Joe McMonigle: Crude Oil Special

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Erik: Joining me now as this week's featured interview guest is former US Department of Energy Chief of Staff Joe McMonigle, who now heads up the energy research team at Hedgeye.

Joe, I think everybody understands that the key question in today's oil market is whether the rebalancing that OPEC production cuts were supposed to achieve is really happening or if the supply glut is actually still continuing. So let's start with your high-level view first. Is OPEC effectively managing supply or are they really just managing market sentiment?

Joe: I think, to date, they have been managing sentiment and, of course, engaging in verbal intervention in the market. Yes, they did do this production cut deal a year ago—well, actually last November. They're eight months into that deal now, and it's really had not that much of an impact on the market. I think, originally, when the deal was announced, I think oil bulls really liked the idea and prices were boosted as a result.

But many people, a lot of very savvy oil analysts and forecasters at banks, predicted big inventory draws in the spring that just never materialized. And, of course, the return of higher prices has incurred shale to rise—which, of course, we can get into later because it's sort of a different phenomenon. But, just to really judge the effectiveness of the production cut deal, last Friday oil ended at—or settled at—47 and some change. It was actually a penny lower than it was a year ago.

So, just to judge—obviously, prices in the last couple days have fluctuated a little bit—but, really, if you're looking at where prices were a year ago versus where they are today, I don't think you can really say that the production cut deal has had a lot of influence or has been very effective. And I think as a result the markets started out really impressed, and I think they've been pretty disappointed as we're into month eight now, almost nine months of the deal.

Erik: OPEC has another meeting coming up on November 30th. And, as we all know, they're in the habit of using the periods leading up to these meetings to jawbone the market with their various propaganda announcements. So there's been talk about the production cuts maybe being extended, or even increased, at this meeting. There've also been rumors about maybe taking exempt countries that didn't participate in the cuts and making them not exempt next time around.

So what do you see actually happening on November 30th? And how do you think the propaganda campaign is going to play out between now and then?

Joe: I think you're totally right; jawboning is really part of the OPEC playbook. And I think you're going to see it in the next two weeks now—even before August is over—I think two competing narratives. One, you're going to start seeing from the Saudis announcements or leaks about big cuts in crude exports, particularly to the US. And they sort of signaled that they were going to do that in July. I certainly expect them to have done it. Of course, a lot of it has to do with lower demand from China as well. But they will show some big cuts, I think, in crude exports.

And then juxtapose that with, I think, what you're going to see from the US—which we've seen really, I think, throughout the summer—and that's really rising US production—and a lot of other forecasts from banks and other oil analysts about rising US production. And I think Barclay's came out with a forecast report earlier this week or late last week that had oil going to ten-and-a-half million barrels a day by the end of 2018.

So I think you're going to start seeing more of that, and I think that's really making it difficult for OPEC to regain the narrative about the production cut deal. And I think they badly want to try to get that back.

In terms of the next meeting, already, yesterday, you had the Kuwait oil minister say that they're going to make a decision to consider whether to extend the production cut deal or to basically end it. Unfortunately, neither of those scenarios is really what the market wants to hear. I think the market wants to hear that there's going to be deeper cuts, and that's really not been on the table. I think there was some potential anticipation of that, potentially at the last OPEC meeting. We thought there really wasn't a chance of that happening. We wrote a note for clients that basically said—“longer not deeper” was the title of our note.

I think at the very least you're looking at another extension. Even though it's extended into the end of first quarter 2018, I think they will probably want to signal at that November meeting that they will extend. I think that's at a minimum. However, I would not preclude, potentially, more drastic action at that meeting. But I think it's too early to tell. I think we have to really see where the market is in late October and early November.

And I think the main reason for that is really the Aramco IPO coming up. And I think it's just—we're going to talk about that later I think—but I think that's really, it's a central focus of the Saudi Arabian government, of their economic reforms, so they have a lot riding on it. And, therefore, I think there's the potential that there could be some unilateral Saudi action of deeper cuts.

