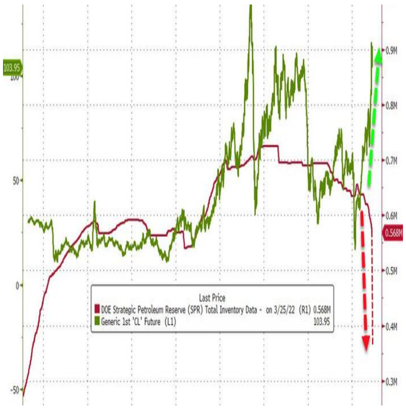


Biden's Massive SPR Release "Does Not Resolve" Upside Risks, Goldman Warns As It Hikes 2023 Oil Price Target To $115

Description

Update (16:00ET): The Biden administration confirmed a record large Strategic Petroleum Reserve release of 180 mb over the next six months to fight the "Putin price hike at the pump", with the potential for other countries to release 30 to 50 mb. As noted earlier, while such a release will help trim prices in the short-term, increasing supply and commensurately reducing the amount of necessary price-induced demand destruction – the sole oil rebalancing mechanism currently available in a world devoid of inventory buffers and supply elasticity – it will lead to higher prices over the longer-term as the government's panicked, political intervention in the energy market which is obviously meant to avoid a Democrat wipeout in the midterms will discourage any rational investing in supply by US majors. Furthermore, a release of inventories is, only a temporary source of supply and in fact, as Goldman notes, **lower prices in 2022 support oil demand while slowing the acceleration in shale production, leaving for now a deficit in 2023 with an eventual need to refill the SPR.**

As a result, in a note published late on Thursday, Goldman updates its oil supply, demand and price forecasts accordingly, in which the bank is increasing its already expected SPR release to match today's announcement of 1.2 mb/d over six months, while delaying an expected ramp-up in Iran exports to 3Q22 given delays coming to an agreement and the lag in the required certification for exports to resume. Separately, Goldman's expectations of a 1 mb/d hit to Chinese demand due to lockdowns in 2Q remains unchanged, with OPEC+ expected to stick to its scheduled quota increases through 3Q22 consistent with today's decision. Finally, the bank is also increasing the probability of a Moderate Russian export disruption scenario (to 50%), implying a slightly larger loss of supply in our weighted mean outcome.

This leads **Goldman to cut its 2H22 Brent price forecast from $135 to $125/bbl while also raising the 2023 Brent forecast from $110 to $115/bbl**. In particular, the bank says it doesn't see "**today's decision as resolving oil's structural deficit, now years in the making**." This is consistent with the resilience in long-dated prices today, with Dec-23 Brent remaining the bank's preferred long-term bullish oil trade (with EU Gasoil cracks the preferred short-term oil trade).

Worse, according to Goldman's commodity team, "upsides risks have not been resolved with today's release" because:

1. **Potential logistical bottlenecks to such an unprecedentedly large and long US SPR discharge could reduce its flow rate,** with potential congestion on the Gulf Coast in getting to refiners or export terminals.
2. **We see risks of a slower shale growth than the 1.1 mb/d we are expecting in 2023**, **due to the combined effects of rising cost inflation and binding service bottlenecks**.
3. The US policy use of an SPR release, a potential deal with Iran, extreme price volatility and the growing risk of a recession next year, **are all exacerbating the uncertainty faced by producers, reducing their incentive to invest more.**

The bank concludes that since fundamental uncertainty is set to remain extremely high in coming weeks and months despite Biden's action, Goldman reiterates "our conviction for higher oil prices." (full note available to pro subs in the usual place)

* * *

Watch the President deliver remarks on "responding to Putin's Price Hike" at 1330ET:

