these tariffs are going to be very disruptive to this trade. Because it's not like anyone's going to be really able to effectively diversify away. The Midwest is kind of locked into that source of supply, and Canada, on the other side, is also locked into that source of demand. So effectively, those tariffs are likely going to be shared depending on exactly the mix of competition and where all the rules sort out. There are things like, will Canadian potential re-exports be subject to tariff out of the US Gulf Coast? It's a big question. Trade lawyers tell me, likely not, but there's always a question, in the current administration, so I think that there's likely going to be somewhere, something like a 1/3-1/3-1/3 split of tariff incidents between the Canadian exporter, the US refiner, and the US consumer. So right now, WCS is trading around, give or take, $65 a barrel, although I'm actually just looking at my screen and after another tariff threat, we're actually, we're winding down. So this math is very, very slightly stale now, but let's say around $65 a barrel for a barrel of WCS, a 25% tariff on that's, give or take, 15, 16 bucks, let's say 15, for easy math, so that means you get about $5 a barrel that goes towards a wider WCS differential, or a cheaper Canadian crude, $5 weaker Midwest refining margins, and probably a $5 a barrel, or roughly 13 cents a gallon increase in US, in Midwest pump prices in particular. But I think that's likely this equilibrium that's going to emerge as long as these tariffs are in place, and as long as Canadian crude is not forced to compete with what I'm calling unfair, untariffed competition. So, the idea would be that if it was forced to compete with non-tariff grades of crude, say, other competing grades coming from the Gulf Coast, then that would unfortunately push Canadian crude well lower, because it would be forced to clear at that kind of undercutting competitive price. But I think, finally, that even getting any alternative crudes is also going to be challenging, because when we look at other alternative sources of heavy crude, we're looking at Canada, we're looking at Mexico as which, as you noted, is also under threat of the same tariff. We have Venezuela, which is also being threatened with sanctions. And then we have Colombia, which was just this past weekend, threatened with very, very sizable tariffs. So, any barrels that would replace that would likely have to be kind of more traditional OPEC barrels from places like, you know, grades like Iraqi Basra, or certain grades of Saudi crude that could work in a pinch, but still, they're not ideal. And it's a politically strange dynamic to be threatening Canadian crude when the alternative is additional OPEC imports.

Erik: It seems to me that this does create an impetus for potentially big structural changes. There was a proposal discussed several years ago talking about building a pipeline from the oil producing regions of Canada in the middle of the country, out to the west aoast for, I think it was the government of British Columbia that killed it at the time, but the goal was to basically not be dependent on the US as the only place that they could pipeline oil away to. They would have a pipeline going to an export terminal somewhere on the west coast of Canada. It seems to me like the economic impetus for reintroducing that plan, although it was very controversial in BC at the time, that probably is back on the table, or isn't it?

Rory: I would say it absolutely is. And I would actually say for the first time in my career to date, there has been a very noticeable shift across political parties towards openness, to the idea of the necessity of both more pipelines, and specifically, more pipelines within Canada's coast. So, the Trudeau Government bought and completed the trans mountain expansion pipeline. So that just got completed this past summer, and that tripled Canada's pipeline capacity to the west coast. That is now our main avenue to get around the United States. And that whole pipeline's capacity is about 900,000 barrels a day out of a total crude export base for Canada of just more than 4 million. So, it's just about 20%, it's a good chunk. It's not nearly enough. Then there was also the Energy East pipeline that was also recently, it was proposed and then quashed, mostly by Quebec, that was going to go all the way out towards St. John and to the east coast of Canada. And then there was also the Northern Gateway pipeline, which is another pipeline that was going to go west, to the west coast. All of these pipelines are now being talked about again in ways that I didn't expect them to be, and I think it's even more interesting in the context that rewinding even a couple months ago and the main talking points around Canada and oil were Trump re-approving the Keystone XL Pipeline, which now just seems like if he wanted that pipeline, the tariffs were the absolute worst possible thing you could threaten, because it really undercuts the main argument for pipelines to United States. I think it's important for people to remember. People are always like, oh, well, why? Why didn't Canada build more pipelines to the coast? Why did you become over dependent on the United States? Well, Canada, United States are the two closest democratic allies in modern history. We have shared, we've shared everything. We have the longest undefended border in the world, like all of this stuff, whereas closest to allies can be, there was never an expectation that you could ever see this kind of punitive tariff placed in Canada, and if there was, you absolutely would not have gotten this level of trade dependence built up. It was built up because it's typically cheaper and easier to build these pipelines in the United States than to our coasts. And when it comes down to economic optimization versus kind of buying insurance, markets typically go the optimization route. They don't naturally hedge themselves. So, it would have taken additional action and a kind of a conscious effort to diversify and to insure against that over dependence in the United States, to build those pipelines, or to prioritize those pipelines over ones to the United States. And that just didn't seem like a risk, even during Trump's first term, there was never, seemingly a risk about tariffs on Canadian crude. They again, they had reapproved Keystone XL, then they didn't get done, which is why I don't expect it would get done this time, either. But you know, it's just a such a strange and striking change of tone and pace.

