



MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

Rory Johnston: Crude Oil Forward Curve Conundrum

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Erik: Joining me now is [Commodity Context](#) founder, Rory Johnston. Rory, it's great to get you back on the show. It's been way too long. Let's start with the crude oil market. Almost feels to me like we're seeing the beginnings of maybe an upside breakout. What do you think?

Rory: We're definitely at the highest level. I mean, with Brent kind of sitting around \$67-\$68 a barrel, highest level since the latest sell-off in April, still a decent ways off of kind of where we started, prior to President Trump's Liberation Day tariff announcements and the kind of double tap follow on of OPEC+ announcing this kind of accelerated production increase schedule. But it definitely looks like things are firming up. I think a lot of the kind of teasing, kind of temptation of us dipping into full curve contango, seems to have been at least averted for now. But what's left us with is the fact that the curve is in this very, very weird shape, and in some cases, at least on the Brent curve, kind of an unprecedented shape that you have extreme backwardation now, or at least material backwardation across the first 4, 5, 6 months of the curve, and then you have broad contango everywhere else through. You've seen it, historically, where you have like lighter backwardation at the front. But this kind of juxtaposition of very steep backwardation at the front and broad contango is pretty unprecedented. And I think that is a kind of a flattening of the entire debate in the oil market right now, between these expectations of looseness to come and the reality of kind of still reasonably tight markets by any other way we measure them.

Erik: Well, let's talk a little bit more about what's going on in that term structure, because I don't get it either. I do have a trade on in this market, because I'm hoping that that contango that we see about 6-8 months out on the curve is eventually going to flip back into backwardation. But we'll see whether that happens. I guess what I'm stuck with, Rory, as I look at this is it's so pronounced. There's such a sudden change right around January, February, all of a sudden, the curve changes from steep backwardation to significant contango. I would think there would be some event or news on the horizon. Everybody would be saying, oh, well, surely that's because of XYZ that's going to happen in January. I can't put the event with the shape of the term structure, can you?

Rory: No, and I think even when you look at the kind of fundamental justification for a bearish view, which I think that narrative is driving that contango emerging across the bulk of the curve, is the expectation of looseness, is now being shifted to around September, kind of end of summer, as driving season lets up, as Middle Eastern direct burn for power and AC lets up, that you're just going to be left with all this additional supply. Particularly by that point, OPEC+, or at least the subgroup of eight may have returned the entirety of its 2.5 million barrel a day cut, at

least on paper, so that's when we would expect to see that looseness emerge. But you're right that the Brent curve now is actually backwarddated out through to January. But I think what's even stranger is that I, for like my entire career to date, have really pressed the point that, "the forward or futures curve" is not the "consensus forecast of the oil market," that much more than representing expectations. It's a kind of a physical representation of the current status of the market, with the curve typically broadly backwarddated, or broadly in contango backwardation when you're tight and supply is short and need to draw inventories, and contango in the opposite when you need to kind of finance inventory storage. And the other thing that's strange here is that typically, when you transition between backwarddated markets to contango markets, that typically is driven first by the front of the curve, because that's where you're first going to see the realization of, let's say, right now we have been in a backwarddated market. If we're flipping into contango, you'd expect that to emerge first, at the front of the curve, not in the belly. So, the combination of those things is very, very strange. Not only do you not typically see the structure, but it's also traveling in the opposite direction you'd expect it to.

Erik: Well, great minds think alike, because we seem to be seeing this in very similar ways. What I would have said about this is, the way that a market evolves slowly from backwardation into a contango is almost always right at the very front of the curve. You'll see the first month, or the first two months fall into a contango, and then it's three months, and then it's four months, and eventually the curve all transitions into a contango. But there's another setup that has happened historically, which is when there is an obvious fundamental driver that would change those supply and demand characteristics, you'll sometimes have several months that are in backwardation that it switches into contango at some point. And what the market is doing is basically forecasting that that's what's going to happen, because everybody knows that news event that's going to change the supply demand fundamentals at some specific point in the future. This curve looks like that, but I can't figure out what the event is. What's going to happen around January that's going to change the dynamics of crude oil supply, demand balance. It seems like it's going to get loose in January, for some reason.