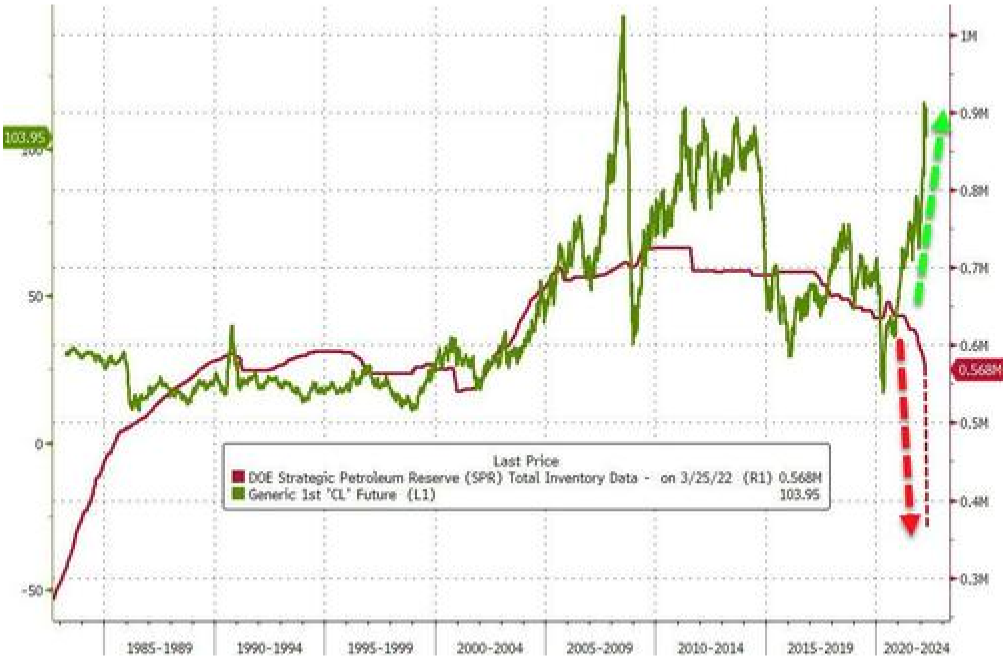
* * *

Update (1100ET): The White House has released its fact sheet on how the Biden administration will respond to what they are calling "Putin's Price Hike" by releasing 1 million barrels/day from the Strategic Petroleum Reserve…

> After consultation with allies and partners, the President will announce the largest release of oil reserves in history, putting one million additional barrels on the market per day on average – every day – for the next six months. The scale of this release is unprecedented: **the world has never had a release of oil reserves at this 1 million per day rate for this length of time**.
>
> **This record release will provide a historic amount of supply to serve as bridge until the end of the year when domestic production ramps up.**

Which just happens to be when the midterms are held.

This move will reduce the SPR to its lowest absolute level; in 40 years and its lowest level all-time in terms of days-supply…



The goal of Biden's plan is to create a bridge for U.S. supply until the fall, when domestic production is anticipated to increase, the people said. **But OPEC+'s refusal to increase its own production may dampen any effect of the U.S. release.**

> **"It is hard to overstate the scale of this intervention if it bears out,"** Kevin Book, managing director of ClearView Energy Partners, said in a research note.
>
> "It would be the largest draw-down volume announced in the 45-year history of the SPR by a factor of 3.6x."

But, as Goldman warned below, **such a release would therefore not resolve the structural supply deficit, years in the making… and the need for restocking will be a big demand pressure on prices**

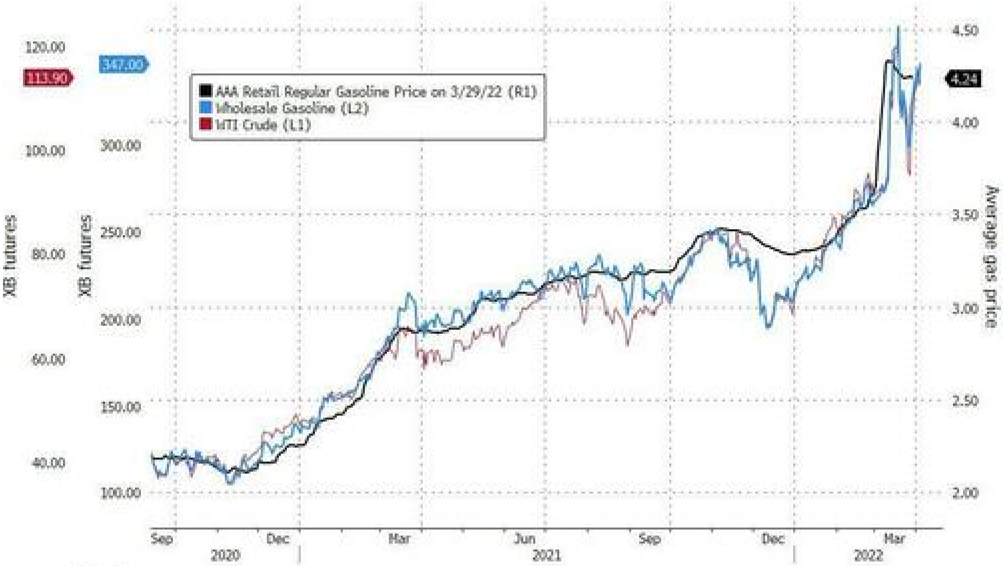
> A large release from America "would reduce the amount of necessary price-induced demand destruction," Goldman Sachs Group Inc. analyst Damien Courvalin wrote in a note to clients.
>
> **"This would remain, however, a release of oil inventories, not a persistent source of supply for coming years."**

