



Global Energy Markets & the U.S.-Mexico Relationship

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U.S.-Mexico Border Connections
Dallas Fed Economic Education
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Federal Reserve Bank of Dallas

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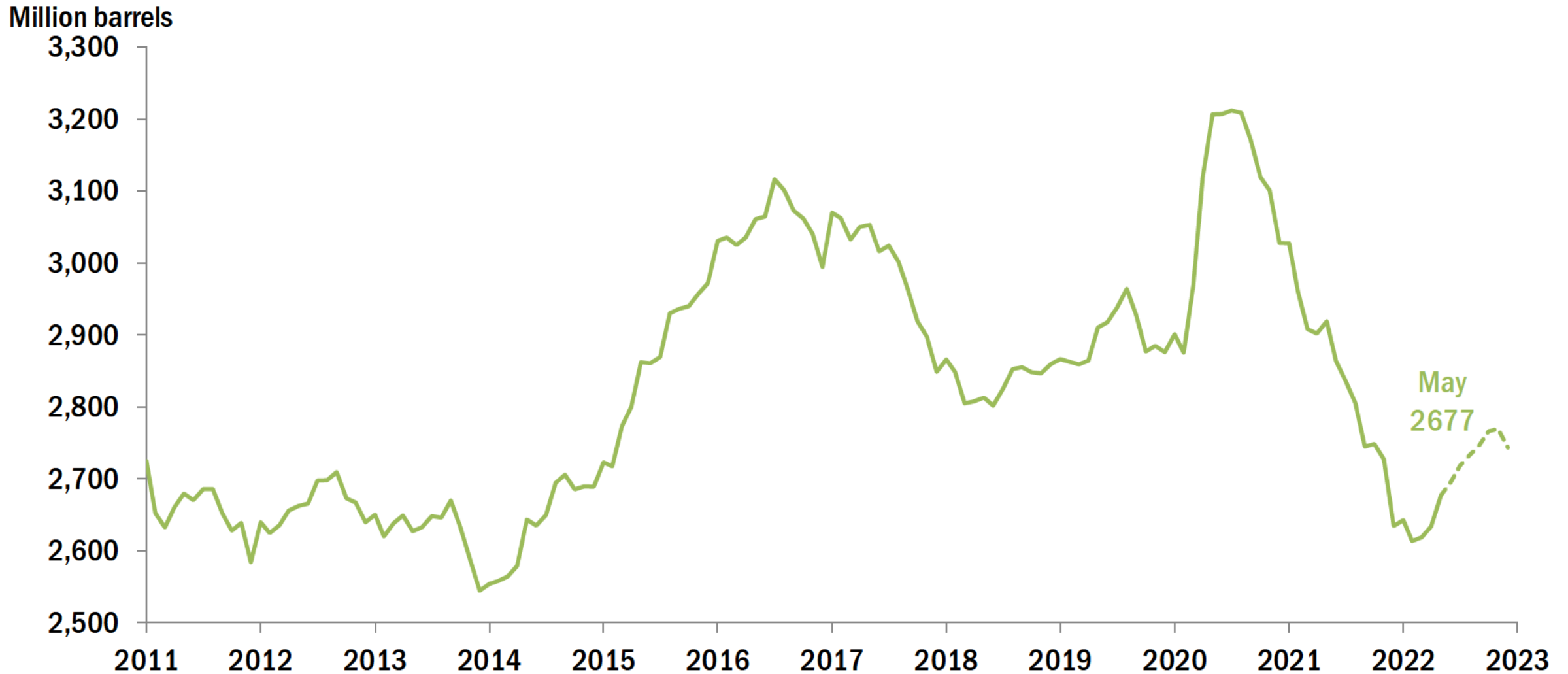