Erik: I just want to go back to the ‘crude quality matters’ argument, because for anyone who's not deeply familiar with this as you are, it might not be obvious. What you're saying, essentially is, yeah, with a 25% tariff, at first glance, it looks like for US oil producers, that's a gift, because now they're going to increase US production, and they've got that $25 advantage over imported crude. The problem is, they don't need more of the same kind of crude that you can get out of the shale plays. They need heavy blend stock, and that heavy blend stock would need to come from someplace in the US. Now, 25 bucks is a pretty big incentive. Are there plays in the US that were not economic before that could be a source of heavy blend stock? Or is there just not that kind of oil anywhere in the United States that could be produced?

Rory: It's not that there isn't any heavy crude in the United States. There definitely isn't any heavy crude to that scale. And I think when we talk about it, I mean, I am obviously not a fan of these tariffs. But that doesn't mean that there are winners in this tariff. Of course, there are.

There are some small US heavy crude producers that would absolutely love nothing more than to have the ability that they've been, in their minds, harmed by Canadian competition, and they would love protection from the government in the form of tariffs to regain some of that market share and to expand their business. But it's not like the United States can tomorrow discover its own oil sands. There's just nothing comparable on earth that can really be tapped that quickly. And it's absolutely not in the United States, because I think it's also easy to forget, just like, again, how long it's taken to build up this volume of flow in the first time. It's not something that you can just turn around and, kind of replace on a dime.

Erik: Let's move on to some of the jurisdictions around the world where you could find that heavy blend stock that's needed in order to mix with the oil that's produced in the US to have something that's refinable. One of the big sources is Iran. Now, seems like we may be headed toward war with Iran, hopefully we can avert that. Where do you see that headed? First of all, geopolitically, but then, what would it mean in terms of, you know, is Iran the right source for that blend stock? And what would it mean if a war took all of Iranian supply completely offline?

Rory: Yeah, I would say the running joke right now is that Trump has, like a grudge against someone who owns a coking refinery, because it seems like he keeps wanting to either remove or tariff every source of heavy crude that moves, whether it's Canada, Mexico, Colombia, Venezuela, Iran, though that's a lot of it. So, yeah, I mean, if we lost Iranian crude from the market, it's not as heavy as Canadian crude, but it's definitely much closer than anything that the United States produces. So yeah, I think a lot of OPEC crude in that region kind of falls into that medium sour to heavy sour range, and removing it will further tighten that market, which is already becoming much tighter. We haven't actually heard that much, at least loud, from the Trump administration on Iran immediately out the gate, at least nothing that's kind of jumping over the magnitude of sound coming around the rest of kind of North American tariffs right now.

So, I think it'll be interesting to see exactly when that becomes recentered as a priority. It is admittedly hard to keep track of all the move, the bouncing balls of priorities right now, but I do think that that was something that was a major kind of focus point of the administration in Trump's first term, something he was very critical of Biden's tenure on Iran and the kind of rebound in exports that was seen. So, the presumption, I believe, continues to be that he will continue to drive that down. But I do think that in terms of what the kind of overall market impact will be, I think we have also seen pretty clearly out the gate here to your question that kind of started this conversation. It does seem like Trump himself is a crude bear, like he wants lower prices. He's promised lower energy prices for American consumers. That obviously chafes and kind of runs against his pledge to kind of rocket higher US energy production, but, like, we'll forget that for a second. So the Iran stuff, I think the only way he's going to do it is to preemptively extract a commitment that the rest of OPEC will fill in for any lost barrels on like a barrel to barrel basis, if you recall, and you will likely very clearly recall that we had a preview of this back in 2018 during Trump's first term, when he basically tried this before. He basically told OPEC, okay, you guys start adding crude to the market. I'm going to take a bunch of Iranian oil off. And then late that year, he basically did a complete rug pull and reversed entirely on his commitment to reduce those Iranian barrels at that time. And then we lost something like 30 plus dollars a barrel between late October and Christmas Eve. It was a crazy, wild route. And I think now, the Saudis and the rest of OPEC have become much wiser to dealing with Trump. So, I think when they hear Trump speak from Davos about, you know, urging them to increase production, reduce prices, I think they're really kind of doing the wait and see, what's he gonna do here? I think what we've seen already with OPEC trying to ease these production cuts, it's been holding. They've very much been taking the tack of, like, we're not going to act preemptively. We're going to wait to see realized tightness in the market. And I think in the case of Iran, they're likely going to wait to see realized Iranian export losses before jumping over themselves to kind of try and fill in for any losses.

