



Turmoil in Energy Markets, Geopolitics, and Transitions

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Federal Reserve Bank of Dallas

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U.S. and Global Oil Markets



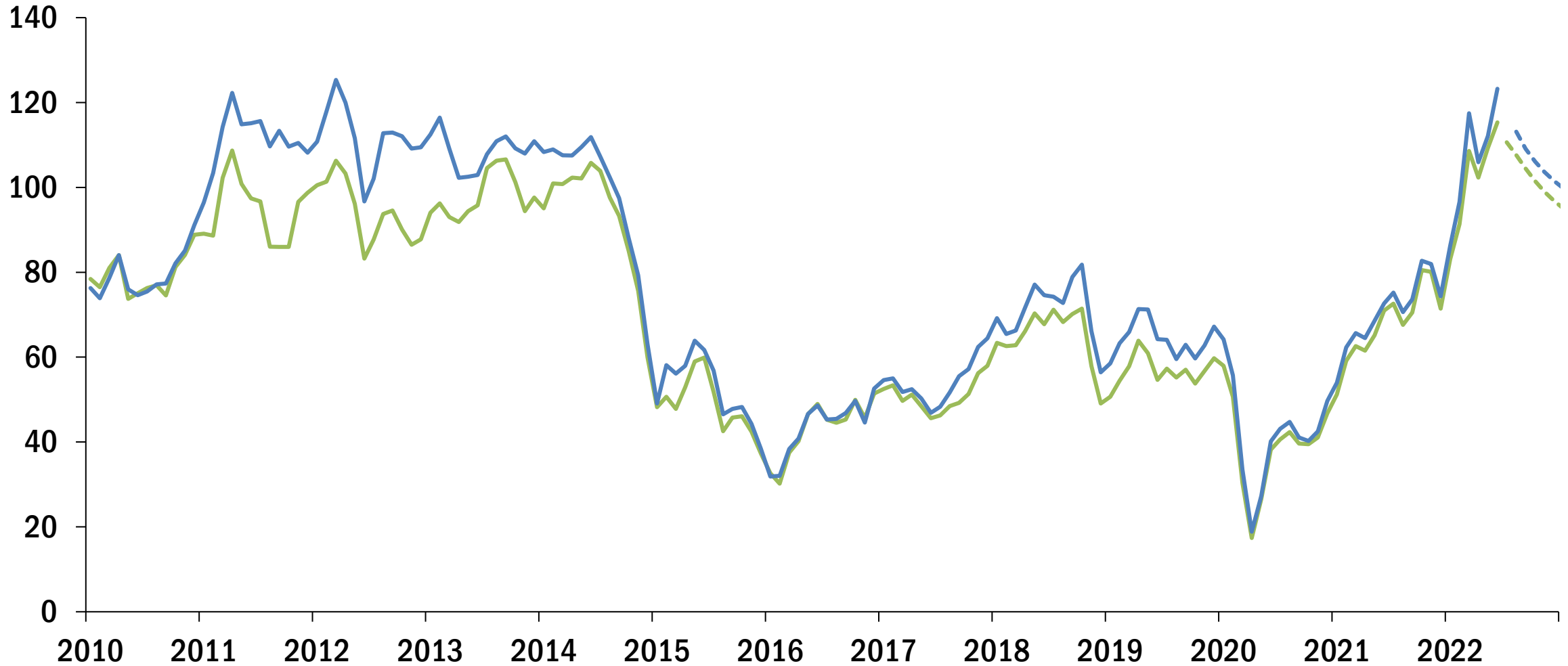
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WTI & Brent Oil Prices

Dollars per barrel

— WTI (Jun 24 = \$107.88)

— Brent (Jun 24 = \$116.48)