Additionally, Saad Rahim, Trafigura Group's Chief Economist told Bloomberg TV, that the potential SPR release will actually discourage future oil output and could drive forward prices higher, and added that the **US is only capable of delivering 400,000 to 500,000 barrels a day of oil from the strategic reserve**.

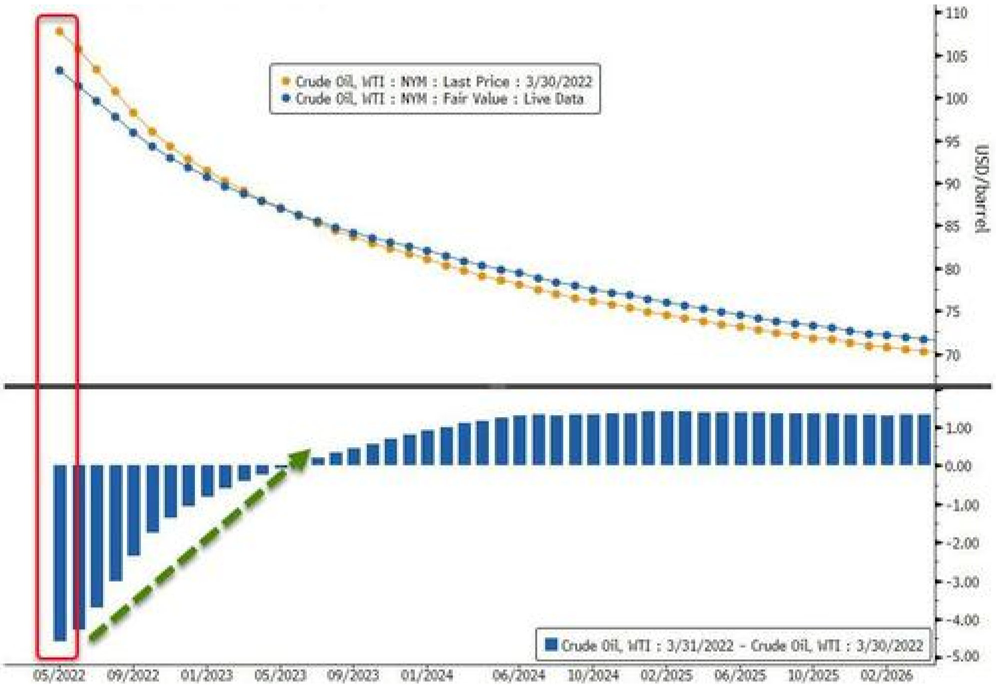
And the modest drop in WTI prices tells you all you need to know about the market's expectations of the success of this intervention…

> ***“Energy traders see any proposal of tapping strategic reserves as a short-term fix,”*** said Ed Moya, senior market analyst at Oanda.

Which will barely impact gas prices for the average American…



The WTI crude curve has dropped at the short-end on the immediate supply (but as Goldman warns, longer-dated crude prices are actually rising)…



And just to throw some more interventionary gas on the fire, **Biden urges Congress to make companies pay fees on wells from their leases that they haven't used in years** and on acres of public lands that they are hoarding without producing.

Which will also fail to achieve anything substantive because if the wells were economic, they would be running them and so companies will uncap wells only to keep them flowing at a trickle to avoid fines.

