U.S. Gasoline Inventories

Million barrels

270

260

250

240

230

220

210

200

Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec

2016 - 2020 range

2016-2020 average

2021

2022

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

Million barrels

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; supply-driven price shocks are not healthy
- U.S. demand is bending, not breaking
- Demand destruction will appear sooner rather than later

U.S. Gasoline Consumption

SOURCE: Energy Information Administration
The U.S.-Mexico Energy Relationship
North American Oil Supply Integration

U.S. Daily Oil Imports

SOURCE: Energy Information Administration
• “Energy independence” has been primarily focused on oil and natural gas imports.

• With little disruption and political risk across North America, the U.S. is in a much better position than other major oil consumers.

• However, this has been achieved due entirely to U.S. shale and Canadian oil sands.
U.S. Energy Exports Surging

Key cross-border natural gas pipelines from the United States to Mexico

- **Capital**: Major city
- **natural gas trading hub**: Important market

**U.S. Natural Gas Exports via Pipeline to Mexico**

- **Source**: Energy Information Administration

**Graph Details**

- Y-axis: Million cu.ft. per day
- X-axis: Years from 2000 to 2020

Federal Reserve Bank of Dallas
Mexico’s Energy Reforms

- 75 years of Mexican state monopolies in the energy sector upended in 2013
- U.S. exploration companies re-entered, natural gas pipelines were constructed, energy linkages were enhanced
- Since 2019, the nationalization trend in Mexico has stalled U.S. private sector integration
- Mexican oil production resumed its decline, electricity sector became more carbon-intensive, national commitment to refining sector has been inefficient
- Further North American energy integration opportunities exists with lithium mining and other transition technologies

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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

Million barrels per day

SOURCE: Energy Information Administration
Geopolitics and Energy Policy

- US LNG, product, and crude exports are coming under increasing scrutiny from policymakers.
- Virtually zero near-term options for the federal government to reduce fuel prices.
- The question is what prevents worse choices from being made.

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 energy resources that has not existed in oil and gas
- None of these realities are transparent in the minds of policymakers
Questions

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