So that's something I now put in the realm of possibility as I look at the different options coming up at the November 30th meeting.

Erik: I want to come back to the Aramco IPO in a few minutes, but let's start with touching on the official US data that comes from your former employer, the Department of Energy. It used to be pretty easy to read these reports, but lately we're kind of getting conflicting data. There were quite a few much bigger than expected drawdowns in crude oil inventory in recent weeks, although this week it appears to be much more in line with inventory, around a 3 million barrel drawdown, which is for this time of year pretty normal.

Those big drawdowns would have been very bullish. But then we also see that there's been steadily increasing domestic production in these Wednesday reports. That would be a bearish sign. But then on Fridays we get the rig count, which looks like it's finally starting to level off a little bit. So that would tend to go the other way.

When you net all these things together, what do you see in the data? Are we looking at a bona fide rebalancing of the market that's actually occurring? Or is there still a production glut?

Joe: I guess I side on the production glut side. I think—certainly there's been some drawdowns, and I think that's positive news. It's hard—it's impossible to say it's not positive news, although I think most observers thought the drawdowns would occur sooner and they'd be even greater than they are. But a sustained several weeks now of drawdowns, I think has been positive. As you point out, the signals, however, about rising US production to really record levels, and the resiliency of US shale, I think is really a big counterweight to these inventory draws.

Now we're also entering a phase here where the end of summer, the high demand season, is going to be switching over. And there's going to be refinery maintenance, and—so I think a lot of the contributing factors, in terms of gasoline and other product inventories, are probably going to start stalling out. And so I think you're going to see the market struggle here in the fall, even with further draws.

And, of course, crude exports from the US, which now are allowed as a result of lifting the crude export ban in 2016—I think, first of all, no one really thought, until prices really recovered to big levels, that there would be significant exports. But, again, the market has really been surprised, I think, about very strong crude exports. And of course that's affecting the drawdown numbers as well.

So I think it's a much more complicated data array to consider now, as we go into the fall. And I think—definitely you put your finger on it—the US production number, I think, is the big complicating factor in what would otherwise be very bullish news.

Erik: Related to that, Art Berman had a piece out recently saying, exactly really what you just said, which is that this is not what it appears. These big inventory drawdowns are not because of increased demand or reduced production, it's all about reduced imports. And Art thinks that's not sustainable.

Some people have even gone so far as to say that maybe OPEC and Saudi Arabia are trying to game the system so that that overproduction that's still occurring is showing up in builds and inventory, but it's happening some place other than the United States where the data is not nearly as visible to traders. Do you think there's any truth to that idea?

Joe: I totally agree with that analysis. We've actually been putting out notes about this for clients. And, again, this was telegraphed by the Saudis in particular. And, essentially—I like to call it working the rafts, because the US, the EIA data, weekly data reports, is the most transparent. It's also every week. The OECD numbers come out monthly. The rest of the world is not so transparent so it's hard to judge, really, what's going on in those other markets.

So the market was basically living off of these EIA reports, which were not that great for OPEC and the Saudis in the spring, and so they needed to really change the data, essentially. And so the only way to do that was to really just impact the data through their exports to the US, and so they've done that. They've tried to get a few other OPEC members involved in that plan, and I think it's definitely having some effect.

The time of year is also really important. Saudi Arabia uses a lot of oil for domestic usage during the summer. So, from a period of time perspective, sort of worked perfectly in their plan. But I also agree with what Art said: it's not sustainable. Once the summer season ends in Saudi Arabia, and they're going to be dialing back their electricity usage, they're going to look to reverse those crude export cuts. And the other point that he makes, which of course we've seen as well, is that they really just—in the case of the Saudis in particular—redirected those exports to Asia.

And so the oil is still hitting the global market; it's just not hitting the US. And it's just specifically to impact the EIA data and they've definitely had an impact. And I think it's actually been a little greater because of the US crude export numbers.