Erik: Now, if you were to ask the average lay person which country on earth has more oil reserves than anyone else, most people would say Saudi Arabia. But that's not actually correct. Venezuela has the biggest oil reserves, although they're not particularly efficient at producing them because of turmoil and various issues in that country. Where do they stand? Where does Venezuela? And I should also mention that Venezuelan crude is that heavy blend stock that's needed in order to supplement the kind of crude that's produced in the United States. So, it seems like a really good source of that blend stock that we need, the kind of oil we need to import, but boy, the tension with Venezuela couldn't be much worse than it is. Where do we stand with respect to tariffs on Venezuela? What could happen? Or what do you see on the horizon that might increase or Decrease Venezuelan imports, and how does that play into this story?

Rory: I think Venezuela is a really interesting one, because Venezuela also has seen production begin to rise again, not as notably as we saw with, and not nearly as sharply as we saw with Iran, but ever so slowly, production is beginning to ramp up. Exports are beginning to ramp up. And we saw kind of a mismatch of attempts by the Biden administration to provide kind of a series of carrots for the Maduro government around kind of fair holding of a fair election, for the presidential election. Now, that did not happen, and then the Biden administration began kind of clamping down on a bunch of the things that it had given the Maduro government. But still, I think we have seen production and exports begin to rise, and it is a very easy spot for Trump to kind of clamp down, I think much easier and less. It's a much easier way to declare victory with much less immediate kind of potentially negative market reaction than, say, Iran, which, we could be talking about more than a million barrels a day of Iranian exports off the market relative to previous whereas Venezuela, probably talking 200,000 – 400,000, a much less kind of chunky lost to the market that you would require OPEC jump into kind of fill. But I do think it's on the list of countries that Trump is trying to remind the American public that he was tough on. And I do expect that he will recenter there, but again, so far that it hasn't been the thing that they've been talking about most frequently yet.

Erik: Rory, I've seen some speculation online, and it's definitely speculation, and maybe wild eyed speculation at that. But a couple of people have said, look at what Trump's doing with Greenland and the Panama Canal. What if that's just the warm-up? What if he's starting with places like Greenland, where the people who live there might actually welcome becoming part of the United States. And what if his ultimate plan, I'm not going to say, is to annex Venezuela, because only bad guys annex places. What if Trump's intention were to liberate Venezuela, that's ‘liberate’ in air quotes, making them a territory of the United States, similar to Puerto Rico, and turning Venezuela's massive, massive oil reserves, biggest in the world, into an American resource that presumably American oil companies would be able to develop. Obviously, that is speculation. I haven't heard any serious policy talk about that, but boy, it does kind of fit the story, doesn't it?

Rory: We are definitely in a stage in history where the taboo of territorial expansion is beginning to weaken, and that is concerning for a whole host of reasons. But I do think, if we're looking at in this context, yeah, I think, by very definitional geopolitics, here we're looking at Greenland, which has Arctic access. We're looking at the Panama Canal, which provides far greater fleet mobility for the United States, and shipping mobility, shipping competitiveness against upstart rivals like China. So, yeah, I think, I mean goodness, I should say I'm so tired of handicapping what were crazy tail risks that I guess we have to add, now that you've asked it, I have to add Trump annexes or liberates in air quotes, as you note Venezuela on the list. And I would say, I think that's only, like, a 1% probability kind of thing. But you know, now that you've even asked it, I probably need to raise it to 5%. So yeah, I mean, what would that mean? It would be very bearish for oil prices. I would say that I've often considered Venezuela to be like one of the ultimate bear cases, or bear risks for the oil market, given that, as you note, it's an absolutely staggering volume of crude, larger than Saudi Arabia, larger than Canada, which holds a very similar type of bituminous oil sands deposit and has been really, really bad at producing and kind of operationalizing that asset. If it became an American territory, then, yeah, you would see a huge influx of capital there, huge influx of expertise, and it would double on the idea that it's that heavier type of crude that the United States refineries are built to handle. I don't love considering this scenario, because it's very bad for Canada. But there are pieces of that makes sense in the context of what we're currently seeing.