Never one to miss a greening opportunity – and desperate to keep the progressive left happy, Biden threw a bone to AOC and her climate crazed crowd as he ramps up fossil fuel supply by **issuing a directive, authorizing the use of the Defense Production Act to secure American production of critical materials to bolster our clean energy economy** by reducing our reliance on China and other countries for the minerals and materials that will power our clean energy future.

* * *

Full statement below (link):

FACT SHEET: President Biden's Plan to Respond to *Putin's Price Hike* at the Pump

Americans face rising prices at the pump because of Putin's Price Hike. Since Putin accelerated his military build-up around Ukraine, gas prices have increased by nearly a dollar per gallon. Because of Putin's war of choice, less oil is getting to market, and the reduction in supply is raising prices at the pump for Americans. President Biden is committed to doing everything in his power to help American families who are paying more out of pocket as a result. That is why today, President Biden will announce a two-part plan to ease the pain that families are feeling by increasing the supply of oil starting immediately and achieving lasting American energy independence that reduces demand for oil and bolsters our clean energy economy.

Immediately Increasing Supply

At the start of this year, gas was about $3.30 a gallon. Today, it's over $4.20, an increase of nearly $1. And now, a significant amount of Russian oil is not making it to market. The President banned the import of Russian oil – which Republicans and Democrats in Congress called for and supported. It was the right thing to do. But, as the President said, Russian oil coming off the global market would come with a cost, and Americans are seeing that at the pump.

The first part of the President's plan is to immediately increase supply by doing everything we can to encourage domestic production now and through a historic release from the Strategic Petroleum Reserve to serve as a bridge to greater supply in the months ahead.

Increasing Domestic Production

The fact is that there is nothing standing in the way of domestic oil production. The United States is already approaching record levels of oil and natural gas production. There are oil companies that are doing the right thing and committing to ramp up production now. Right now, domestic production is expected to increase by 1 million barrels per day this year and nearly 700,000 barrels per day next year.

Still, too many companies aren't doing their part and are choosing to make extraordinary profits and without making additional investment to help with supply. One CEO even acknowledged that, even if the price goes to $200 a barrel, they're not going to step up production.

Right now, the oil and gas industry is sitting on more than 12 million acres of non-producing Federal land with 9,000 unused but already-approved permits for production. **Today, President Biden is calling on Congress to make companies pay fees on wells from their leases that they haven't used in years and on acres of public lands that they are hoarding without producing.** Companies that are producing from their leased acres and existing wells will not face higher fees. But companies that continue to sit on non-producing acres will have to choose whether to start producing or pay a fee for each idled well and unused acre.

Historic Release from the Strategic Petroleum Reserve as a Bridge Through the Crisis

After consultation with allies and partners, the President will announce the largest release of oil reserves in history, putting one million additional barrels on the market per day on average – every day – for the next six months. The scale of this release is unprecedented: the world has never had a release of oil reserves at this 1 million per day rate for this length of time. This record release will provide a historic amount of supply to serve as bridge until the end of the year when domestic production ramps up.

The Department of Energy will use the revenue from the release to restock the Strategic Petroleum Reserve in future years. This will provide a signal of future demand and help encourage domestic production today, and will ensure the continued readiness of the Strategic Petroleum Reserve to respond to future emergencies.

President Biden is coordinating this action with allies and partners around the world, and other countries are expected to join in this action, bringing the total release to well over an average 1 million barrels per day.

Achieving Real American Energy Independence

The United States is the largest oil producer in the world and is a net energy exporter. Despite that, the actions of a dictator half a world away can still impact American families' pocketbooks. The President will announce his commitment to achieving real energy independence – which centers on reducing our dependence on oil altogether.

The President will call on Congress to pass his plan to speed the transition to clean energy that is made in America. His plan will help ensure that America creates millions of good-paying union jobs in clean, cutting-edge industries for generations to come. And it will save American families money in theimmediate future – including more than $950 a year in gas savings from taking advantage of electric vehicles, and an additional $500 a year from using clean electricity like solar and heat pumps to power their homes.