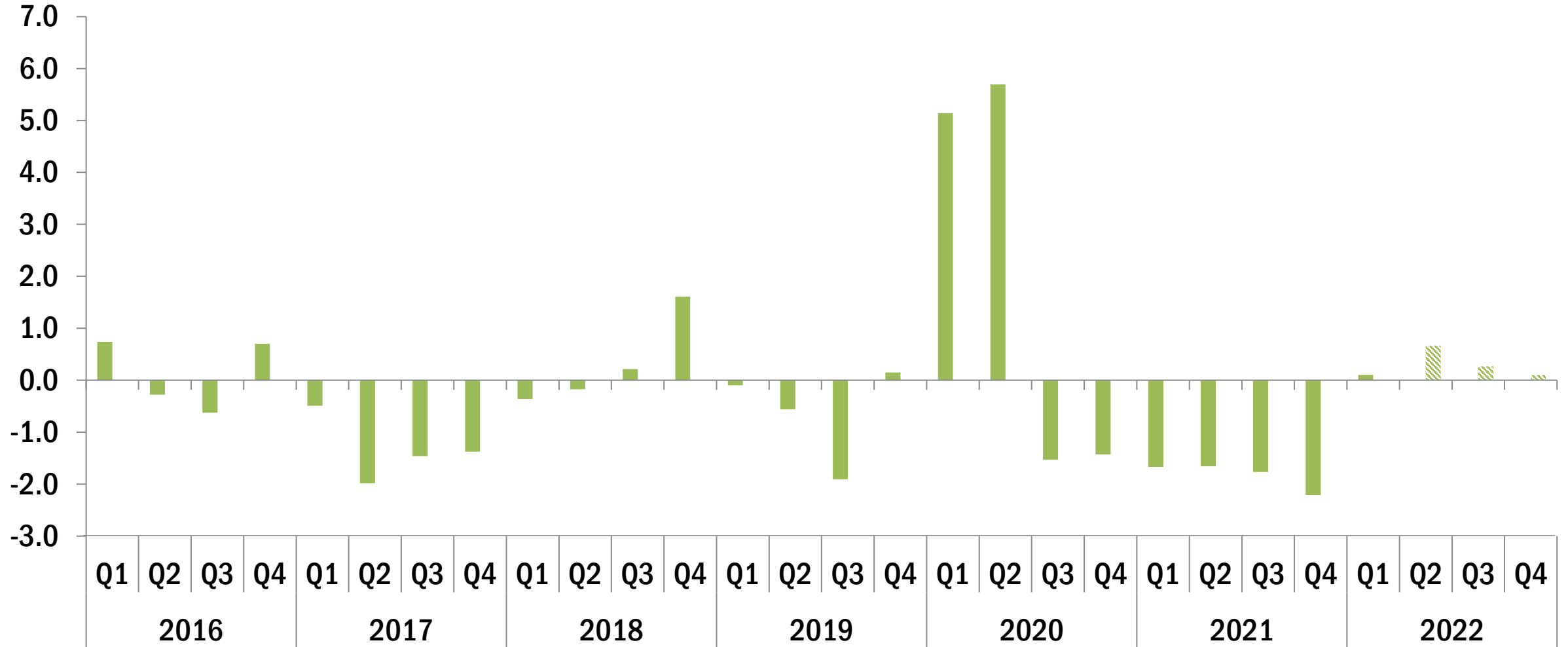


NOTES: Latest prices are averages for June up to 06/24/2022. WTI is West Texas Intermediate. Dashed lines are forward curves.
SOURCES: Bloomberg; Energy Information Administration.



Implied Change in World Oil Stocks

Million barrels per day

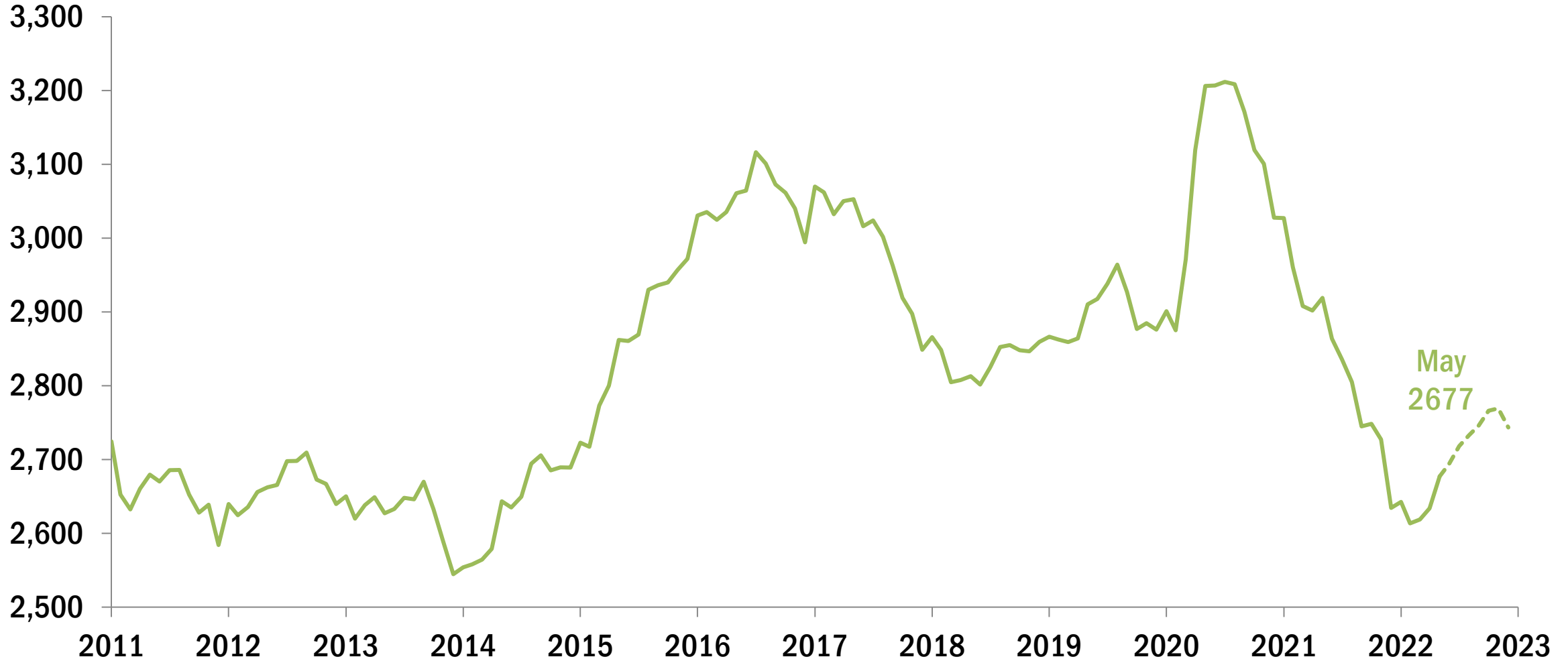


NOTE: Shaded bars represent forecasts.
SOURCE: Energy Information Administration.



