

Oil Market Report: October 2024

To adequately summarise US energy policy in a few short paragraphs is a high-on impossible task; a report on the world's biggest economy (still) and biggest energy producer should really take up many pages. But we don't have that luxury with our monthly reports and with a US election only days away, we shall try and sum up where US energy is currently "at" and how much we expect it to change under respective Administrations. Will it be "drill baby, drill" under Donald Trump or more a case of "baby drill" under Kamala Harris?

At this year's Republican National Convention, Donald Trump promised to boost production of fossil fuels to "levels that nobody's seen before", making America so "energy dominant" that it will "supply the rest of the world". That the US oil and gas industry is therefore broadly pro-Trump is unsurprising, but the truth is that the sector has done remarkably well under the Democrats. US Oil and Gas production in 2023 was higher than in any year of the Trump Administration and more drilling licenses were issued by Joe Biden in his first three years in office than during Trump's (4 year) Presidency. It is true of course that Kamala Harris in the past has opposed shale gas fracking, but that was before she became the Democrat candidate for the White House, who very much needs a victory in the "shalecentric" state of Pennsylvania! Previous opposition to shale gas has now evaporated and Harris has (cautiously tbtf) endorsed the industry...

As to whether a Trump Administration means even more oil and gas drilling is not a foregone conclusion. From 2009 until 2014, the shale industry burned through \$300bn of investors' cash, only to see it largely wiped out when prices collapsed at the end of 2014. Memories of these losses still loom large and as a result, most US producers are now locked into capital discipline and the paying back of debt. With the global outlook for oil demand stagnant (to bearish) and with most US "oil plays" requiring a price of \$60 per barrel to make a profit, producers are sticking rather than twisting and keeping production steady - hoping that this will avoid an over-supply / low-price outcome. White House policy then, is not the main driver behind oil and gas activity in the USA. Instead, market conditions and whether Wall St has the appetite to invest further in such a cyclical industry, are the main factors.

One area where Donald Trump and the Republicans are keen to act should they win the election, is in the unwinding of Joe Biden's clean energy agenda - euphemistically called the Inflation Reduction Act (IRA). Essentially the IRA sought to turbo charge low-carbon energy development through the use of hefty subsidy for green technologies. Trump has called this legislation the "Green New Scam", which plays well to much of his voting base. The reality is however that 70% of IRA subsidies are going to Republican Districts! Further to this, most US states (whether Republican or Democrat) are very favourable to green investments, because they generate employment whilst not necessarily reducing existing fossil-fuel reliant jobs. The core Republican state of Texas is a prime example of this, with an explosion of new opportunities in the renewables sector (Texas is the largest wind power generator in the States and second largest solar producer), sitting alongside the hundreds of thousands of jobs already existent in the oil and gas sector.

At current rates of investment (ie, Biden levels) the USA is projected to spend around \$7.5tn on low carbon technologies between now and 2050. It is forecast that under a Trump Presidency, that figure would fall at most to around \$6.5tn. That's a slow-down in the speed of travel, but hardly the end of green energy in America! The energy market will continue to operate independently of the White House, because far too much money has been sunk into renewables to see that investment now being reversed. The bottom line is that the President - whoever he or she is - has no control over private energy companies and their investors.

We know that the USA is a deeply divided country and when it comes to energy, the situation (superficially at least) seems no different. On the one side, we have fossil-fuel fundamentalists who are mostly republican and vigorously at odds with the clean-energy enthusiasts on the other team, who are mostly Democrat. Scratch below the surface though and it seems clear that in an industry so dependent on huge-scale, long-term investments, the White House incumbent largely becomes irrelevant. Of course, a Trump Presidency will see periodic bouts of anti-green rhetoric to strengthen his support amongst the Republican base, in the exact same way that Kamala Harris will habitually bash the oil industry to please progressive Democrats. In the meantime, the energy industry will do its own thing and pay more attention to market forces and the global trend of decarbonisation.