And, the President will issue a directive, authorizing the use of the Defense Production Act to secure American production of critical materials to bolster our clean energy economy by reducing our reliance on China and other countries for the minerals and materials that will power our clean energy future. Specifically, the DPA will be authorized to support the production and processing of minerals and materials used for large capacity batteries–such as lithium, nickel, cobalt, graphite, and manganese—and the Department of Defense will implement this authority using strong environmental, labor, community, and tribal consultation standards. The sectors supported by these large capacity batteries—transportation and the power sector—account for more than half of our nation's carbon emissions. The President is also reviewing potential further uses of DPA – in addition to minerals and materials – to secure safer, cleaner, and more resilient energy for America.

This week alone, President Biden announced historic efforts to increase energy efficiency and lower costs for consumers. The Department of Energy opened applications for more than $3 billion in new Bipartisan Infrastructure Law funding—ten times the historical funding levels of the Weatherization Assistance Program—for **energy efficiency and electrification upgrades in thousands of homes that will save families hundreds of dollars on utility bills**. The Administration also advanced smart standards that will lower consumer costs, including a roadmap of 100 actions this year that will **save families $100 annually through more efficient home appliances and equipment,** as well as **new fuel economy standards for cars and trucks to save drivers money at the pump**. And the Administration is seeking additional opportunities to ramp up the deployment of **heat pumps to displace fuel burned in buildings**, as well as programs to drive **efficiency, electrification, and use of clean fuels in the industrial sector**.

* * *

Update (0800ET): Oil prices have stabilized, down around 5% after last night's leaked rumors of the Biden admin's latest plan to save the world – and his approval rating – from soaring gas prices by releasing a gargantuan amount of reserv7es from the SPR.

However, as we noted overnight, this is not a solution that provides anything other than a short-term fillip, and as Goldman's Damien Courvalin confirms, this SPR release would remain, however, a release of oil inventories, not a persistent source of supply for coming years.

Such a release would therefore not resolve the structural supply deficit, years in the making.

Worse still, Courvalin warns that in fact, lower prices in 2022 would support oil demand while slowing the acceleration in shale production, **leaving for now a deficit in 2023 as well as the likely requirement to refill the SPR.**

The net supply increase would be more modest, since we had already assumed a 0.3/0.6/0.9 mb/d SPR release under our Mild/Moderate/Severe Russian export scenarios.

> In fact, the bank sees three potential bullish (higher oil price) risks:
>
> > (1) potential logistical bottlenecks to such an unprecedentedly large and long US SPR discharge, reducing its flow. In particular, congestion on the Gulf Coast could crowd out shale's expected production growth this year.
> >
> > (2) We assume that OPEC+ would still accelerate its planned quota increase if Russian and Kazakhstan exports fall by 2 mb/d, which may not occur in the face of an SPR release.
> >
> > (3) We now see increasingly symmetrical probabilities to our Mild and Moderate disruption scenarios (of 1 and 2 mb/d respectively), implying a larger loss of supply in our weighted mean outcome than previously. Adjusting for these probabilities would, for example, bring our 2H22 forecast back to $125/bbl.
>
> And looking forward to 2023, the bank says on balance would point to **prices $5/bbl above our current $110/bbl forecast, reflecting higher demand and lower shale supply exiting 2022, as well as the likely requirement to restock the SPR**

> (we assume this is done proportionally over 2023-2025, similar to last year's release).

Goldman has refrained from adjusting any of oits crude price forecasts until details of the SPR release are reportedly revealed this afternoon at 1330ET, but the bank notes that **additional measures could be announced, with a potential increase to the amount of ethanol blended into gasoline**, a measure that in turn would exacerbate the already very tight outlook for grain markets. There will also be an IEA organized emergency meeting on Friday at 8:00am ET, for a potential global coordination of such a large reserve release.

Additionally, OPEC+ has agreed on a 432k b/d output hike in May – as expected.