OECD Commercial Oil Inventories

Million barrels

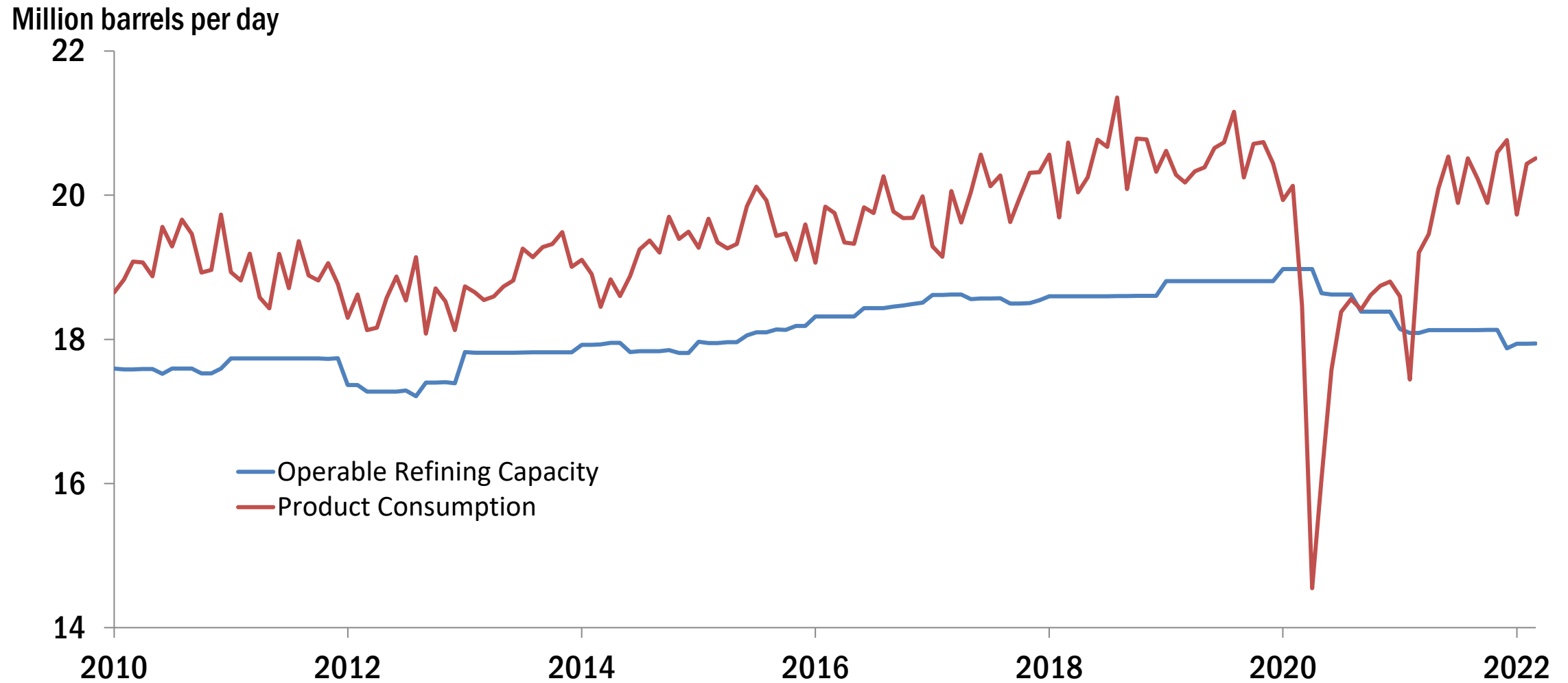


May
2677

NOTES: OECD is the Organization for Economic Cooperation and Development. Dashed line represents a forecast.
SOURCE: Energy Information Administration.