Erik: It definitely seems to me that it would achieve a lot of President Trump's economic goals. It would bring the price of oil way down. It would expand American presence. It would certainly be controversial because it would be considered a territorial expansion, and an aggressive one, at that, because the Venezuelan Government obviously doesn't welcome it, but at the same time, the Venezuelan Government appears to be kind of illegitimate to start with. They're not really having democratic elections, and I'm not sure that the Venezuelan people would really object that much to the US coming in and offering a whole bunch of Venezuelans jobs developing those massive oil reserves. So, it does seem like a realistic possibility to me.

Rory: Yeah, one other thing I'd add there, though, is because the only part of this that does kind of chafe with what we're hearing is that Trump himself, I do think sees himself as the guy that ends wars rather than starts them. And I do think while, if I had to bet between the United States and Venezuela on who's going to want to fight, I'm obviously going to pick the United States. But you know, the United States does have a long and kind of torrid history of thinking it can go into and ‘liberate’ a country that turns into a very, very expensive boondoggle, kind of like quagmire situation. And I don't know if Trump is eager to bring that kind of risk up for himself, given that I do think that for at least, he seems himself as someone that ends wars rather than starting new ones.

Erik: Let's move on to this week's news, and just for our listeners' benefit, we're recording this on Tuesday afternoon, so we only have two days of data where our listeners will have four on what happened after the weekend's DeepSeek shock news out of China, which is a new competitor to American AI that seems to have been developed at a much lower cost and perhaps more efficiently. I don't think it has anything directly to do with the oil market. If you disagree, let me know. But the reason I'm bringing it up, Rory, is okay, some people are saying this could be the catalyst event that causes everybody to say, wait a minute, this whole business of Nvidia being worth $2 trillion of market cap has always been crazy. It's time to rethink this Mag Seven CRAZY RALLY, and maybe it's a catalyst that brings about a broad risk market sell off, where stock markets are way down as a result. I don't see that happening. Frankly, as of Tuesday afternoon, it looks to me like if anything, we're retracing now and buying the dip here. But if there were more news, if it were to go in that direction, and we saw a big sell off, even if it was having nothing to do with DeepSeek in China, there was some other catalyst that brought about a really big sell off in US equity markets independent of oil. Would that bring oil down with it? Or is oil really independent? Because, the supply and demand is really more constrained by supply than whether there's sufficient demand.

Rory: Yeah, I think that overall, oil, I'm a firm believer, I mean, there are plenty of debates about this, but I'm a firm believer that oil prices, at least on the kind of a medium-term basis, at least, are very firmly anchored to their fundamentals. That said, I do think that, here's the thing, I think oil prices, as I see them, are basically a function of current realized fundamentals, with forward, anticipated fundamentals and then kind of a speculative framing on top of that. So, the current fundamentals wouldn't have changed. I think there's an argument that if you do see a deep equity or financial market implosion, well there's a concern that you'd have contagion recessions, and that would legitimately pull down the price a bit. But I do think that, to your point, oil, on top of being this fundamentally governed commodity, is also the most financialized of all the commodities, and also is such a core risk asset in many portfolios, many of which have nothing to do with the oil market itself. It could be an inflation risk and be a whole bunch of things in different portfolio contexts. I do see that kind of a broader market route would absolutely pull oil down, quite possibly, quite severely, but I don't think it would be a lasting route, unless you got that kind of prolonged economic downturn on the other side. But I do think some of this DeepSeek stuff, is really interesting in the way it's affected other energy commodities, I mean, the big takeaway here is that you might not need a $500 billion Stargate Project. For those that are aware, this is like the big chip build out project that, and you might not need all the power that that kind of supports it. So maybe you don't need quite as much nuclear energy that was beginning of a renaissance, and maybe you don't need quite as much natural gas, which was starting to get a lot of pressure from this as well. So, I think it'll be interesting to see how that plays out, because all of that stuff does, in its own way, lead back to oil as well.