Rory: I mean, I completely agree that is what the curve is saying as a forecast. And I completely agree in terms of what would be driving that.

Erik: But it doesn't jibe with anything.

Rory: No. But here's the thing, I think, fundamentally on paper, looking straight at kind of balances and forecasts, things do look bearish, right? That you have demand growth that is not especially strong. You have OPEC+, at least on paper, ostensibly increasing production, not by 2.5 million barrels, not over 18 months, but basically over now, the assumption is seven months. That's a lot of oil, very, very quickly, faster than demand almost grows in any, even a fantastic year, two and a half million barrels. So on paper, we should absolutely be moving looser. But the thing that's strange about this is that we're already 600,000 barrels a day-ish up from those cuts being unwound, and we have yet to see really much of this materializing in the form of exports. Sure, I think what you're hearing a lot of in the market is that Saudi and kind of broader Gulf region demand for crude and fuel oil, for direct power burn is potentially running stronger

than usual. But you would have to be moving, you'd have to be running much hotter than usual, in order to kind of account for the full lack of a visible supply response, given that production should be rising already. I think combine that with the fact that, I did a piece a little while ago looking at how implied production from the broad Group of Eight—or Great Eight, as one of the ministers was calling them for a while—most of them are cheating right along some kind of lines. They are already producing more than they should be, even by the end of this unwinding, let alone at the beginning. So really, when you're looking at who is left in terms of likely returning barrels, again, if you're trusting any of these numbers, is basically Saudi Arabia with a million barrels a day, Russia with roughly 500,000 and then the UAE with around 500-ish thousand as well. Between the cut unwind and the baseline upgrade that they achieved over the same period, that's a lot of oil. But so far, we're not seeing Saudi supply or implied production move like we'd expect it to, given the stated increases, Russia likely has also haven't seen a huge supply response there. And in fact, there's a lot of reasons to think that they might not be able to increase production exports, given the cumulative damage across their entire infrastructure system. And then the UAE as well, this is a country that has, by all indications, kind of dramatically above its stated OPEC quota or target for a year or two, or three, now they've actually pulled back on that implied overproduction at a time that they should be actually opening the gates to produce more. All of it is very strange, and I think that's part of why the market, broadly, still doesn't know what to make of it. I think you've seen a lot of people, frankly, confused and I think it's happening at a time when so much is kind of pummeling you on the macro headlines from an Iran deal to trade negotiations with China, to what's going on with Russia. There's just so much happening, and then underlying that, the most basic stuff in the oil market doesn't seem to be following its normal rule set. So, I think everyone's just waiting for something, like rubber to hit the road somewhere, to kind of get a fundamental signal of what's actually happening.

Erik: Now, our other favorite Erik and Rory topic is the petroleum reserve. Could it be that that's related to this? Because, although, frankly, I can't come up with a good explanation as to why this would be the reason. It does seem to me that this strange shape of the term structure of the forward curve kind of developed right around the same time that we started talking about the Big Beautiful Bill and that implies refilling of the SPR. Could it be that an SPR refill somehow is part of this? And if so, how would that explain what we see in the curve?

Rory: So, I think it could theoretically do that if they were already purchasing the barrels. I think part of the challenge is that we don't have the Big Beautiful Bill yet, and these purchases are already showing up. And not only that, the money isn't there, so that the DOE's petroleum account, basically the pool of funds they can be used to basically bring these purchases, is essentially empty now. So, they need this money from the Big Beautiful Bill. But then also, you had Secretary Wright, Secretary Chris Wright, the Energy Secretary today actually state, I saw a headline that basically, they can't refill the reserve until they do additional repairs on the system, which I don't know if I trust entirely. I think that's probably a bit of a talking point. But they continue to pledge increases, but I don't think we've seen any real barrels, any real purchasing demand materialize. That said, where I do think you could have the same equivalent thing, but not the US SPR, but the Chinese inventory building is maybe, I think, the bearish read on this