Erik: Speaking of sustainable trends, we have seen a trend which is increasing US production—just this week's data, another quarter of a percent or so of increase in US production. On the other hand, it looks like the rig count is not growing as quickly as it had been. So what's your outlook? Do you see US production continuing to increase through 2018?

Joe: I do. I mean, look, shale is just so resilient here. Yeah, the rig counts are sort of—the growth of the increases I think are drying off a little bit, but I still expect rig counts to continue. Certainly they're up about 400 rigs from a year ago, so that's a huge number from where we were. And at the current price levels you're just not going to see any kind of collapse in US shale production.

So I'm not sure they—I guess it's encouraging the rig counts are dropping maybe one or two, or only growing by one or two—as opposed to six or seven or eight—on a weekly basis. But I don't think that's a signal that we're going to see some kind of decline in US production here. I think the reverse is probably true. At this level I think shale is finding ways to not just survive but to really thrive at these price levels.

So I think we're kind of stuck here with rising US production, and it's a sort of a new factor that OPEC has to put into its calculus as it makes decisions going forward.

Erik: Let's move on to geopolitical risks, starting with Venezuela. I asked an oil trader friend of mine if she could think of any questions I should ask you, and she said "You've got Joe McMonigle on your program? He had a senior role in government. He might be the only guy in the oil market who could decode Trumpspeak for us and tell us what it is, exactly, that this Administration is threatening Venezuela with."

Because a lot of people can't figure it out. You know, if you outlaw the import of Venezuelan oil into the United States that is a really damaging blow. But it's a blow to US refiners who need that Venezuelan heavy crude for blending stock. So what's going on here with these threats of sanctions? And how do you see it playing out?

Joe: Yeah, I think we're definitely entering a phase now where geopolitical events are really going to have an impact on oil markets. Really, over the last two years there have been geopolitical events, but the market has sort of yawned at them because of the huge supply glut. So they've had no impact. Where, in normal years when we didn't have such a big supply glut, you would have seen the market react pretty vigorously to some of these events.

The two events that we're going to talk about today I think are so big that the market is definitely going to pay attention to it. It potentially could be a 3 million barrel a day impact on oil markets.

And the first one is Venezuela. I think what makes this also fun from an analyst's perspective is really Trump himself and trying to interpret what he actually means. Sometimes, a lot of it is just positioning and *Art of the Deal* type stuff. But on other things he actually means it. And so I think it's important to differentiate between the two.

On Venezuela, I think they're quite serious about taking really strong action. And this is something that really came about in May when Maduro started making sounds about this move to have a new election for a new Assembly, which would essentially dissolve the old Assembly—which has now happened—and write a new Constitution and essentially install a dictatorship in Venezuela. All of that has happened.

When it leaked out, I think in May, that the National Security Council was actually considering options here it was really rebuffed, I think for the reasons you talked about, that it would really hurt US refiners. So I think the market sort of really just dismissed it out of hand.

But over the last several weeks they've been developing a set of options for the President. And it came to a head about, probably about mid-July, July 15th, around that period, and in advance of these elections which took place on July 31st. And essentially there are very strong advocates for taking the strongest possible action against Venezuela, and, really, the Maduro regime, in order to bring it down. And it's the Western—I don't want to get too much in the weeds here—but it's really the Western hemisphere section of the National Security Council.

There's a lot of dissention in the Administration about this too. The State Department is opposed to the stronger action because of what they view would be some kind of humanitarian crisis that could ensue. The Energy Department is opposed because of, as you point out, the impact on refiners. But I think there is a feeling within the National Security Council that this is a move that they have to make in order to bring about change—that, really, Maduro has crossed Trump's red line, as I like to say, by these elections. So I think they're really far out there now.