U.S. and Global Oil Markets



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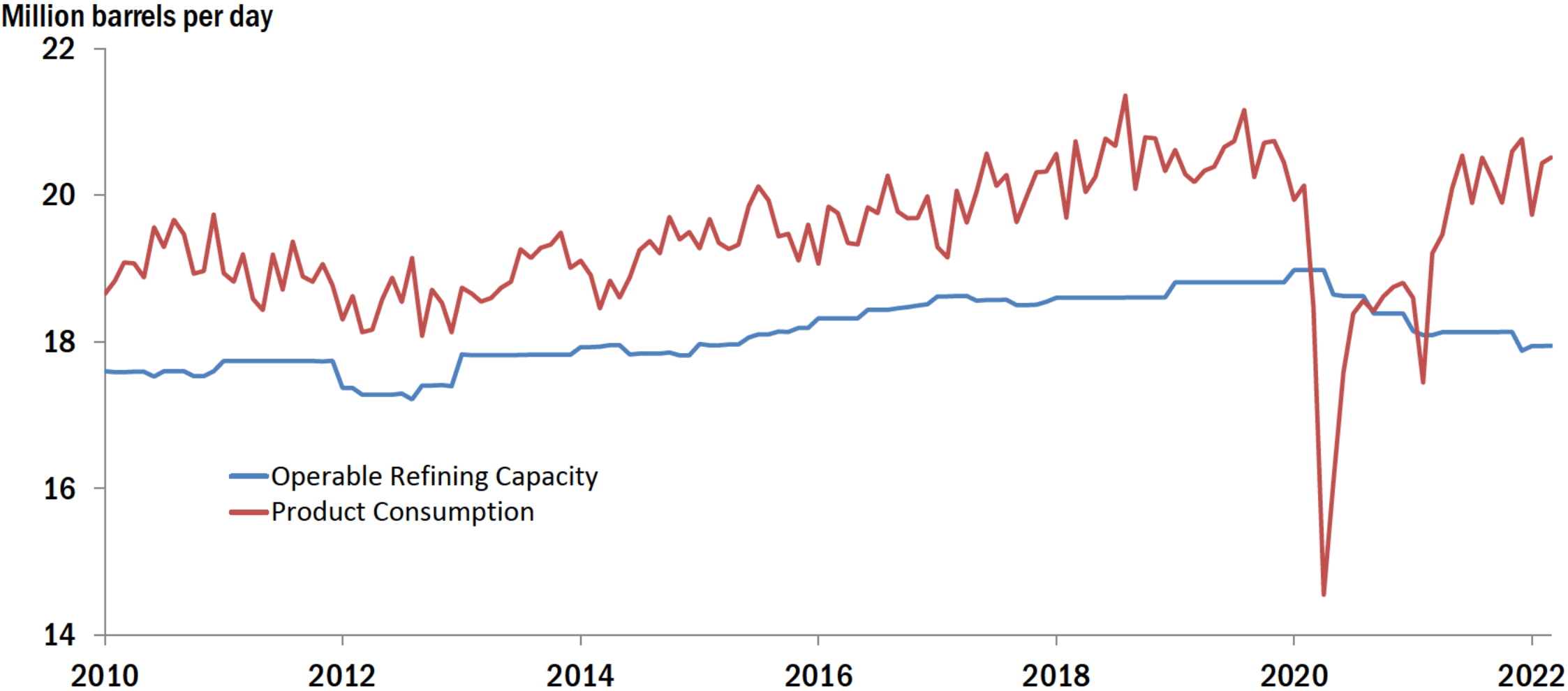
OECD Commercial Oil Inventories