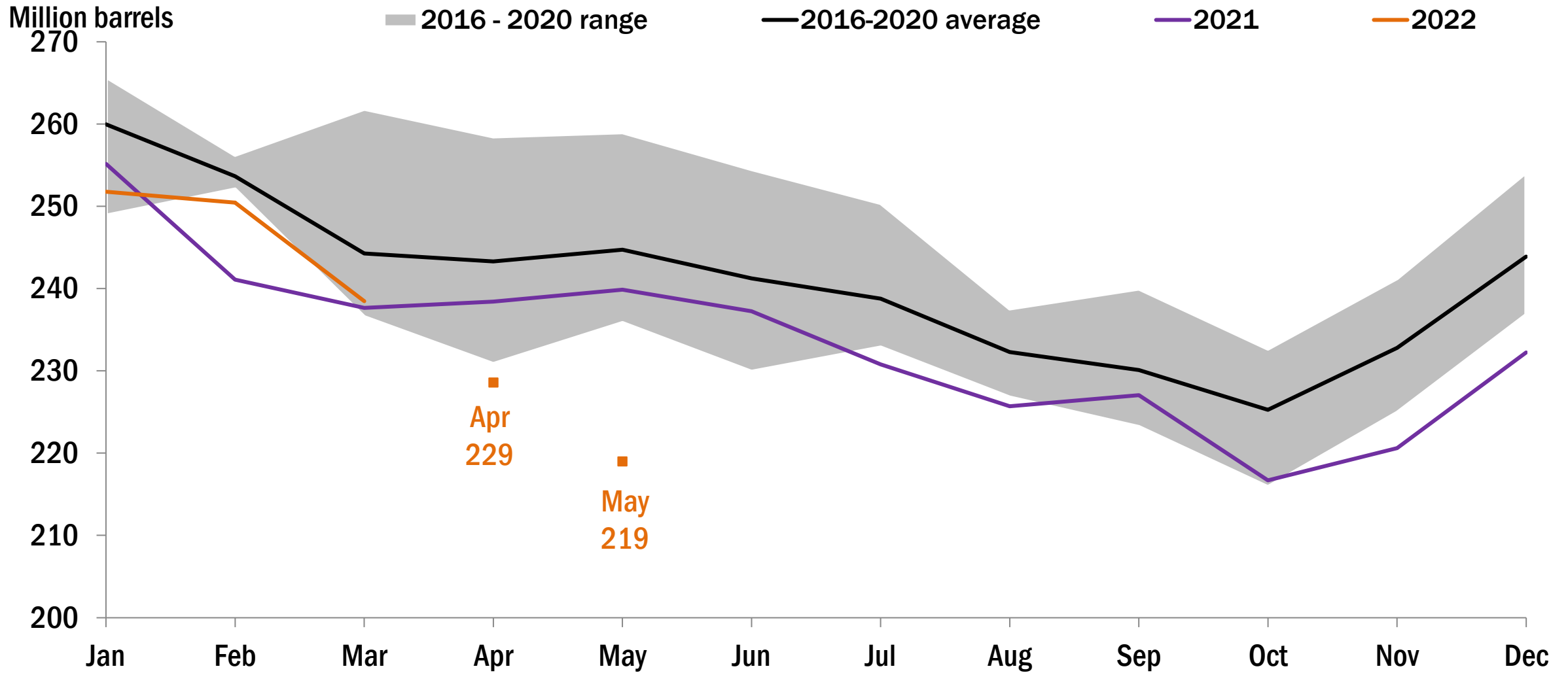
U.S. Refining Capacity & Consumption



SOURCE: Energy Information Administration



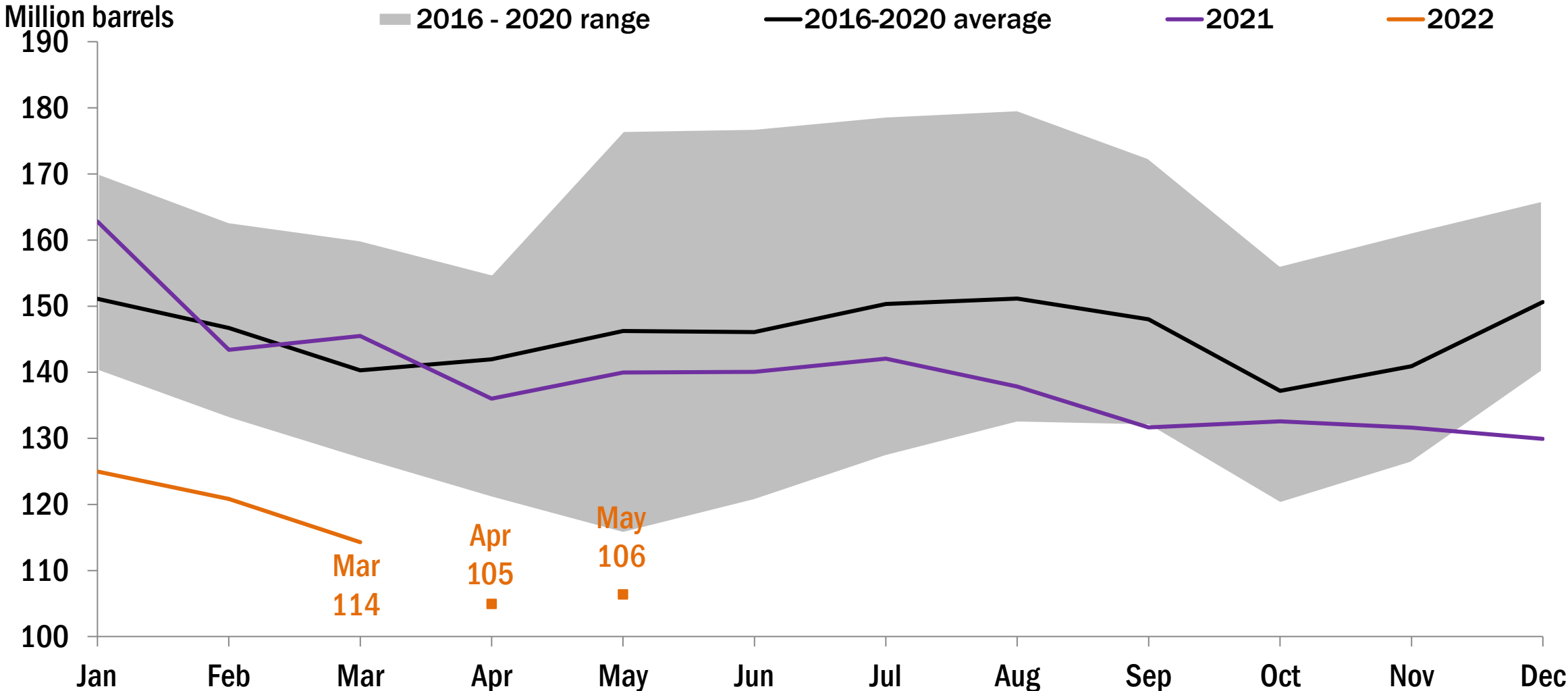
U.S. Gasoline Inventories



NOTES: Square marks use latest weekly data as of 6/2/22.
SOURCE: Energy Information Administration.