market. And let me just put my bear hat on for a second, is that maybe the broad structure of the curve is more or less correct, that we are dipping, or we are weakening into contango. But we all know that Beijing and Chinese traders and trade houses love bargain on commodities, and what we've seen is actually Chinese visible crude inventories tracked by satellites. I was seeing the data from Kpler yesterday. They show Chinese crude inventories building much faster than normal for this time of year. I think it's up 40, 50 million barrels year to date so far, which is much faster than you'd expect for their normal pace. Which could explain some of that kind of prompt tightness that they don't actually care about paying 50 or 30 cents a barrel more. They just want the barrel because in the mid 60s, they're feeling pretty good about that being a good buy, and they still have plenty of space in their inventories. But I think that is the one thing that I'm looking at saying, okay, why would they be building inventories in China faster than normal, when the curve structure says you should be doing the exact opposite of anything. You should be drawing down inventories right now and basically refilling the same barrel in like half a year, and basically just capturing that arbitrage entirely as long as you can, lend the barrel to the market. So, the market signals for those Chinese tank holders are opposite of what we're actually seeing them doing, which, if you kind of reverse the causality, means that maybe they are actually ones that are driving part of this front end tightness that we're seeing that would help explain and kind of square away that story.

Erik: Well, we should back this conversation up just to the fundamental drivers of, why higher prices in the first place? There's a lot of consensus view in the last several weeks that, yeah, President Trump's working on getting lower oil prices. OPEC's increasing production. You know, there's lots of good reasons to think that this market was going to drift lower. Now, we're seeing the exact opposite of what most people assumed, it feels like that's because there's some surprise or secret that not everybody has figured out yet, including us. Let's figure it out.

Rory: Yeah, so, I mean, and even beyond you mentioned, kind of two supply side issues, Trump trying to talk down the price, and then OPEC adding more to the market. But there's also, you know, demand was performing reasonably well in the first two months of the year by my estimates, but then began to fall apart again in March and April, and that's mainly driven by China. Which, part of the variability of this market is that Chinese demand signals have been all over the place. And just to kind of recap the audience very quickly, basically, you had China for the last decade plus, prior to COVID was the single most reliable bullish factor for the oil market, half a million barrels a day plus of incremental demand each and every year, without fail. COVID happens. We begin to kind of flat line as policy tries to figure itself out. In 2022, we thought we were going to get really tight, and Beijing had it locking down with COVID Zero, causing the first annual average demand contraction, basically in two plus decades. Then in 2023, demand roared back out of that contraction to be, by most estimates, the single largest year over year demand growth of any country in history, like over a million and a half barrels, almost 2 million barrels, depending on how you count it. And then in 2024, that reversed again and flipped back to most optimistic flatline, and probably more likely, a decline of 100,000 or 200,000 barrels a day. That's a lot of variability in what used to be the kind of most steady state factor in the oil market. And even this year, we've basically traced that exact thing, shrunk that timescale down. And now each month, we're basically okay. This month, we're up half a million this month, we're

down 200 next month, and it's all over the place. And I still have yet to hear anyone give a compelling, kind of consistent explanation for what's happening with Chinese oil demand. We know broadly that there are kind of headwinds that you've seen. Obviously, the trade war was having a deleterious effect on shipments and manufacturing demand. At the same time, you had kind of very known displacement of some demand, say, in electric vehicles, where you have, you know, because of their desire to reduce their dependence on foreign oil, it sounds like almost like the United States in the 1970s. But they wanted to reduce foreign oil demand, or foreign oil reliance, so they've pushed EV, or new energy vehicles to more than 50% of consumer sales, that is obviously going to eventually take a bite.