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



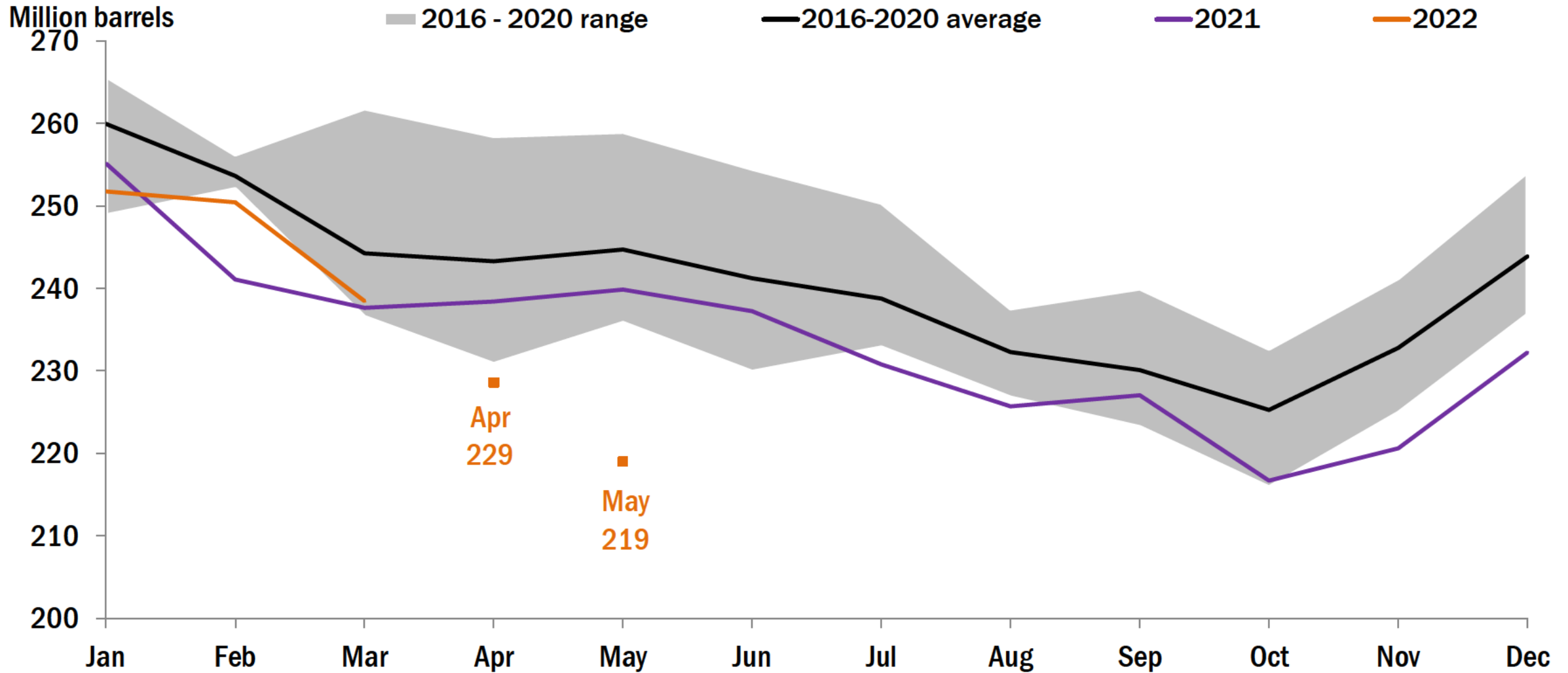
U.S. Refining Capacity & Consumption



SOURCE: Energy Information Administration



