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## ***OIL: TODAY'S UPSIDE SOWING THE SEEDS OF TOMORROW'S NEW LOWS***

The 2-year old aggressive market-share price war by the Saudis led the necessity to squeeze costs for alternative energy producers around the world. Critically, US shale frackers managed to notably decrease **breakeven costs per barrel**; for some shale types **down to \$29 from \$59 in 2014**, according to consultancy [Rystad Energy](#). Nietzsche said it eloquently: "That which does not kill you, makes you stronger." Indeed.

Oil at above 50\$ is set to drive a **supply response from marginal US producers**, not just the most virtuous ones. 2020 oil production can now be hedged at almost 60\$ on forwards, leaving not much in the way of opening up the spigots to max production. Incidentally, US **oil and gas rig count** [resumed increasing](#) as of late, while inventories grew: next then, production may stop descending (see chart below).

Meanwhile, **technological trends** progresses unabated towards the day of inevitable breakthroughs, both on the **supply side** - in clean energy [production unit costs](#) and [cheap battery storage](#) – and on the **demand side** – [energy efficiency](#), [electric cars](#). Like Elon Musk [says](#), "the future is going to overwhelmingly be solar plus battery. They go together like peanut butter and jelly."

Notably, **Oil decoupled markedly from the US Dollar**, in spite of tight historical correlation (chart below). Will and can it last? If not, which one is to give in?

**Higher rates, higher oil prices and a stronger Dollar** won't make US growth any more robust than low rates, low oil and a weak Dollar did. Expectations of Trump's policies brought up headwinds such as Dollar/Rates/Oil, only temporarily offset by the anticipation of a miracle in productive private capital formation: absent that, the **impact on real growth** and subsequent aggregate demand won't help much the case for significantly higher Oil prices going forward ([here](#) are our views on the global economy).

Historically, it is also worth remembering that a cut in production of 1mn barrels per day is just about as big as the **typical average over-production above quotas** for [OPEC members](#).

- › **All in all, we believe Oil oversupply to stay and be likely to meet a weaker demand in the years ahead, making the [the case for new lows](#) on Oil a genuine one. Oil is now reaching levels at which fresh new shorts are attractive from a risk-adjusted returns basis.**



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### BRENT Oil vs. DOLLAR Index (inverted)



### US Crude Oil PRODUCTION vs. Crude Oil Total INVENTORY Data





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