



US administrations have historically viewed high oil prices as a threat to national security if they limit foreign policy choices. That is applicable today with regards to Russia and

US SEES HIGH OIL PRICES AS NATIONAL SECURITY THREAT IN RUSSIA CRISIS

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so the Biden administration is going to do whatever it can to lower oil prices, although their options are limited. By contrast, Russia has historically not wanted oil prices to go above \$65 for its own economic reasons, but today, it is finding \$90 oil as very lucrative and very valuable politically because it can choke Europe's choices and Biden's choices. This has in turn left OPEC, particularly the Gulf states – who might be thinking about increasing production to lower prices

– stuck politically between a Biden administration and Putin administration. For that reason, the group will likely stay the course in their production plans. If they were to increase production, Russia might view that as against it, and if they don't increase production, the Biden administration is going to look at it as supporting Russia. It is the first time the OPEC+ group faces such a major geopolitical crisis. They have been trying to walk a fine

line in terms of balancing economics and politics, and all of a sudden, they have this major problem. We should also note that the involvement of Russia in the group is not only about oil. Russia is OPECs voice at the UN Security Council, Russia can fight the carbon tax in Europe and Russia can fight on currencies – all elements that other OPEC+ members cannot do – so Russia is very valuable to the group.

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How significant is the tightness and backwardation in the market?

There is nothing in the fundamentals that tells you the price should be coming down. There's an enormous amount of general floating up for the price, and it's been like that for the last six months. There's also so much going on across the world geopolitically that it is doing nothing but pushing prices up. But is the market really tight? There's an increased bifurcation of demand, with developed countries coming back quicker and the reality is the developed world is what drives the price. The six-month backwardation shows that sentiment in the market is that we will move to a position where oil will be cheaper. The Permian is back up above pre-pandemic levels, but it also takes time to bring wells on. OPEC can bring barrels but it's going to take time. So, everybody's pricing that further into the future - the return of OPEC oil, the return of more Iranian oil.

Is there a scenario where the tightness could continue into 2H 2022?

It very much depends on whether demand keeps going up. Environmental policies are also making it more difficult for some producers to get access to capital to bring new production online. So, you really need to look at something like Iran coming back in a big chunk, to see softening in the back end of the year. But that almost requires demand to be flat as well. If the world economy continues to grow, then prices may soften a bit, but it's more that we will see them peaking rather than drop. I can't see a downward drop in prices because of anything fundamental. ■

**Paraphrased comments*

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Head
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