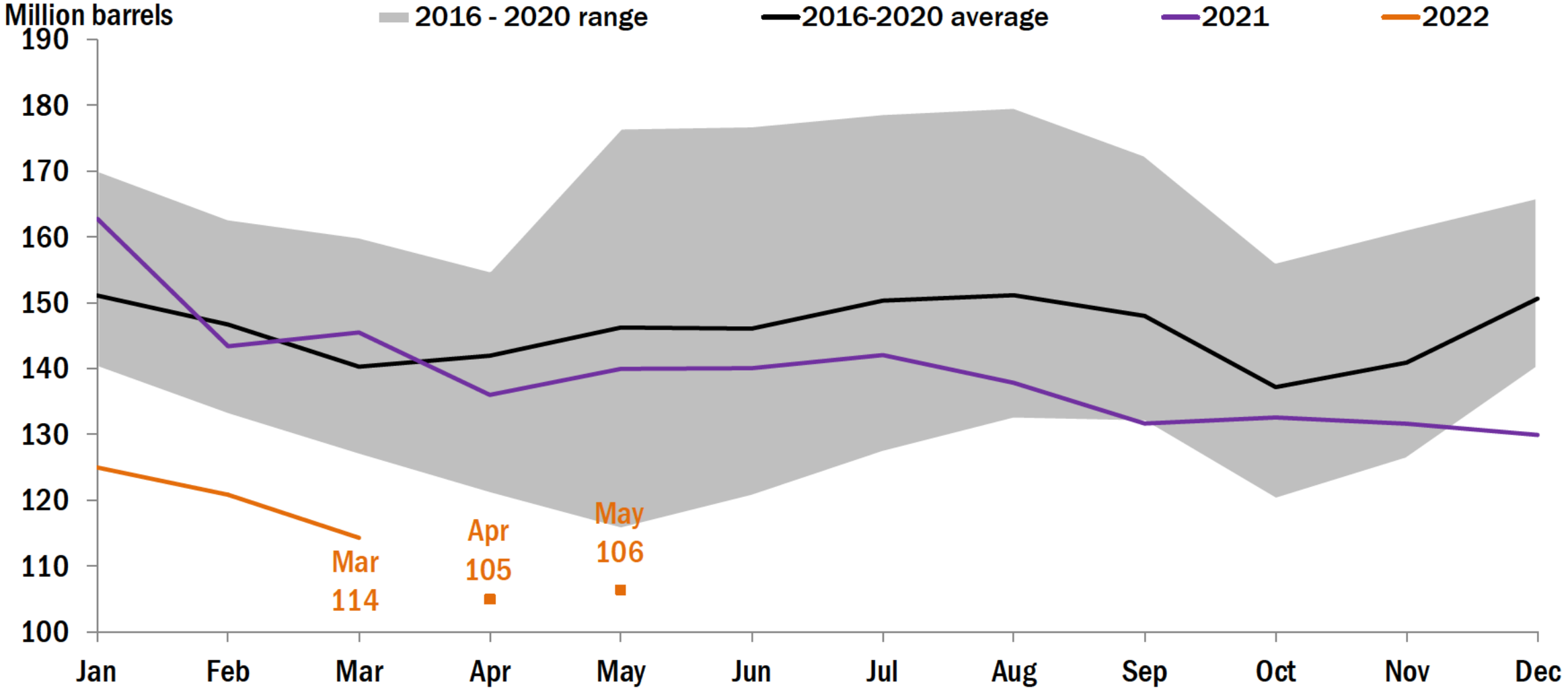
U.S. Gasoline Inventories



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