Official Communiqué:

> Following the conclusion of the 27th OPEC and non-OPEC Ministerial Meeting, held via videoconference on March 31, it was noted that continuing oil market fundamentals and the consensus on the outlook pointed to a well-balanced market, and that current volatility is not caused by fundamentals, but by ongoing geopolitical developments.
>
> The OPEC and participating non-OPEC oil-producing countries decided to:
>
> - Reaffirm the decision of the 10th OPEC and non-OPEC Ministerial meeting on 12th April 2020 and further endorsed in subsequent meetings including the 19th OPEC and non-OPEC Ministerial meeting on the 18th July 2021.
> - Reconfirm the baseline adjustment, the production adjustment plan and the monthly production adjustment mechanism approved at the 19th OPEC and non-OPEC Ministerial Meeting and the decision to adjust upward the monthly overall production by 0.432 mb/d for the month of May 2022, as per the attached schedule.
> - Reiterate the critical importance of adhering to full conformity and to the compensation mechanism taking advantage of the extension of the compensation period until the end of June 2022. Compensation plans should be submitted in accordance with the statement of the 15th OPEC and non-OPEC Ministerial Meeting.
> - Hold the 28th OPEC and non-OPEC Ministerial Meeting on 5 May 2022.

Delegates say the meeting wrapped up in 12 minutes, **beating last month's record** for brevity.

> The opec plus meeting just ended it lasted 12 mins. No change in policy. #OOTT
>
> — Amena Bakr (@Amena__Bakr) March 31, 2022

That won't please Biden at all.

* * *

*As we detailed last night, f*or those keeping score, we believe this is the **third time in the last month that the Biden administration has tried to jawbone crude oil prices lower with an ever-increasing 'threat' of releases from the Strategic Petroleum Reserve.**

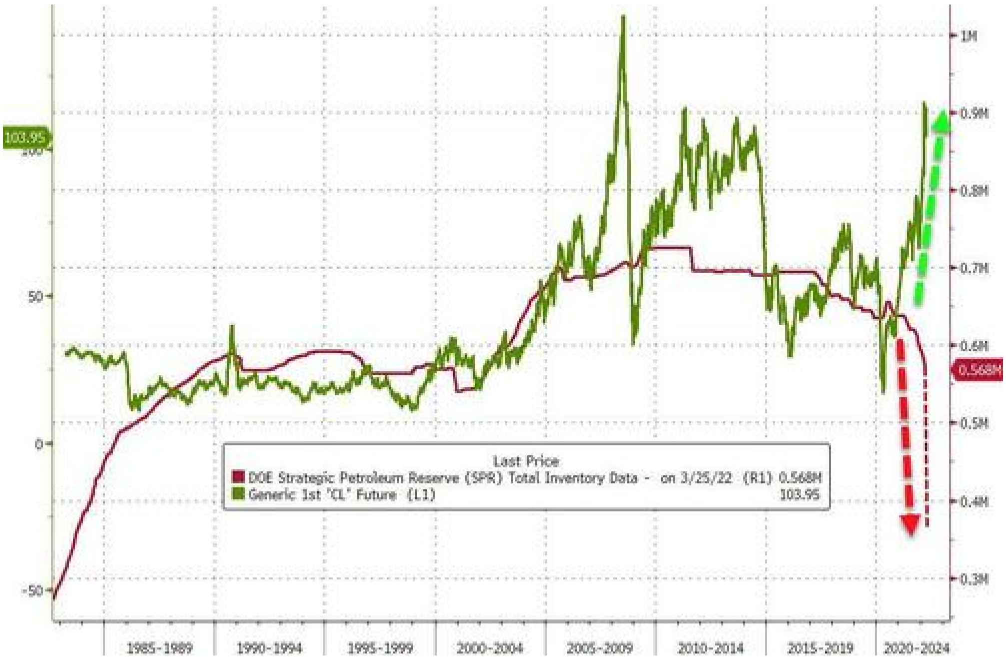
This time is different though as Bloomberg reports that, according to people familiar with the matter, the Biden administration is weighing a plan to **release roughly one million barrels of oil a day for several months**. The total release may be **as much as 180 million barrels**, the people said, which is quite a step up from the 30mm barrel release 'mulled' on March 25th (yes 5 days ago).