U.S. Distillate Inventories



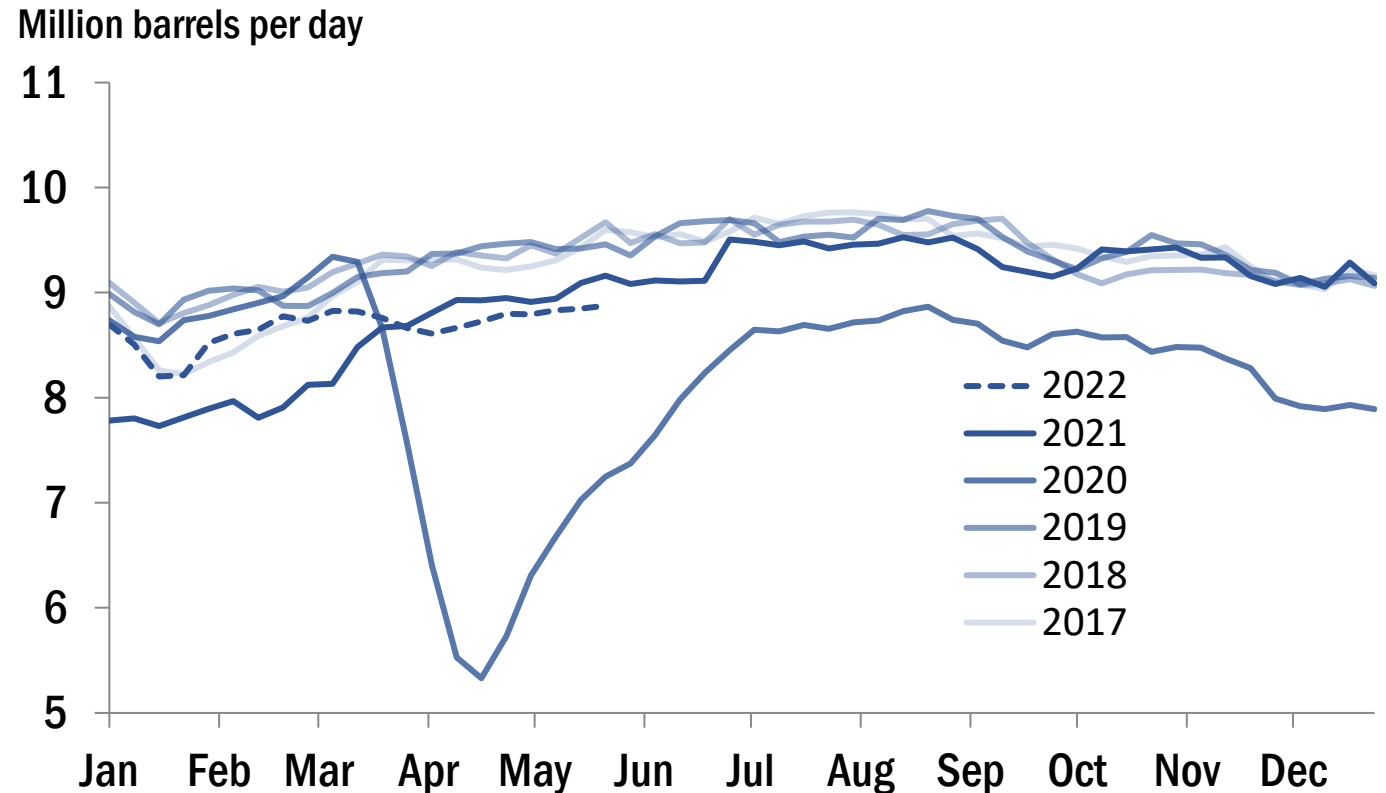
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NOTES: Square marks use latest weekly data as of 6/2/22.
SOURCE: Energy Information Administration.

Demand Destruction Cometh

- Too much market commentary focused on inflation-adjusted oil and product prices
- Earlier periods of high prices were not associated with an inflationary environment like this
- Consumer memories are short; household budgets unprepared for these prices, never mind higher one
- U.S. demand is bending, not breaking – became detached from pre-COVID levels right after initial fuel price spike