U.S. Distillate Inventories

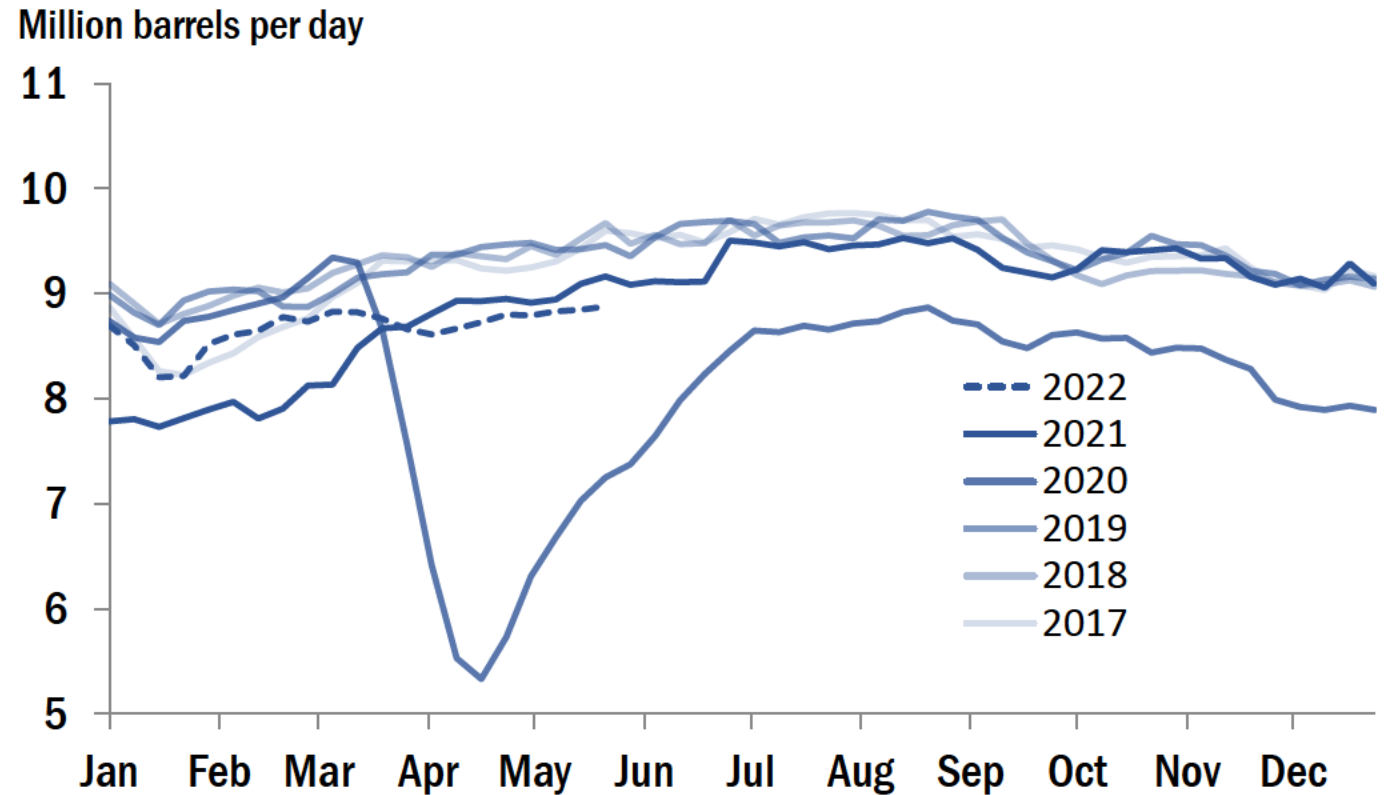


NOTES: Square marks use latest weekly data as of 6/2/22.
SOURCE: Energy Information Administration.

