HARTLAND
SHIPPING SERVICES

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WEEKLY COMMENTARY

Hartland Shipping wish you a Happy Easter Holiday!

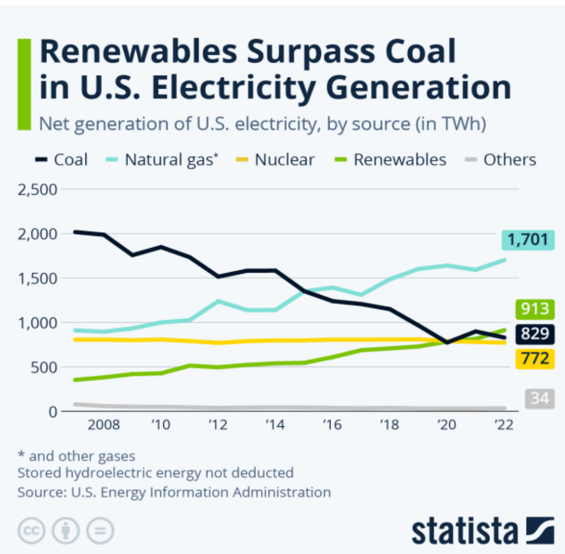
POINTS OF VIEW

The world got a jolt on Sunday when Opec+ announced its intention to cut output by 1.2m-bpd, taking cumulative cuts to 3.7m-bpd after a 2m-bpd cut in October and a Russian rollover of 0.5m-bpd. The latest cuts are led by Saudi, Iraq, UAE and Kuwait. Some portion of previous cuts, maybe around 1m-bpd or so, have simply recognised the under-performance of various members that have had difficulty in ramping up production in the Covid exit stage. Why the latest cuts? Some say it is pre-emptive given the most recent recessionary threats to global oil demand. Maybe irritation at Biden's delay in refilling the SPR. Possibly punishment for the West's role in almost triggering another global banking crisis. However, it was the Saudi National Bank that caused a capital flight from Credit Suisse after it abruptly refused to pump in rescue capital as CS's largest shareholder. It could also be that Opec+ wanted to remind western and western-leaning consumer nations that they no longer have much leverage over oil and gas prices. This, they might argue, questions the wisdom of unilateral and self-harming US-led sanctions against the major oil and gas producer nations of Russia, Iran and Venezuela for their perceived misdeeds. Such measures cause global prices to rise, inflation to set in and central banks to raise rates which harm household, corporate and national balance sheets worldwide and risk domino-effect collapses in the banking system.

Oil prices have fallen this year as demand has been hit by, amongst others, a slower than expected China rebound, general strikes in the UK and France and fallout from SVB, CS, Deutsche and others. The banking scare saw Brent fall from a March high of $86 to a March low of $72 per barrel. Massive intervention and the Opec+ cuts erased that 16% price drop with Brent back to $86 on Monday. The oil cartel's actions have resumed fears of Brent surging towards $100 later this year which will be inflationary, and will demand that central banks keep base rates higher for longer. This effectively bestows upon Opec+ and its discreet coterie of backers (including China, India and most of the Global South) influence over western monetary and fiscal policy. Furthermore, the US, UK and EU are rowing back on their net zero climate change targets as they assess the enormous costs. They all face regulatory and legal challenges from nimby and banana* lobbies which can derail all manner of infrastructure initiatives. Exxon, Chevron, BP and Shell are all slowing their transition path to unprofitable renewables, accepting that we need oil and gas for longer if we want to keep the lights on.** Opec+ gets a reprieve and more time to monetise what is still in the ground. The Oil Age has a bit more time left before it joins the Stone Age as use fades away over time.

These latest cuts allow Opec to help Russia via higher oil prices while at the same time damaging the economies of the sanctions enforcers. China and India, huge oil consumer nations, can tolerate higher prices as they have access to discounted Russian crude oil and oil products that are off limits to others. China is working on security of supply having just signed deals with Saudi Aramco to invest in and supply crude to two Chinese refineries. It has also just brokered a shop window rapprochement between Saudi Arabia and Iran, a matter of concern in the West and Israel. A polarisation is gaining pace that increasingly shifts from theoretical to actual. If oil demand rises this year by 2%, or 2m-bpd, as per IEA guesses, then where might the Opec+ replacement supply come from? Possibly from rising US shale output, or from the depleted SPR, or from Latin America and Africa, but will it all be enough?^ High oil prices of $100+ could bring on the global recession that we were hoping to avoid. Meanwhile, as we discussed last week, the UK will be joining the CPTPP, becoming its 12th and only Atlantic-based member as it severs the EU umbilical cord that was, and still is, dragging UK growth lower.^^ Former EU trade commissioner, Cecilia Malmström, accuses the EU of "navel-gazing" and has called for Brussels to apply to join the CPTPP. Biden should look very carefully at doing the same, reversing America's isolationist approach in favour of strength in numbers. The UK would get a backdoor trade deal with the US and a softer trade deal with the EU, maybe even satisfying Remainers and Brexiteers alike. In the meantime, going back to where this all started, we face the loss of at least 1m-bpd of oil from the market,+ putting more pressure on the benign tanker supply side to deliver us the elevated earnings that we were, and still are, expecting.

… US : Switching from Coal to Gas …



Source : Statista

*Powerful lobbies in western 'democracies' : 'not in my back yard' and 'build absolutely nothing anywhere near anyone'.

**Henry Jackson Society says that moving too quickly to EVs hands geopolitical and economic power to China's better supply chains.

^SPR as of 8 March 2023 was filled at 52% of capacity: 371/714mb. Further easing of sanctions on Venezuela is another possibility.

^^World Bank forecast share of global growth in 2019 & 2050.
EU27: down from 16% to 10%. CPTPP+UK: up from 16% to 23%.

+Opec cuts may see China-bound VLCC cargoes from the MEG be replaced by long-haul US, Brazilian and other Atlantic suppliers.

Furthermore, Asian-discharging VLCCs may have to ballast back to the Atlantic if backhaul cargoes decline due to the latest cuts.