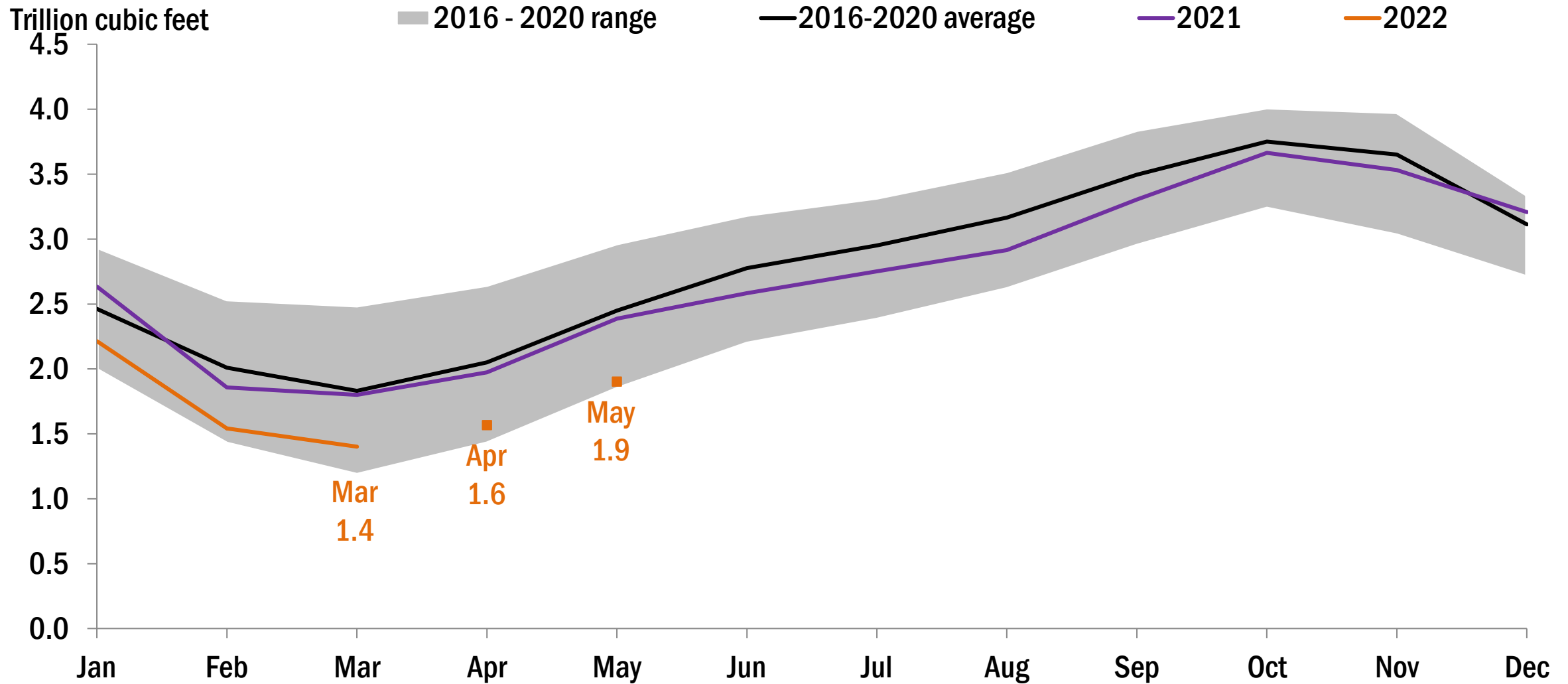
U.S. Gasoline Consumption



SOURCE: Energy Information Administration



U.S. Natural Gas Inventories



NOTES: Square marks use latest weekly data as of 6/2/22.
SOURCE: Energy Information Administration.