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





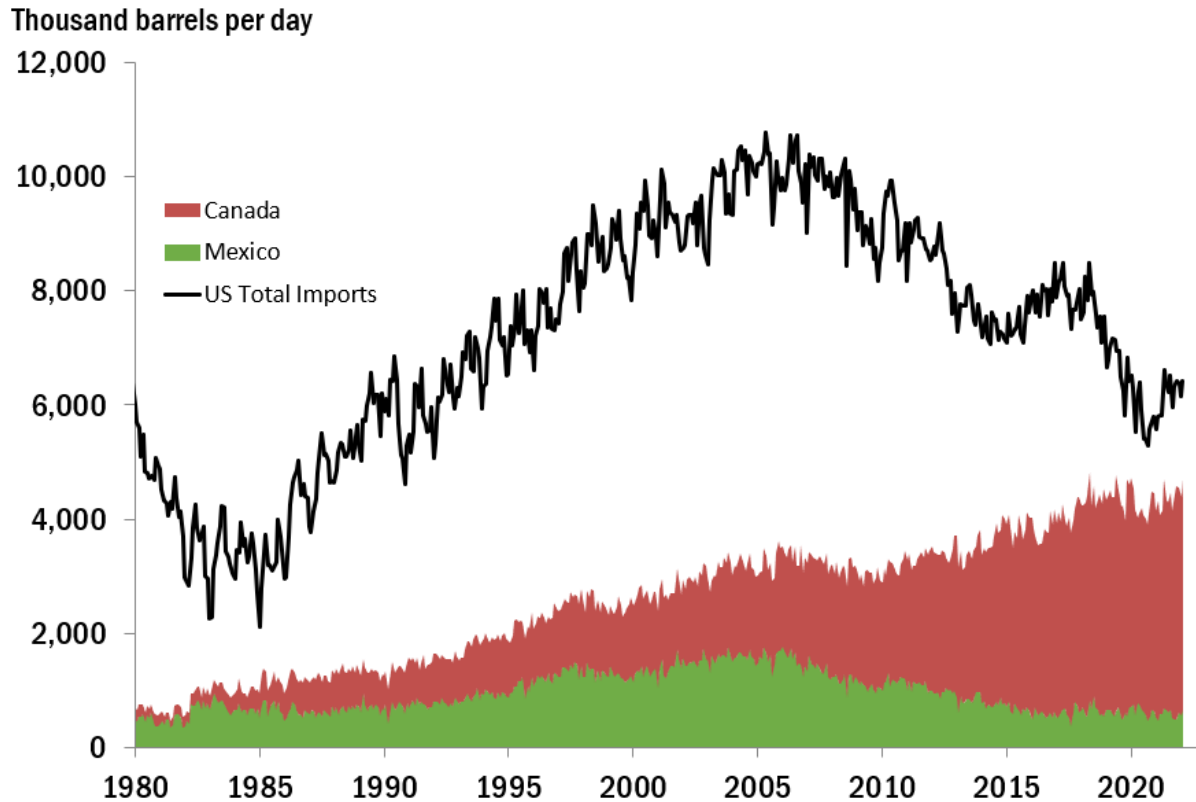
The U.S.-Mexico Energy Relationship



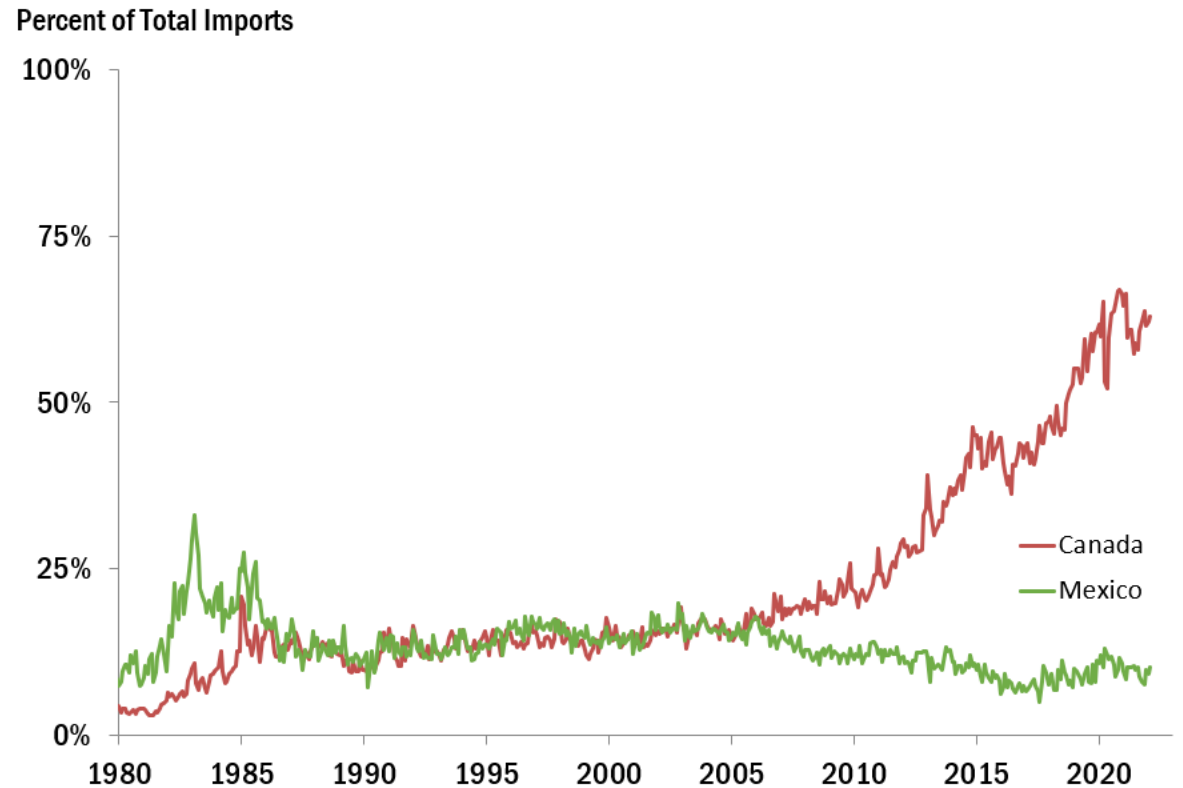
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North American Oil Supply Integration