This move is also supported by the anti-Castro crowd in Florida which has a tremendous influence on the President. I don't know if you saw his speech that he gave in Miami when he changed the Obama Cuba policy. It was probably the most enthusiastic crowd and speech that Trump ever gave on a policy proposal (absent the rallies that he's been giving that are more of a political nature). And he really feeds off of that type of atmosphere. And Senator Marco Rubio, who of course is Cuban, is a big proponent of aggressive action in Venezuela.

For that community—first of all, there's a lot of Venezuelans in Florida to begin with—but the anti-Castro crowd really sees the Castro influence in Venezuela. The Cubans have dispatched advisors to help Maduro try to crackdown on protests and really have a very close relationship with him. So there's a lot of support in that community for it.

And I think, certainly there's no sugar-coating this, definitely there is a big impact on US Gulf refiners who really have—their refineries are built around refining this heavy

Venezuelan crude. So they will be really hurt by this potential action. I mean, there really is not any kind of replacement option for them. You have Canadian oil sands, crude which is of a heavier crude which could be a replacement. But the problem is, from a logistics standpoint, there's no way to get that oil to the Gulf. Had we had Keystone in place that potentially could have been a solution, but Keystone is not in place yet, even though it was approved by the current Administration.

Mexican and Columbian crude are somewhat of a replacement for Venezuelan crude, but they're really, their production is down and I think they don't really have a lot of extra supply for these Gulf refiners. So I think what you would probably see—first they'd try to find some potential crude replacement on the spot market, which would be more expensive than what they're paying now. But there really isn't going to be a lot of that. And I think what you would see is they would essentially have to cut refinery runs.

So I think, as a result, you would see—certainly you'd see gasoline prices rise in the US, which from a political standpoint, I think, is causing some pause in the Administration. But also I think you would see oil prices rise by as much as $10 a barrel, WTI prices, here, at least in the short term.

From Venezuela's standpoint, they're not going to be able to find a replacement destination either for this crude. China is of course a big taker of consumer Venezuelan crude, but they're mainly getting the oil in return for big loan payments from Venezuela. But they're kind of at their max, I think, levels right now. The Russians are now engaging as another potential option. But they're really just trading the oil and I'm not really sure how much more they could step in to be a savior there.

So I think short term it's going to be a mess. I don't think Venezuela's going to find a lot of options for that oil. I think it would bring about a collapse—a default—in Venezuela, because about 40% of all of the production is used to pay off these loans from China and Russia and elsewhere. The rest of it goes either for domestic consumption, which is a very small part, and the rest goes to the US, which is essentially the ATM machine for Venezuela. If you shut that down, Venezuela's in a world of hurt.

And I think it would definitely bring about, certainly, a default. Although you could argue that could happen anyway, without strong US action. But it could bring about a collapse of PDVSA and Venezuela crude production altogether. I think it would definitely bring about a collapse of the government.

So what's—get inside the minds of these policymakers in the White House. I think they think—they acknowledge that there would be pain and impacts to US refiners, and gasoline prices, and oil prices. But I do think they think it's short-lived and worth the geopolitical change that it would potentially create.

So I think that since the President made his statement on July 17th, and a pronouncement of strong and swift economic action, that energy sanctions are at the top of that list. Now, what form that takes—whether it's a ban on Venezuelan crude to the US, or it's a ban on dollar transactions of Venezuelan crude—I'm not quite sure yet. But they are trying to have the biggest impact they can on Venezuela.

I think I'm kind of out of consensus here; I do think they're going to make this move. I think timing-wise we're coming to a decision point soon. The President's now back from his vacation, and the White House staff who took some time off is also coming back. So I think we're getting to a point now where we're about to see some kind of decision from the White House.

So that's 2 million barrels a day that's potentially at risk now, in Venezuela. So that would have a huge impact, just the banning of Venezuelan crude to the US could boost prices by $10. If you had a collapse of PDVSA and Venezuela crude production, you're probably looking at crude prices somewhere around $70 if that happens.