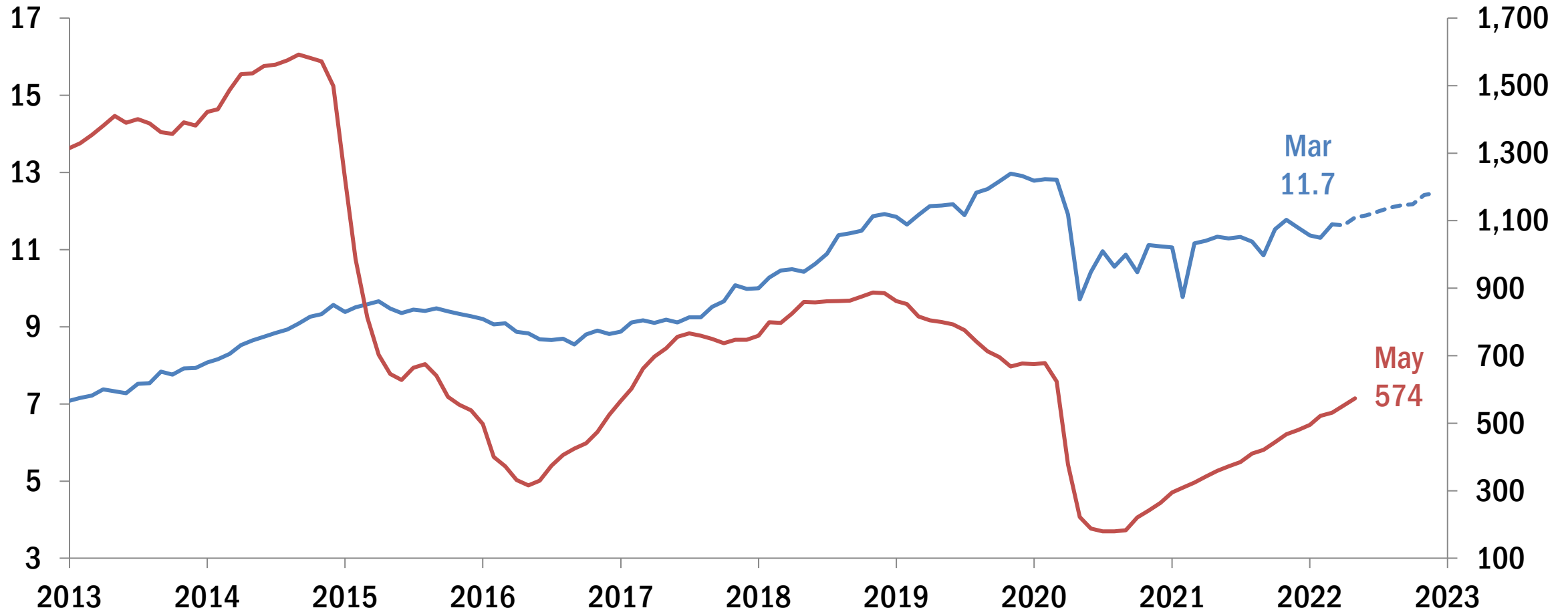
U.S. Oil Production & Rig Count

U.S. crude oil production

Million barrels per day

U.S. oil rig count

Number of active rigs

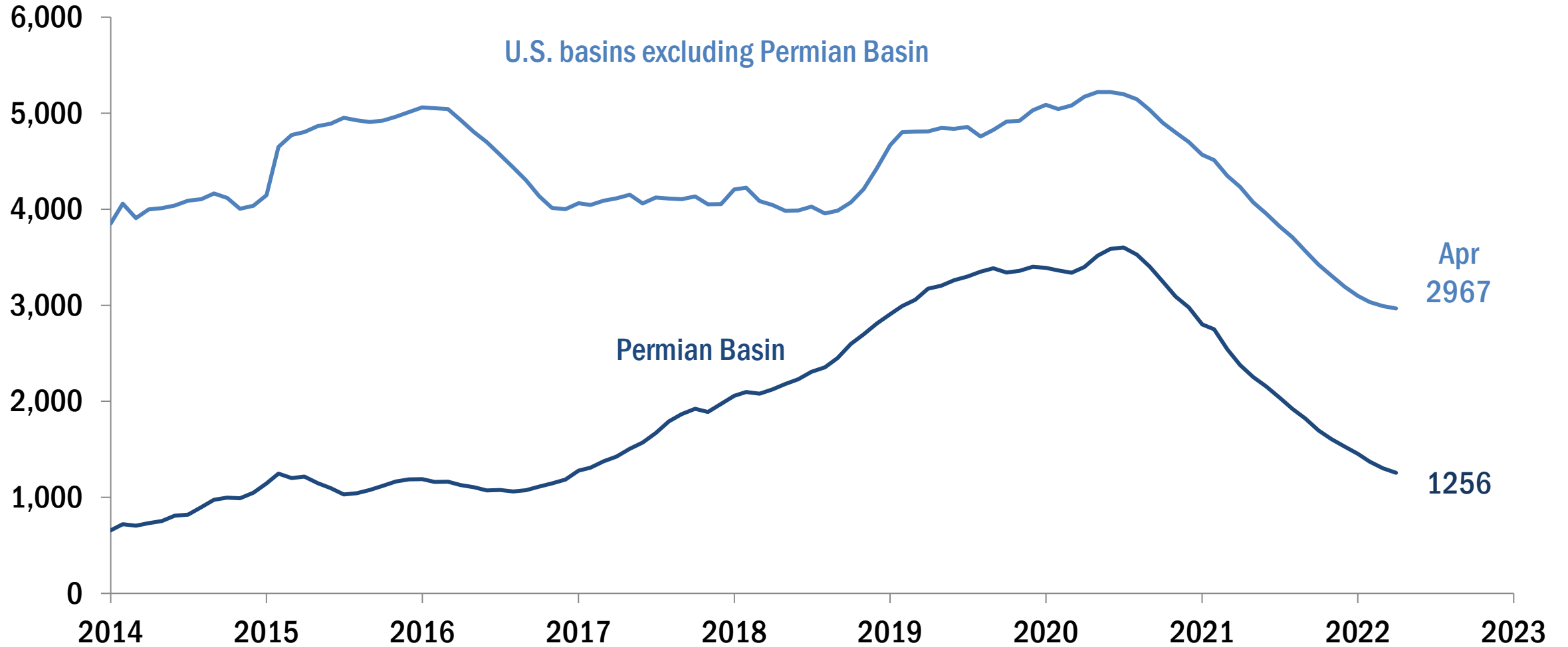


NOTES: Dashed line shows the forecast as of 5/10/22. Rig count series shows the last weekly count each month.
SOURCES: Baker Hughes; Energy Information Administration.



Drilled but Uncompleted Wells

Number of wells

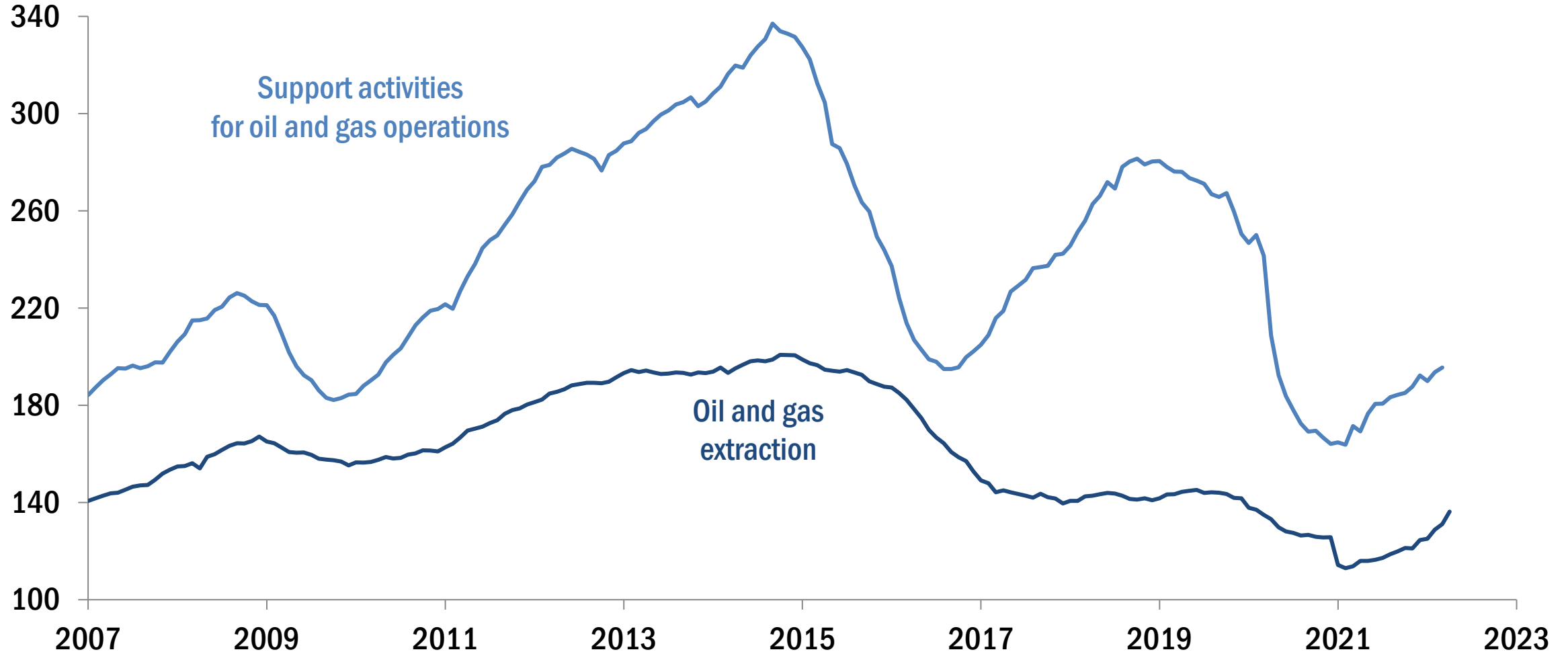


SOURCE: Energy Information Administration



U.S. Oil & Gas Employment

Number of jobs (thousands)



NOTE: Series are seasonally adjusted.
SOURCE: Bureau of Labor Statistics.





