Trump Presidency – Oil Impact
Potential growth is going to be largely dictated by price

Bearish Impact

Under the Trump Presidency, there is a potential to see more US production on account of the approach and insistence of "More drilling" and trade policies.

Trade uncertainty and frictions remains headwind to the crude prices, specifically when it comes to US energy prices. There are likely retaliatory effects against the US exports due to US import trade tariffs.

Noteworthy reminiscence is of China in 2018 who were reluctant to purchase US Crude Oil which resulted in widening of discount in Crude/Brent. Thus, WTI-Brent spread could come under pressure. Impact might be lesser now in comparison to 2018 as the China's import were almost 25% of US exports which is now slashed to 7% dependence.

Under the Trump regime, oil industry could get a comfort to invest in pipeline infrastructure, thereby increasing crude oil output.

Trump's propaganda on wars and conflicts is intriguing. The Geo-political conflict management of Russia/Ukraine war, Middle East conflicts and sanctions against Russia is to be examined. In the event of Europe increasing its dependence on Russian fossil fuels, US oil and gas industry, the key beneficiary, would take a hit from Europe's trade adjustments.

Any peace deal would remove the geo-political risk in energy prices. Peace attempts in the Middle East (With a supportive stand with Israel and/or aggressive stance with Iran) could put a pressure on other Gulf countries. Attempts of de-escalations would take away a large premium in Oil.

Upside potential

Additional US oil production means a well drilling cost requirement of $64/ bbl. Hence the degree of "Drilling" would be muted. Going forward, in a couple of years these costs could scale up to $67 and $70 range as per the forward prices.

In 2018 there was a significant fall in Iranian oil exports due to re-imposing of sanctions against Iran. If there is a resurgence of such sanctions, we could witness a potential loss of supply from the oil market, an upside price risk erasing surplus expectations. At present sanctions have not been strictly enforced and Iran has been able to increase exports significantly. The outcome of this would be a pressure on OPEC+ to increase output.

CMP WTI CRUDE $70 ; BRENT $74 ; MCX November Futures Rs.6024