The instant reaction from the algos was to sell, knocking WTI down around 4%…

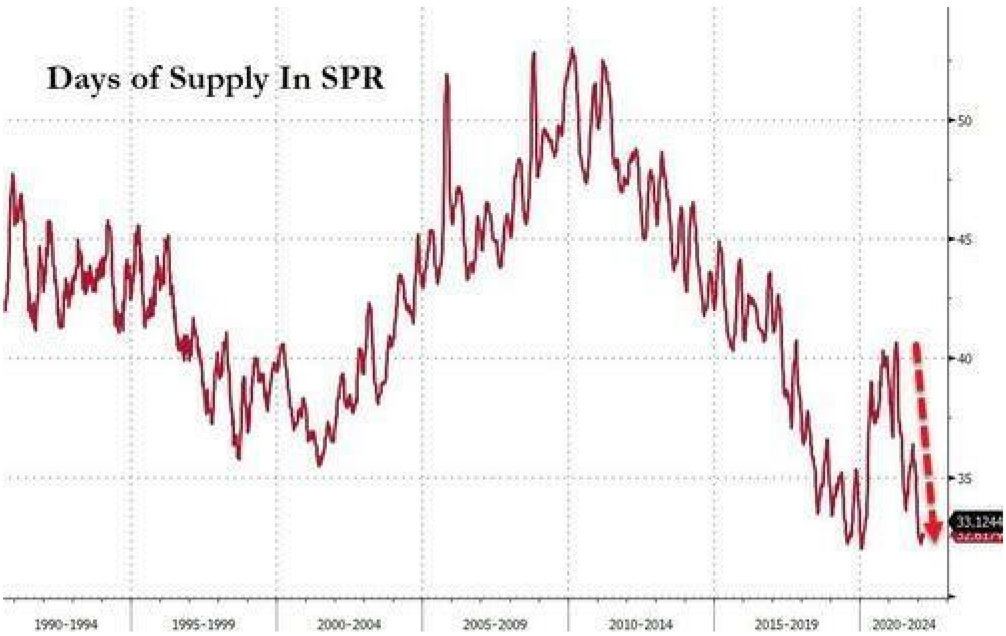
However… as much as we want lower gas prices, these actions by the administration are bordering on the insane.

Of course, just like **last year's SPR release, which actually *sent oil prices higher as the strategy backfired spectacularly*,** another shot of supplies from the reserve would probably be futile.

To further illustrate this point, the chart below shows that a release of 180M barrels from the reserve (which is supposed to be *reserved for emergencies*) **would take the Strategic Petroleum Reserve to its lowest since 1984**…and so far has done absolutely nothing to slow the surge in prices…



In fact, this time around, it's possible – even likely – that the backlash could be *even more punishing*, since, **when adjusted for the present level of implied demand, SPR levels are already at their lowest levels since 2002, *with just 33 days of supply.***



But like the old saying goes: if at first you don't succeed, then try, try again. In all likelihood, President Biden and his team probably aren't all that concerned with the short-term market impact, since political decisions like these are all about optics anyway.

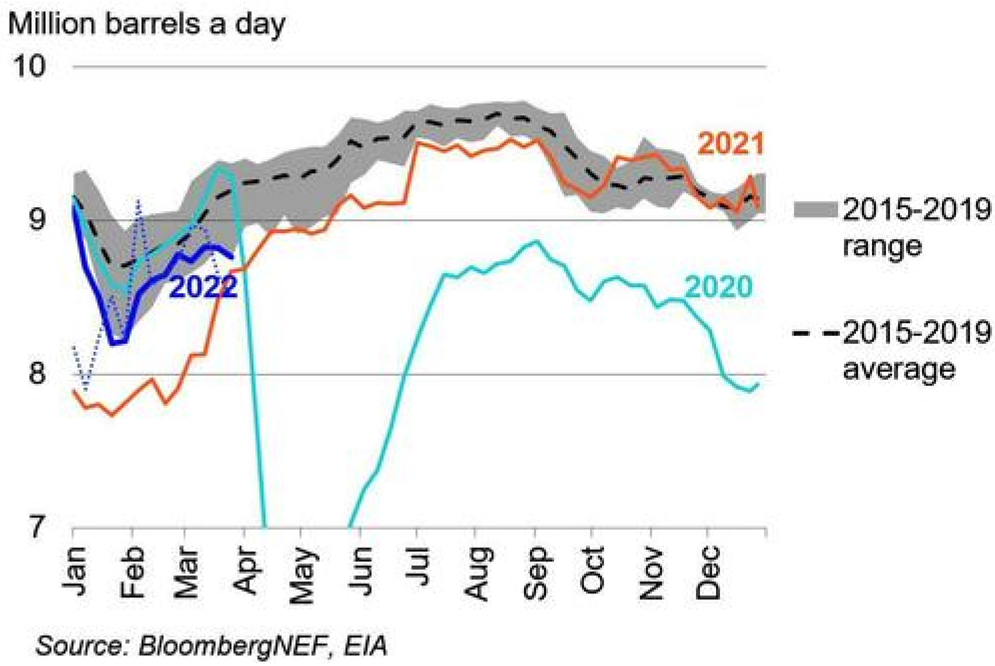
Of course, Einstein seems to have been right: ***"insanity is doing the same thing over and over again and expecting different results."***