And the other thing, I think we've talked about this before, is that you've seen on the industrial side, displacing diesel is kind of increasing penetration of natural gas feedstock in these heavy trucking fleets. So, China is all over the place, and that alone, if you can swing between negative 200 and positive 500, like a 700,000 barrel a day swing in oil balance is a huge deal, as you well know, and it's happening every other month right now. So that, I think, also adds to this kind of bearish backdrop. But to your point, the market is not currently acting all that barrage. So, what is happening? And I think part of this, we actually saw confirmed today from the EIA—we're recording on Tuesday, June 10— and the EIA just released its new short term energy outlook, it's kind of rolling forecast of the market. And they are now forecasting that in 2026, annual average oil demand will actually decline for the first time since 2021, and excluding COVID, first time since 2016 and before that, 2008. So, this is a pretty momentous pivot point on the US supply story, because on the flip side of China being the most kind of reliably bullish, consistent demand growth in the market, US shale was the most reliably bearish supply growth in the market. Now, both of those factors are basically flatlining, if not reversing, and it's a very, very different market. I think participants are still trying to get their hands around it.

Erik: Do you believe that forecast yourself, Rory?

Rory: I think, eventually, we will likely get to a peak of oil demand, but I don't think, I'm not someone that sees it happening this decade. I think we're probably talking mid 2030s if you listen to OPEC, we're basically going to plateau around 2050. I think that's probably a bit too sanguine. But again, I think, right now, we're seeing the kind of beginnings of that transition of slowness. Now, what used to be kind of a steady assumption of a million and a half barrels a day of growth, or let's say, one and a half percent year on year demand growth year after year after year, now we're kind of, are we lucky to get one? And in some years, we're getting, like last year, we got more like 0.4 million- 0.5 million barrels a day of growth. That, it's not a peak yet, because it's still growing in absolute terms, but the pace of change is slowing. I don't think it's materially different if we hit peak demand in 2030, 2035, or 2040, if the difference in the average pace of demand growth in, say, the 2030s is, you know, maybe we're debating 100,000 barrels a day of growth versus 100,000 barrels of contraction. That actually isn't as big a change as even the 1.5 million barrels a day of pre-COVID norm to the kind of 500,000 barrels a day of increasing of what we saw last year. So that itself was already a bigger swing. I don't put a lot of stock in the importance of the particular year, or whether or not we're going to peak out. Even

OPEC said we're going to peak at like 100-120 million barrels a day by 2050, I think was the number, which sounds really bullish, but we're talking about 25 years, and we are only growing maybe 15 million barrels a day of demand. That's much, much, much lower and slower than we would have grown historically. So, I think it's not the peaks are important, the kind of pace and when we when we hit that kind of newfound low pace of demand growth, I think is the more important factor.

Erik: Rory, let's talk a little bit more about US supply growth. One of the things I've been talking to Dr. Anas Alhajji about is, really, I think the US has saved the day. A lot of people thought there was going to be a global energy crisis in the early 2000s because we were, essentially, it was the peak oil thesis, that we were going to not be able to produce enough oil. It feels to me like the way this has evolved is the US has saved the world from an energy crisis, if we cannot continue to grow US shale, it seems to me like that's the valve that unless we've got another supply of energy once shale is played out, we're screwed. Am I right about that? And if so, how close are we to shale playing out?