Erik: And of course the collapse of Venezuela could happen even without those US sanctions on crude, just as a result of the government failing, which is very possible. I want to move on, though, to Iran, which has added about 1 million per day to global production since sanctions were lifted in 2016. Some would argue that that accounts for the lion's share of the present over-supply.

It doesn't seem like President Trump is a very big fan of how things have gone with Iran. What could go wrong there and how do you see it playing out?

Joe: So I discussed the 3 million barrel a day blow to oil markets. 2 million was Venezuelan crude. The other million would be potentially from Iran. And the President, since before the election, has been one of the top critics of the Iran deal. He's called it the worst deal ever. He used even stronger language than that to describe it. So I think a lot of people thought, when Mike Flynn, General Flynn, left as National Security Advisor, that the pressure was off and there really wouldn't be a US action against Iran on the nuclear deal. But I think people forget the biggest critic of the Iran deal is the President himself. And I think we're starting to see that play out now.

The White House—or the Administration—has to certify Iran's compliance every quarter under the nuclear deal. And so for the first two quarters they certified compliance. The latest certification happened last month. It was a bit delayed, mainly because the President was just unwilling to do it, and he had to be convinced by his advisors that he had to do it. And I really think that is probably the last time that will happen. And so, therefore, I see the next compliance period, which ends somewhere around mid-October, as being a potential catalyst point here, under the Iran deal.

And so, I mean, a lot of people are focusing on the compliance too, and I'm not sure the compliance is the right place to be looking. I don't—the White House could just decide they want to walk away from the deal, regardless of how Iran's doing under the compliance. So that in and of itself is probably not the main thing to be watching. But I do think there's great risk to the Iran nuclear deal.

And, as you point out, Iran has added about 1 million barrels a day to the global market after sanctions were lifted. Probably 80% of that goes to Europe. The rest of it goes to South Korea, Japan. Some of it goes to China. And so I think you could argue that if the US re-imposed sanctions—maybe China doesn't agree with it—but if you're an energy company in Europe or in South Korea or Japan, you're not going to want to cross US sanctions.

The pushback to this—and, again, I think I'm kind of out of consensus on this although I think people, even those that worked in the Obama Administration as part of the negotiating team on the Iran nuclear deal, are starting to come around to the realization that the deal is on thin ice from the US perspective—but the pushback really is that the Europeans won't go along with this. And therefore re-imposed US sanctions really won't have much of an impact. And the foreign minister of the EU has actually gone as far as saying she guarantees that the nuclear deal will remain. There's basically no way for the EU to guarantee this. They can decide to not join the US and re-impose sanctions, but without the US they're really in a tough bind.

And that's because the European governments themselves don't buy this oil. It's their energy companies. It's Total, it's Eni, it's Repsol, it's BP. These companies have big exposure in the US, so they're not going to want to cross US sanctions. Already, I think, you see some of this playing out in Iran now because of the threat of future sanctions. I mean, even though it's perfectly legal for these companies to go into Iran—and some are signing MOUs and things like that, and banks are allowed to go back into Iran—they're very nervous, I think, about doing it, just on the threat of US sanctions.

So I think US sanctions would, in essence, re-impose international sanctions on Iran, and most of that 1 million barrels a day come off the market.

Erik: A lot of people think the reason that the US dollar has remained the world's reserve currency, 45 years after the Bretton Woods system collapsed in 1971, is the so-called petrodollar system in which Middle East oil producers price their oil in US dollars regardless of who it's being sold to. And many of those nations also reinvest their profits in US Treasury Bonds.

But recently we're seeing pressure from Russia and China to stop transacting in dollars. Iran, in particular, seems to have come to favor Euros over dollars for its oil exports. So do you think the petrodollar system—or even the US dollar's hegemony as the global reserve currency—is at risk in the longer term in light of these developments? And what do these changes mean for the price of oil as you look ahead?