And when this SPR release (should it ever actually happen) fails to do much of anything to drive prices lower, how much longer until the administration resorts to the next logical steps, being **1) gas stimmies (like our European allies)** before **2) price controls?**

Bear in mind that OPEC+ is still shunning any demands from Biden to increase production ‘for the sake of global democracy….or his approval ratings or some such…’ and the cartel is widely expected to ratify a production increase of 432,000 barrels a day for May.

Simply put, as old saying goes, the cure for high oil (gas) prices, is high oil (gas prices), and notably, there is some evidence of demand destruction starting to happen as gas prices soar to record highs.

And as we noted earlier today, the **decline in implied gasoline demand is fairly concrete proof that record high prices are dampening consumption across the country.**



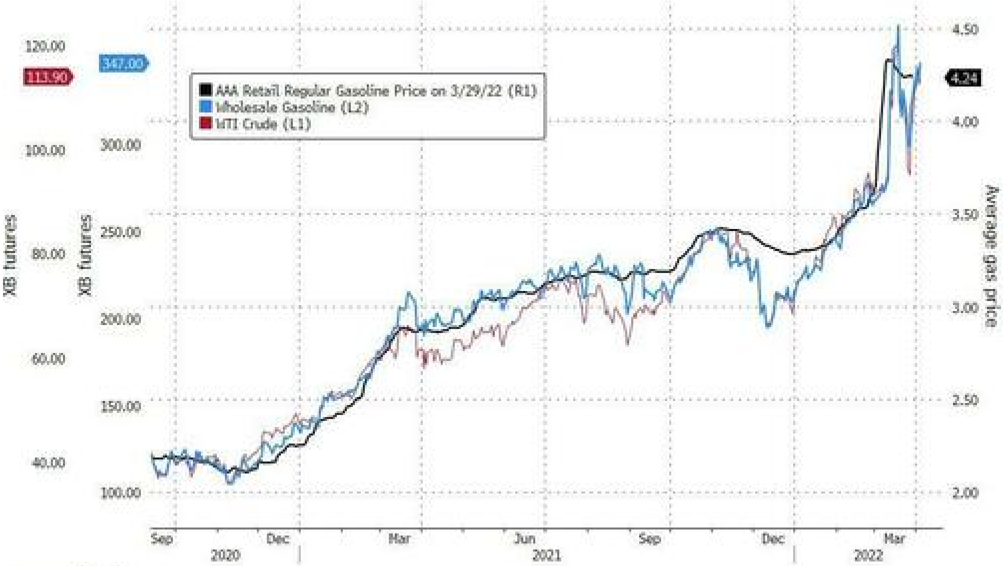
On a four-week moving average basis, demand appeared to have stalled out around 8.8 million barrels a day as levels fell behind seasonal trends. Now, it appears to have fully turned around, falling 61,000 barrels a day week on week.

However, of course there is government intervention to consider, **consumer subsidies may actually worsen the situation by limiting demand destruction**, with California, France, Brazil and Mexico being the latest to enact policies to cut prices at the pump.

We give the last words to @RufusXavierSar2 who succinctly summed up the real farce of all this desperation…

> That's great until the SPR is empty and we have a real oil shock
>
> — RufusXavierSarsaparilla (@RufusXavierSar2) [March 31, 2022]

And don't expect any short-term help from this modest drop in oil…



Sadly for Biden's approval rating (and drivers across the country), the recent resurgence in crude prices suggest pump prices will soon be on the rise again.

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. Main
3. Politics-Geopolitics-Gov.-Events

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