Rory: I think that was definitely true in the kind of 2010s, I think that the period of insatiable growth in US production through that period, I think absolutely saved the market. I mean, saved consumers, obviously, kind of tanked the market from 2014 forward. But I think absent those barrels of growth earlier, I made the kind of parallel between US supply growth and Chinese demand growth. That Chinese demand growth in any given year was half or more of global demand growth, whereas in many years, US supply growth was more than the entirety of global demand growth, that the rest of production actually declined to make room for that kind of boom of US shale, most notably with OPEC cuts, as they literally kind of made a discretionary decision to say, we're cutting to try, I mean, they wouldn't have phrased it as making room for US shale, but trying to deal with the kind of supply boom there. So, I think it's a massive change. And I think when we're looking at one of the things that the EIA mentioned in it, like explicitly mentioned in its update to its forecast, which, again, I think people typically assume and associate the EIA with a fairly bearish outlook. So, the fact that the bearish outlook, EIA is now saying that US crude production is likely going to roll over, I think, is pretty important. And I think they explicitly note the rig count in, you know, the fact that the rig counts "have declined much more quickly than expected over the past month," and, really over the past two months. So just to kind of give a sense here, the Baker Hughes rig count for oil is down by 40 rigs over the last two months. That is a fairly fast decline in the scheme of things. And while I think it is correctly, I think the rig count is a pretty fraught number for a bunch of different reasons, because across history, you're really not looking at the same number over time. As a great example, I have the rig count on my screen here, and the rig count in 2014 was around 1600 at the end of 2014, and now it's around 440. So, those are completely incomparable, because obviously, the US is producing much more oil now than it was in 2014. So, the rigs now are much more efficient. The people know how to use them much better. They're drilling wells faster. We're completing wells faster. You're doing longer laterals, all this stuff. So those aren't comparable over a 10-year period. So, it's a very difficult number to just kind of show a chart and say, see? But I think it's entirely fair game to say, we can compare the rig count today to the rig count from two months ago. We haven't had a step change in kind of technology over that

period. In many cases, you've actually heard that, per foot, well productivity has actually been either plateaued or you've seen gains beginning to slow. The one thing we still do need to look out for here is, in terms of the average efficiency, or the average productivity of the rigs that remain in the field, is that, over a period, as the prices fall and US producers begin to pull back, they're going to pull back on their worst rigs first, right? They're going to keep their best rigs in the field, and the worst rigs are going to come off first. So, as of yet, it's not a complete route. But as you see with the changing EIA forecast, the rigs are our best highest frequency indicator of where upstream activity is. And those rigs began to fall off immediately following the early April reciprocal tariff announcements, and followed by the OPEC announcement of acceleration, and the kind of price decline that followed all of that. So, even faster than usual. You normally have a bit of, a bit more of a lag between price declines and rig changes. But also, if, as you noted, and we were talking about earlier, if there's increasingly just this consensus that there's a wall of supplies coming to the market and you kind of get out of the way now while you can, maybe that helps explain why those rig counts have declined even faster than we would have expected, even just based on the prices to date.

Erik: Let's talk about the speculative positioning in this market and investor sentiment. What are the Commitment of Traders reports telling you?

Rory: Commitment of Traders report over the last couple of weeks have begun to tick higher again, and I think this probably explains a lot of the flat price increase we've seen, and the fact that we're kind of now sitting back around the highest level since April, or since late April, at least. But I should note that that's still overall at the very low end of where we could be. As an example, where we are right now, between the two largest Brent and WTI futures contracts, the net position of managed money or speculators in this market is roughly 5.5% of total open interest, which is up from 3.4% in early April, when the prices kind of hit their low point, but still well off where we were in early January, immediately, kind of in line with Trump's second inauguration, where we were at 9.4%. So, we've come notably off the lows of positioning, but we're still way off the highs, and we're still really kind of even what I would consider slightly oversold, based off your trailing midpoint of those of those levels. And I think that is kind of route in spec positioning happened immediately alongside the emergence of that weird futures curve that we've been talking about. And I think that helps explain why. Yeah, it was these funds that were really selling off on this narrative, while the prompt, kind of physical market remained, I mean, for a long period, it wasn't rip roaring, but we've strengthened again. And you actually never saw the front of the curve tip into contango, which, even over the past couple of years, there have been periods where we've actually tipped into prompt contango, at least briefly, while the rest of the curve remained backwardated. So again, this is what's weird right now. And again, I think part of the increase in prices has been these funds coming back to the market, and even the depths of that belly of the curve, contango has materially improved. And relative to, I think, a month or two ago, when we were at our low point, we were barely at, like, people were talking about the smile curve for a while, we were barely at a check mark at the low point. We were so close to kind of prompt contango at the front. But now, I mean, the prompt backwardation on Brent right now is that 75 cents a barrel, and that is spread out, not rather than just the front two contracts in the curve are now actually kind of the first six contracts of the

curve. And actually, the front two contracts are now actually higher than the entirety of the rest of the curve. So, if you looked at just the front two contracts in the back, the whole curve would look backwardated. It's just what's happening in the middle. The journey is where the fund's going to be, apparently.