Joe: First of all, I don't profess to be an expert on currencies and its impact on oil prices. But certainly, historically, there's been an inverse relationship between the dollar and oil prices. I do think the supply glut has kind of interfered a bit with that relationship. And it hasn't necessarily worked as clockwork as it has in the past. I'm not sure the moves by China and Russia are really going to have that much of an impact, or any impact at all. So I do think the dollar really remains the preferred currency, not just in oil but in commodities in general.

I will tell you an interesting story from my time at DOE. When oil prices really surged to $100 levels, the Saudis—and in particular Minister Al-Naimi, at the time the oil minister of Saudi Arabia—really talked out loud about potentially changing the currency for oil prices from dollars to Euros, just so that they could lower those skyrocketing prices they felt were impacting demand and having a greater impact on markets than it probably should. So, certainly I think market participants are looking more at currencies right now. But I don't really put much stock in the moves—or the noise, I guess I would characterize it—from Russia and China.

Erik: I want to come back now to a topic you brought up earlier, which is Saudi Arabia's planned IPO of Saudi Aramco in 2018. It stands to reason, as you alluded earlier, that they would want to do everything they possibly can to support oil prices into that IPO because, of course, the whole future of their country kind of depends on the money that they'll raise from doing this.

Some analysts, though, are starting to question the viability of the IPO and are wondering if it's really going to happen in 2018. What's your take, Joe? Is the IPO of ARAMCO going to happen? And what will it mean in terms of OPEC, Saudi Arabia, oil prices—before and after the event—and so on?

Joe: I think it's hard to really overstate how important the IPO is to the leadership in Saudi Arabia and what they view as their future path, not just from an economic standpoint but from a political perspective as well. So I think the IPO continues. I know there's a lot of disagreement and debate out there about whether it will happen or not. They haven't really identified the exact time in 2018 when it will happen. I actually think it is probably more the first half of 2018.

But I think it's a top priority of the Saudi Arabian government, certainly of the new Crown Prince. It's his signature issue. So there's a lot at stake here, even from a reputational standpoint. So, therefore, I don't think they pull away from or delay the IPO. I think it definitely happens in 2018. But—so I think the IPO is really driving oil policy now in the kingdom.

So last year a lot of people were saying, oh the Saudis are going to do certain things because of the IPO. And I really dismissed a lot of that because it's impossible to really time this market, especially if you're more than a year out. But as we get closer and closer to 2018—and that November 30th OPEC meeting is awfully close to 2018—I think you're going to start seeing the IPO really start to drive the Saudi oil policy. And that's why I do believe that the Saudis are willing to take even more aggressive and even unilateral action if they can't get the rest of OPEC to agree, in order to try to boost prices and to, really, to try to time it for the IPO.

I think, absent the IPO, they would probably be okay with where prices are right now. But the IPO is definitely going to be driving their policy going forward. So I'm not predicting that that's going to happen, but I think it's definitely now within the realm of possibility. I know there's a lot of people who dismiss that. I know the Saudis have actually said themselves that they won't take unilateral action. But just look at last year when the production cut deal happened. They took a greater share of the burden for the production cuts. And then what happened in January? They surprised the market and actually cut even above what their share of the cuts were. And I think that really boosted the market enthusiasm for the deal.

They can do that again. They certainly have a lot of room to be able to have additional cuts, unilateral cuts on their end. And so I definitely consider it to be part of the realm of possibility. Again, I'm not predicting it, but as we get closer and closer to that meeting I'll be definitely developing my analysis of what might happen in consultation with friends in the region. But I would have to put it back on the list of possible scenarios as we head to the end of the year.

Erik: Several recent articles have suggested that the forward curves moving into backwardation are signaling that the rebalancing is working and are therefore predictive of much higher oil prices to come. Frankly, Joe, I'm not convinced. If I look at the last several cyclical tops in the WTI price—around February 23rd, April 13th, and May 24th—the WTI curve moved briefly into backwardation—at least through 2018 into 2019—in some cases to a greater degree than it did more recently.