U.S. Daily Oil Imports



U.S. Daily Oil Imports



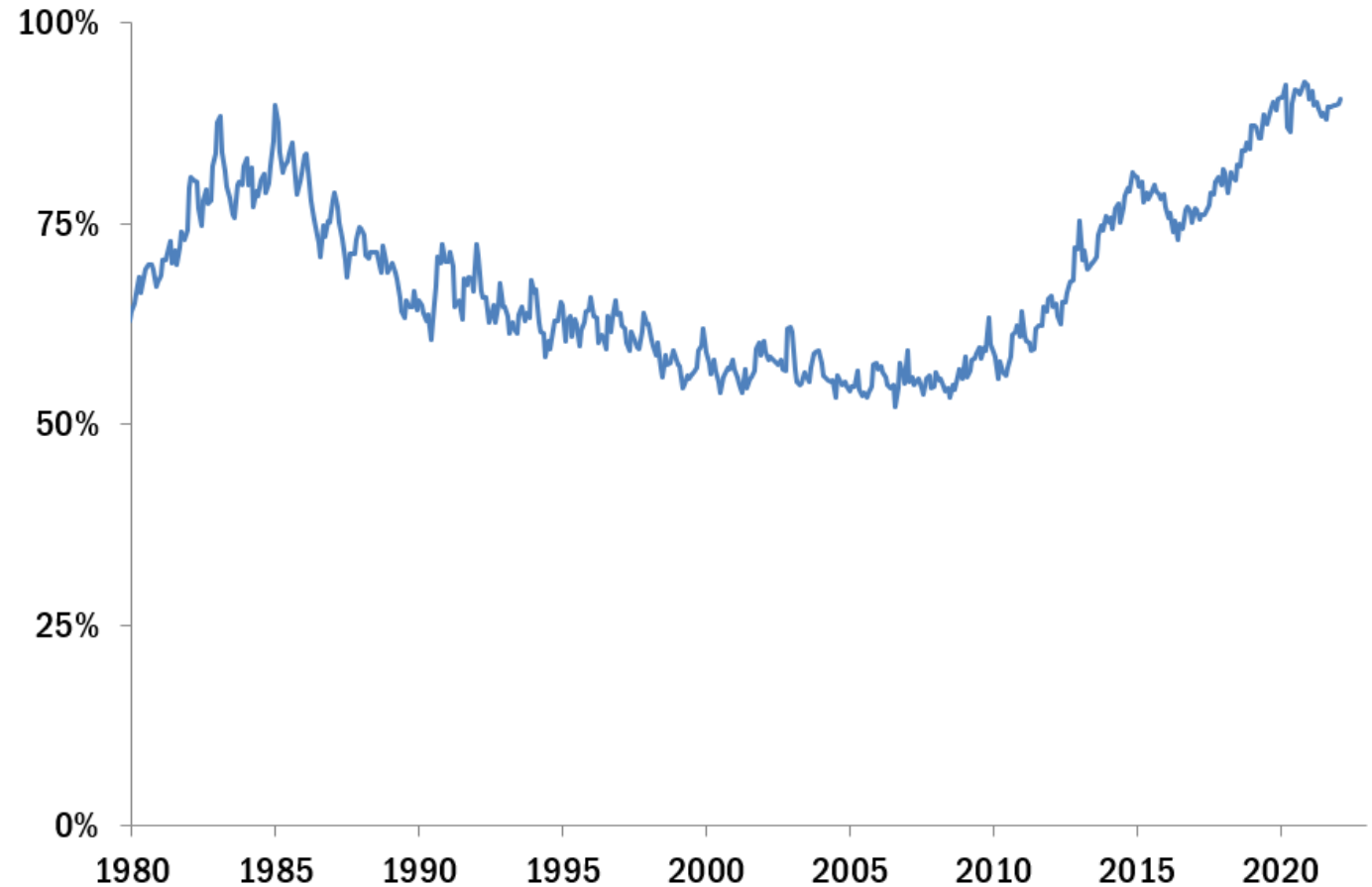
SOURCE: Energy Information Administration



The U.S. Imports Little Overseas Crude

- “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. Daily Crude Oil Consumption from North American Sources