Erik: Rory, I find this fascinating, because historically, it used to be that the WTI curve and the Brent curve kind of had different personalities. The WTI curve was the one that would sometimes get a little bit of contango at the front of the curve, while the Brent curve was staying in backwardation at the front of the curve. It seems like they've almost reversed roles. And I always had a theory that it was the storage aspect of the WTI contract and the way that it works that caused that difference. You wouldn't expect to see Brent doing what it's doing. None of it adds up for me. Does it make sense to you? Can you come up with any explanation for why we're seeing the Brent and WTI behaviors different than what we usually see?

Rory: I mean, one thing that I've been considering, I have yet to kind of really validate it, but it's one of the things I'm considering and explaining this evolution. Because you're right, we actually have seen a little bit more of this shape historically in WTI that we haven't in Brent. And part of what's obviously changed between that historical episode, WTI and today, is that WTI is also now functionally the largest grade of crude in the Brent basket. So, you've seen almost this kind of like overlapping of the contracts in a way to a degree, historically, they trade much more differently. So now that you've had WTI provide the majority of the new liquidity in the Brent complex, we're starting to kind of almost import some of that idiosyncratic WTI curve behavior into the global market as well.

Erik: Rory, let's touch on another subject that's near and dear to both of our hearts, which is blend stock for being able to refine crude. The situation that we have in North America is, we very urgently need heavy blend stock to mix with the super light oil that we make in North America, or that we produce in North America. Really important to have access to it. We seem to be trying to start wars with pretty much all the countries that supply it to us, except Canada. Oh, wait a minute now, we're sort of trying to start a spat with them too, between Western Canadian select and Venezuelan and Iranian heavy crudes. Those are pretty much the only ones I know about that are available in enough supply to provide the world with the blend stock it needs. Are we running up against a situation where maybe we could run, get into a blend stock crisis at some point?

Rory: Well, the way I assess this is essentially looking at the differentials borne by WCS, which now is the most visible liquid, kind of heavy crude marker in the world, which I think is, historically, a lot of these other blends like either some of the OPEC crudes or even Mexican Maya were always done on these quarterly or monthly contracts and stated prices, official selling prices, which didn't allow for a lot of kind of analytical value. Like, you got something from it, but not to the same degree that you get of like a daily or even intraday trading contract like WTI or Brent. But now, when we have WCS, we have a lot more granularity of what's going on, what we're seeing right now in WCS markets, in the primary hub in Hardisty and Alberta that that contract is sitting around, it's tighter than \$9 a barrel under WTI. I think we're at \$8.85

as of yesterday's close. And we've also seen the differentials in Houston, which is, assuming no egress costs or anything else, and in direct competition with Mexican Maya and Venezuela, and even Basrah heavy, or whatever other OPEC crudes you want to look at, that is also extremely tight at \$2.50 a barrel. Part of this is being driven by the exceptionally tight market for heavy sulfur fuel oil, globally. I'm sure you remember, Erik, back when IMO 2020 had everyone spooked about what was going to happen with heavy sour kind of bunkering fuel for global shipping fleets. And what we've seen is that a lot more of those large ships have been installing scrubbers that enable them to buy the cheaper feedstock of high sulfur fuel oil, versus the low sulfur kind, which is additionally refined and much more expensive because of it. But because of this, relative to say, at the end of 2023, when the heavy, heavy sulfur crack spread was out around more than \$20 a barrel under negative. So, there's always trading at negative. So it was, you were losing like \$20 a barrel to refine a barrel of Brent into fuel oil at the end of 2023. And now, as of recently, that was more \$4.50 to \$5 of loss. So, fuel oil, because it's always a residual product, will almost always trade at a negative crack spread to crude, because you're refining the barrel to the more expensive diesel and gasoline, etc. And that, you know, this leftover is, you just want to lose as little money as possible. But we're getting pretty close, and we actually have seen the European market kind of fuel market, fuel oils briefly trade at premiums to crude, which, again, I think speaks to this ridiculously tight, heavy, sour end of the market.