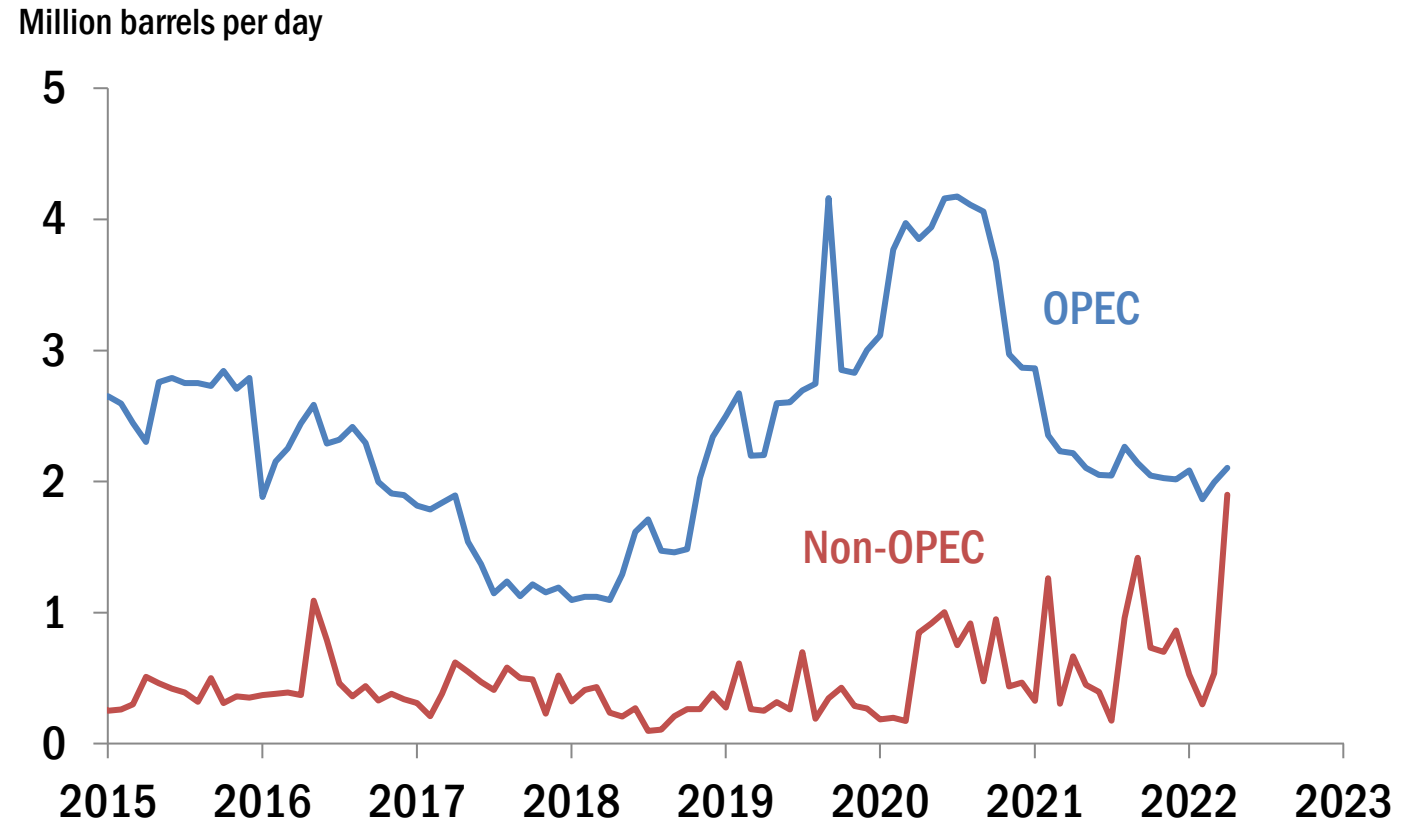
Geopolitics and Energy Policy



Geopolitics and Energy Policy

- Russian oil and product disruption has not been as large as initially feared, but additional embargos are coming
- Up to 3.0 mb/d of Russian oil could be banned under new EU policy by end-year
- Russian production will enter permanent decline without Western companies
- Loss of Russian and Chinese distillate exports further pressure product markets

Disrupted Oil Production



SOURCE: Energy Information Administration



Geopolitics and Energy Policy

- US LNG, product, and crude exports are coming under increasing scrutiny from policymakers
- Suspending gasoline taxes could stoke demand right at the wrong time given tightness in product markets
- Jones Act waivers receiving very little attention but would help PADD 1 product balances
- Virtually zero near-term options for the federal government to reduce fuel prices

White House Weighs Fuel-Export Limits as Pump Prices Surge

How much would federal gas tax holiday save you at the pump?

AMP Pushes Back on Oil Industry's Call for Jones Act Waivers



What is Energy Independence?

- U.S. will never fully disconnect from global oil markets
- Gas markets are becoming increasingly globally integrated; this movement is accelerating
- Reducing oil demand with EVs presents other energy security challenges:
 - Three countries produce 86% of global lithium
 - Three countries produce half of the world's nickel
 - One country responsible for 70% of all cobalt
 - China controls 90% of rare earth magnet supply
- These minerals, as well as copper and aluminum, need dramatic increases to meet expected EV production and renewable electricity build-out
- This is a hyper-concentration of resources that has not existed in oil and gas
- None of these realities appear present in the minds of policymakers





Questions

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