SOURCE: Energy Information Administration



U.S. Energy Exports Surging

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



U.S. Natural Gas Exports via Pipeline to Mexico

Million cu.ft. per day



SOURCE: Energy Information Administration



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





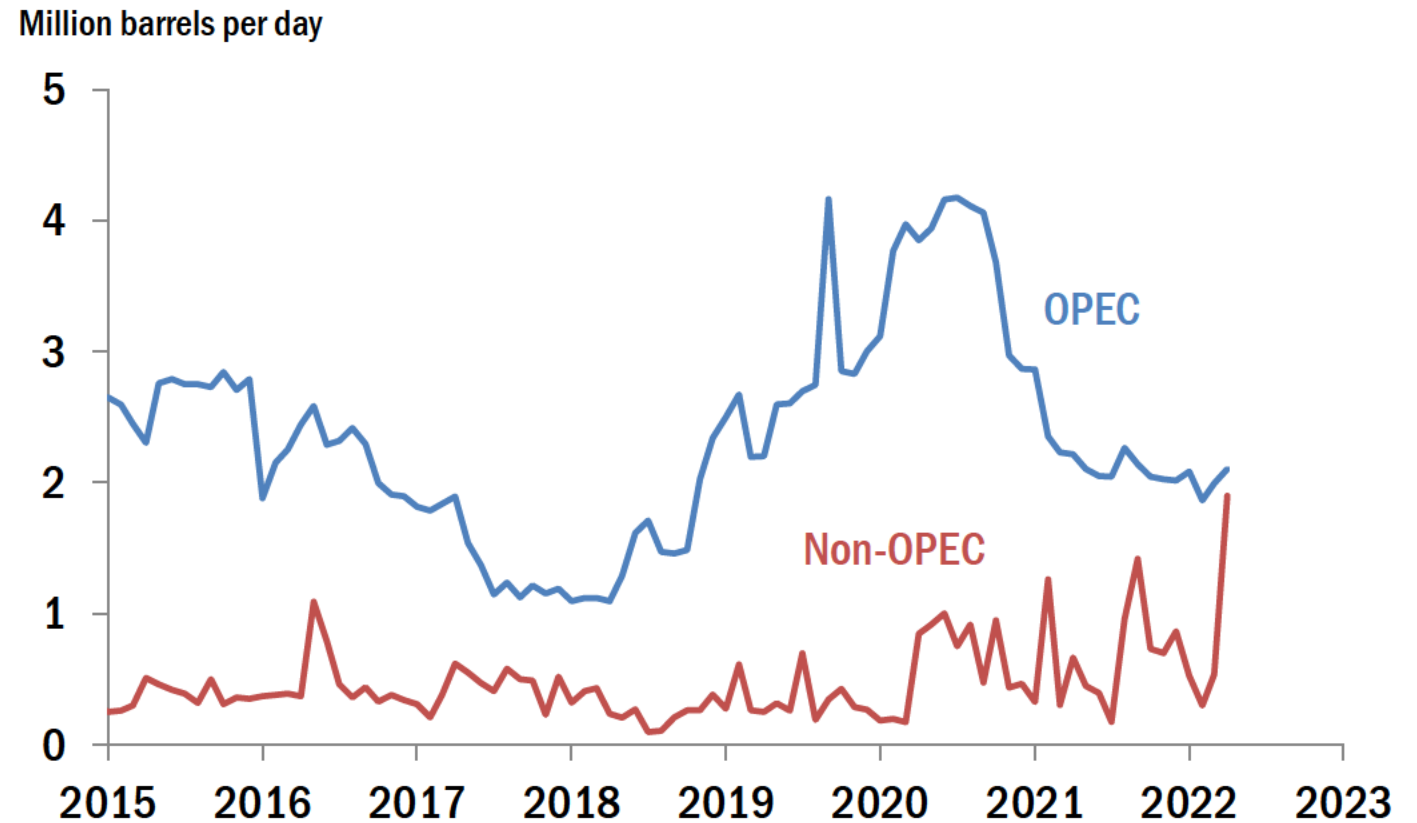
Geopolitics and Energy



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
- 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 resources that has not existed in oil and gas
- None of these realities appear to be in the minds of policymakers





Questions

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