Now, you noted that, yes, the Trump administration, I was joking at one point that he must have hated, like a coking refinery owner at some point in a past life, because he just wanted to do everything he could to basically reduce the supply and thus increase the value of heavy sour feedstock. And that, I think, is really continued. So, as you noted, Iran, Venezuela, there were briefly threats of tariffs against Mexican Maya crude as well as Canadian crude. But also all of this, you also have the effect where Canada is by far the largest single supplier of this kind of grade of crude, both to the United States, specifically, with more than 50% of total imports, but globally, as well, more and more of that feedstock is now shifting to the Pacific basin and away from the United States in a way that we've rarely, never seen before. And there have been a lot of reports written recently, that over the past couple months, you've actually seen China overtake the United States as the largest off taker of western Canadian barrels coming out of the new Trans Mountain Expansion pipeline. So that was always part of the plan and the sales pitch for TMX. But after it was immediately started, a lot of those barrels went down to the kind of LA refining area where they were displacing other Latin American grades or whatever. But now, more and more of those barrels are making that longer voyage across the Pacific into largely China. And I think now you're seeing for the first time, when I've really been following the entire oil market, Canadian oil is now, almost 10% of it is going towards Asia, versus for the entirety of the time I followed, it's been like 98% going to the United States. So it's still obviously 90%, we're never displacing the US market for Canadian crude, but you are beginning to see like legitimate diversification enabled through TMX, which I think is an interesting development. And now, following all of the kind of the back and forth, and kind of animosity between the Trump administration and Canada at the beginning of the term, in particular with the tariff threats and the quasi annexation threats, you've seen the politics in Canada change in a way that I've also never seen. For reference, I am Canadian, and I'm sitting here in Toronto, and

we're seeing Quebec, which has always been a province that has opposed pipelines vociferously, has actually now 78% in favor of a pipeline that would travel through Quebec. That is just something I would have never, never hoped to see in my life. So, you've seen this kind of pivot around, not just supporting Canadian economy, and kind of diversification, but specifically diversification away from the United States and kind of building in some optionality. So now, the newly elected government of Mark Carney has been pushing through a lot of new legislation to fast track major projects like pipelines. And the Liberal government, the government, which under the previous premiership of Justin Trudeau, while they built TMX, I think, rhetorically, emotionally, symbolically, they were, as opposed to the oil sector, kind of as any government in recent history. That, I think that tone is changing in a way that I think is quite unique, and again, I wouldn't have expected even a year ago.

Erik: Rory, final question before we close, let's come back to this supply and demand question. I'm still concerned that when the US shale play plays out, that the world is going to be in trouble. I'm not sure that it has played out yet, but someday when it does, I don't see what comes next. What might I be missing? What is there beyond US shale to make up the difference, as far as spare capacity, if we do eventually get to the point where shale is played out and we don't have the ability to increase production in the US?