Erik: Rory, final question, we haven't talked OPEC yet, now I question how much spare capacity they really have, but supposedly they're withholding a whole bunch of oil from the market. What if Trump called in a favor with MBS, he seems to have a pretty good rapport, and said, hey, we really want to get the oil price down. We're going to make it up to you some other way. Let's just turn the screws to the max and have OPEC produce as much as they possibly can. What if somehow Trump were able to persuade OPEC to just turn the valves all the way up? What would that mean for the market?

Rory: Turning the valves all the way up would be quite the market shock. Just to kind of quickly go over numbers, OPEC itself claims around 6 million barrels a day of width of current cuts. This isn't even counting total spare capacity. This is just the kind of current cuts that be the cutting cycle that began at the end of 2022 and is extended through to today. Of that, I would say roughly maybe 4 million barrels a day of those are real cuts, rather than paper cuts and all these other kind of shenanigans that OPEC pulls with its own numbers and maybe exports are maybe 3 million barrels a day, or 4 million barrels a day lower. So, I think that's, let's say 4 million barrels a day is, that is the number we're really working with, that is less than 6, but still more than enough. If dumped back into the market, in one giant whoosh, we could easily sink crude to, $40, $30 a barrel or less. The irony here would be that the fastest way the market would solve that oversupply would be to drag prices down to the point and for long enough that US producers would get crushed. So there again, it brings us back to this core conundrum, this core paradox of Trump's energy policy, which is that he wants higher US production and lower overall prices. But I think in terms of the way OPEC itself is acting around Trump's requests, the official answer has been kind of no answer, right? They formally respond, but the Trade Industry reporting is kind of indicating that they are meeting quite a lot in the background to figure out how exactly they're going to message this going forward, because they don't want to anger Trump, but they also don't want to end up in a situation where they're kind of forced to act against their own economic self-interest, especially after, in their minds, they have worked really, really hard for the past two, three years to try and get to a stage where they can stabilize the market and then begin easing these barrels back without tanking the market. So, I think it would be very hard for them to accept that after all this time, now is the moment that they're going to dump the crude back onto the market and undercut their own earning. But again, I think this is going to be the tricky thing. I would say, really, what would have to happen in that case is Trump would have to offer something sufficiently enticing that would allow them to reduce what they consider to be their acceptable breakeven price. Now, much has been made, and I think we've talked on previous podcasts about how OPEC's own revealed preference for prices which, by which, I mean the price at which they cut to support, if you drop near a price and you start cutting, cutting, cutting, it's pretty clear that you don't want prices to drop below that level prior to COVID, that would have been like 50 bucks a barrel, maybe 60 bucks a barrel after COVID. You know, this latest cutting cycle started with Brent above 90. So, what you would need to be something sufficiently attractive to entice OPEC to reduce that desired crude price from 80, 90 bucks down towards what like 60, 70 bucks maybe, if that happened, I'm sure there are things that Trump could do to convince them. But again, we end up back at square one. It's, we're running in circles in a way, which is anything, if OPEC increases production, the way the market will balance is by pushing US crude out of the market, both because they are typically the higher cost marginal producer and because they are the fastest response, fastest cycle producer. So, they respond most quickly, and their investment decisions hit the market fastest, so that is the way. It's the same way that in 2020, and this is, I'm belaboring this a little bit, but like the interesting thing here is that overall, Trump generally has a bearish tilt on oil. But it's also important to remember that in 2020, Trump himself was a reportedly integral in pushing OPEC to kind of get its act together and cut production in the initial COVID demand slump, in order to save the oil market, and particularly save US oil producers. If OPEC hadn't cut like it did in 2020, the market still would have eventually solved itself, would have sorted itself out, but it would have meant single digit prices or low teens for months and months and months, enough to completely crush and kind of push out all the rest of the US production in this kind of a scenario where Trump has OPEC ramping up production again. The same general kind of framework still applies.

Erik: Rory, I can't thank you enough for a terrific interview as always. But before I let you go, please tell us a little bit more about what you do at Commodity Context, how people can follow your work, Twitter handle, all that stuff.

Rory: Thanks for having me, Erik. I always love coming on the show. You can follow me @Rory_Johnston on Twitter or X, and you can follow all of my written and published work at commoditycontext.com where I publish a whole host of oil market research from thematics, which are right now, unsurprisingly, very focused on Canada-US oil trade. I publish in a weekly report called Oil Context Weekly every Friday at 4pm Eastern. And I also publish three different monthly reports on global oil balances, North American oil flows, and on OPEC policy tracking.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.