But in every case it didn't last. As soon as that cyclical top was in, the market rolled over and the backwardation was gone. And we were back to a structural contango—at least in the WTI curve, not so much in Brent.

The same appears to me to be playing out now, with backwardation no longer apparent in 2018 even though it was there a couple of weeks ago. So do you think that there's anything to this view that the term structure is supposedly, according to some analysts, signaling that the rebalancing is working and that higher prices are just around the corner?

Joe: Well, yeah, I agree with your analysis. I think, first of all, it's just not sustainable. I think it got a little boost here during the summer, especially with these drawdowns. And it's important to remember that this is what the market thinks is happening, but not what is indeed happening. Right? And I—obviously I don't agree—as I said earlier, I think that the supply glut is going to continue. I think we're going to be in the upper ranges, even by the end of the current OPEC production deal that ends in March 2018. So I personally don't think the data supports where the market is now.

But it's just not sustainable, I don't think. Especially going now into the fall when you're going to see—I think gasoline demand drop off, and you're going to see refinery maintenance, and I think you're going to keep seeing rising US production. So I agree with your scenario. I think, certainly, this is an area where trading differs from someone like me who looks more at fundamentals. But I think in this case we're both in agreement.

Erik: On a related note, I think very closely related actually, Saudi oil minister Khalid Al-Falih commented very publicly—it seemed to me he was going out of his way to be public—in saying that Goldman Sachs and a few hedge funds were suggesting to him that OPEC should target oil prices in the back end of the curve: long-dated futures as opposed to just the front month price.

Now, frankly, I think Al-Falih was maybe playing the traders by intentionally trying to game them into front running something that I don't see how they could actually do, because they're not natural sellers of long-dated futures. I guess they could go into that market, but that would be hard to explain and obvious that it was a manipulation. It seems like it worked. Right after those comments is when the WTI curve pushed itself into backwardation, and, as you say, it didn't last. It wasn't sustainable.

Do you think that Saudi Arabia and/or OPEC have any real and bona fide intention of trying to target long-dated futures prices? And, if so, do you think they have any practical means of doing that? Or was this just a case of Al-Falih trying to jawbone the market again by gaming the actions of some traders?

Joe: Yeah, I do think this was one of the tools that they go to when they meet with investors. It's not to really broadcast what they're going to do, it's to try to get the investing community to take some action and try to influence their views of where the market is. So, yeah, I definitely think they were trying to have an impact on investors. But I think that OPEC, and the Saudis in particular, I think would be better off if they—again, instead of focusing on verbal intervention and sentiment, if they would focus more on supply. They would have much more success, I think, on the market.

You talked a little bit, when we were talking about Iran, about Iran's added crude exports to the market has really undermined the deal, and I agree that that's true. The other actor that's really undermined the deal has been Libya and, to some extent, Nigeria. Both of those two members of OPEC were exempt from the production cut deal because they were going through internal turmoil. Libya in particular is now—from when the deal was done was around 300,000 barrels a day—is now a million barrels a day. Libya of course is—when they came back with 700,000 barrels a day in 2014—I think was what really pushed OPEC over the edge and when they decided to basically do away with any kind of caps on production.

So Libya keeps coming up in this role. The compliance, I think in July, according to Platts, was something like 115%—OPEC’s compliance under the deal—but OPEC's production was some 750,000 barrels over their 32.5 million barrel a day ceiling that they put in place. And that's all due to Libya—and Nigeria to some extent—and really undermining the deal.

And that's why—we didn't really get into it when you asked me the question—but I do think that Libya and Nigeria's exemption under the deal, that their time may be up as we approach this next meeting. And I know—the Nigerians, I think, seem willing to play with OPEC on this point. The current OPEC Secretary-General is a former Nigerian government official and I think they're more willing to cooperate.