Rory: I do want to say one quick thing on even the US side is, I should note that this EIA forecast, and I think my expectation as well, that we begin to see a rollover in US crude production is very much a function of us, kind of being in the 60s or, if not, the 50s for crude prices. I think if we were in \$100 a barrel environment again, US crude would be growing gangbusters. I almost guarantee it. I don't think that this is necessarily a kind of geological fait accompli, I think that this is a question of economics. So, this is how OPEC, I think, got in. It got in over its head. It kind of drank the Kool-Aid that US shale was peaking so they could keep the market tight. But then when they kept the market tight, and prices in the 90s or \$100 a barrel Brent, you still saw US shale growing. So now they're kind of reversing course, trying to add more supply the market, bring their kind of implicit target price down. And I think that is itself doing what they need to do, which is basically capping out US shale production. I think what's also interesting when you look, so the IEA, the International Energy Agency, just released its new world energy investment report for 2025, and one of the things that it showed was that you're actually seeing upstream investment in global oil production fall by about 4% to a combined, again, these, including natural gas, but falling to a combined \$570 billion in 2025. That obviously sounds like a lot of money, but relative to, say, 2015, that was almost \$900 billion. So, it is down considerably. And when you look at, that's about a 4% decline. But when you look at the fact that costs are increasing, for instance, you know the way tariffs are increasing, the cost of steel, which itself accounts for 10% to 20% of US oil well, you're actually seeing more like a 4% decline in investments, more like an 8% decline in cost adjusted activity, which I think is itself a pretty notable pullback.

But, I think, outside of the United States, more of the non-OPEC production growth, I think is slower moving and stickier, far less price sensitive. You're looking at things like Canadian oil sands, which, as long as there's egress availability, you're going to keep gradually expanding

those fields, not a brand-new project, but Brownfield expansion of institute fields in Alberta. You're also continuing to see the ramp up that, really, almost no price could derail of Guyana. They're now expecting well over a million barrels a day of production by the end of the decade, or even before that. And Brazil as well, you're seeing a lot more supply there. These are all prices that these projects will break even in the kind of \$30 to \$40 barrel level far, far slower moving and kind of much stickier investment. So, eventually, if these prices persist, that will begin to wane, and then you're basically left with a growing call on OPEC, which is what they hope. But I think, for now, the only way we're going to get that tightening and that kind of forcing mechanism on the other side for prices to increase, I think, is if we have demand growth re-accelerate, in order to force that, because if demand is only growing by half a million barrels a day a year, that's just not enough to accommodate for some of those slower moving sources of supply growth in the Americas, while at the same time, kind of making any room for OPEC to return its own barrels, as it's planned to do. The only way that that could work is if you had even lower prices and even steeper declines than are currently expected in the US shale patch. Which, again, I have a lot of feelings at the current oil market, but I think I could see it resolving itself either way here, depending on where demand, in particular, goes and on the supply side, how much OPEC is actually physically going to put and push into this market, rather than what they just say they're going to do. Because, so far, everything on the headline level, the paper balance is extremely bearish, but the physical balances haven't caught up to that reality yet, and it doesn't look like they're trying to catch up to that reality. So, something's got to give. Because, as we started with talking about this really, really weird futures curve, that futures curve structure fundamentally can't persist for very long, something's going to give. Either the front of the curve has to dip into contango and the rest of the prophecy be foretold, or it basically, the speculators and the forecast of the market need to revert to kind of flip back up through the belly, and then you have that broad backwardation re-established. But this kind of weird smiley check mark thing, it fundamentally can't last. It's a fundamental market structure that doesn't really make much sense.

Erik: The square root symbol term structure is unprecedented.

Rory: Exactly.

Erik: Well, Rory, I can't thank you enough, as always, for a terrific interview. But before I let you go, please tell us a little bit more about what you do at commoditycontext.com, what people can expect to find at your website and how they can follow your work.

Rory: Thanks so much for having me, Erik. So again, I'm the founder of Commodity Context, which is my analytical platform for oil market analysis. I cover crude refined products, political developments and policy development sites, particularly in North America, particularly in Canada, where I'm based. In terms of the actual product I publish, I have three different types of reports. I have a weekly report I publish every Monday at 4pm Eastern. I have thematic reports. I should have one coming over the next day or two on this weird curve structure. So, look forward to that. And I also three different monthly data decks, or kind of heavy data reports, where I update things like global balances and try and kind of rationalize all of this narrative

back to numbers that we can confirm. And beyond that, I also teach at the University of Toronto in the Master of Global Affairs Program, and you can follow all of my work, largely on Twitter [@Rory_Johnston](https://twitter.com/Rory_Johnston), or at all of my work at Commodity Context at commoditycontacts.com.

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