The Libyans, I think, are less enthusiastic about being a part of lifting the waiver, and of course it would have to be by unanimous decision—that's how OPEC operates. But I do think there's a way to orchestrate a deal where they agree to some limit on production. I don't think we're going to see cuts in either case, but they at least agree to a limit on their production with some kind of escape valve in case there's some new violence or insurrection or political instability in either place.

So, at least from OPEC's standpoint of regaining the narrative, I think that's really critical. And, as I talk to more and more OPEC member country representatives in my travels and at conferences, it's something that they are very focused on. It was a big part of the meeting in Russia, the technical meeting in Russia. They're trying to figure out what to do about it. But that, I think, is another big scenario to watch as we get closer to the November 30th OPEC meeting.

Erik: Well, I can't thank you enough for a fantastic interview, Joe. I mentioned earlier, you were formerly the Chief of Staff at the DOE. These days you're heading up the energy research team for Hedgeye. So tell us what's going on over there at Hedgeye. It seems like Keith McCullough is assembling a team of some pretty heavy hitters. We just interviewed Neil Howe a couple of weeks ago, for example.

So what are you guys out to achieve there, and where can our listeners find out more about what you have to offer?

Joe: That's right, I was part of the Potomac Research Group that Hedgeye acquired about a year and a half ago. And it was really advanced thinking by the Hedgeye leadership to—this is before anyone really thought Trump had a chance, and I think people were thinking Hillary was a shoe in and really it would be a continuation of the Obama policies. Not that the leadership had a dog in the fight, but, essentially, to take the policy research firm and to marry it with the equity analysts at Hedgeye.

I don't think there's ever been a time where what's going on in Washington is going to be so influencing markets and companies, at least from an investor standpoint. So I think the Potomac acquisition by Hedgeye—which is now called Hedgeye Potomac Research, which I'm part of—I think it was a really good move. And certainly from an investor standpoint, I think is an incredible asset to really understand what's going on.

I have—I covered the energy policy and geopolitics side of it as it relates to energy. But I have colleagues who follow macro-political views that, as you know, very strong—health care practice, of course it follows. That's been basically the topic nonstop for the first 200-some days of the Administration. Telecom mergers, there's someone follows telecom. There's a former general that follows defense policy, and which defense contractor stocks to watch based on who might get what type of contracts or what's going on with the defense budget.

And so the strength of the team at the Potomac Research Group in Washington now being part of Hedgeye I think has really given Hedgeye a big advantage. Not just to their institutional clients, but also to the macro retail client.

And so listeners of your podcast—which I count myself one of those and a big fan because of your interest in energy and the various folks you've had on to talk about energy—I think would be well served to go to the hedgeye.com website and sign up. There's lots of trial offers that, even as a retail investor, to really understand what's going on. Not just specific companies, but just from a macro standpoint and a process standpoint, which Keith is really good at as you know from your discussion with him. I think they'd be well served to tune in and check out Hedgeye.

Erik: Well I couldn't agree more, and I want to touch on a point you just made. A lot of what we talk about on this show is at an institutional, more professional, level. And we have a lot of retail listeners in our audience who aren't able to trade futures directly, who are more in the ETF market. Our good friend Dan Holland at Hedgeye, who set up both this interview today as well as our interview with Neil Howe, was good enough to send me an email.

Hedgeye has a product called Hedgeye ETF Pro and it's specifically for retail investors who want an advisory service that shows them what ETFs to use in order to put trades on (right now, for example, there's short oil through the USOETF). And they basically provide a service that's all about ETF advice for retail investors. If anybody's interested in that, Dan was good enough to send us a free trial link.

So registered users, in your Research Roundup email you'll find a link to a free trial of Hedgeye ETF Pro. Be sure to check that out. It's free, you can't go wrong. And I can't thank you enough, Joe, for a fantastic interview. Patrick Ceresna and I will be back as Macro Voices continues right here at macrovoices.com.