



MACRO Voices
with hedge fund manager Erik Townsend

Dr. Anas Alhajji: Energy Markets and Lessons Learned Since the Russian Invasion

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Erik: Joining me now is Dr. Anas Alhajji, founder of [Energy Outlook Advisors](#) and noted keynote speaker and general expert on energy markets. Anas prepared a slide deck to accompany this week's interview. Listeners, you'll find the download link in your research roundup email. If you don't have a research roundup email, just go to our homepage [macrovoices.com](#). Click the red button above Anas's picture that says looking for the downloads. Anas, it's great to have you back. I wanted to ask you back because we've just passed the one year anniversary of the beginning of the Ukraine war with Russia. Let's start with the lessons learned to date from this experience in with respect to energy markets. What were the surprises? What have we taken away? What have we learned?

Anas: Thank you very much for having me, Erik and it's always a pleasure to come back to [MacroVoices](#). We learned several lessons in oil and gas and other lessons in even macro economy and related issues like in international trade. But when it comes to oil, one of the main results of what we've seen in a year of conflict is the change in the direction of international trade in energy sources. And specifically, we are talking here about oil, gas, and coal. Just to give you an example of this change. India's oil imports from Russia in December 2021, were only 1% of the total imports, the total oil imports of India. So it was 1% in December 2021. In December 2022, it jumped to 21%. And right now, it is about 24%. Simply because we have this diversion where oil start going to Asia instead of Europe. For China and by the way, and this is a good lesson for listeners right now, because this is one of the most important outcomes of this war is we have to be very careful with the data. And I will emphasize this point one more time. And the reason why because whenever we get data from India, or China, or Saudi Arabia, or any other country, these are the official data. But the market is somewhere else because we have a massive black market on one side. And some countries like China are importing the Russian oil through a third party. So they show that they are importing oil, let's say from Malaysia or Indonesia or other country. But really that is Russian oil.

So if you look at the official Chinese data, we see a jump in oil imports, until almost June or July. And then it dropped and people think well, China is not importing that much from Russia, while China basically is importing massive amount from the black market, and another amount coming from third countries. So we've seen this change in direction, while we've seen African and Middle Eastern countries, exporting to Europe to replace the Russian crude. So the first result is the change in direction of international trade and energy resources that applies to

natural gas and it applies to coal to. The second result is the filling of the Chinese strategic reserves. China used most of its strategic reserves in 2021 to prevent prices from reaching \$100. And they were hoping that because of the seasonality that global oil demand will decline in the first quarter of 2022 and with that prices will decline and with that they can refill and Putin goes to Ukraine, prices go through the roof and the Chinese got stuck. But they got lucky. Lucky on two fronts. First, they were able to get the Russian crude. And the second, they had the lockdowns. So from one side the demand declined substantially. On the other they were able to get the cheap crude they were dreaming off. And they were able to refill their commercial inventories and their strategic petroleum reserves. Until the end of the year of last year 2022, they had 1.1 billion barrels of reserves, that's commercial and SPR, underground and above ground. And although the commercial inventories declined in recent months, the level of inventories of total inventories in China today is higher than that of the United States, despite the fact that the US consumption is higher than that of China by five to six million barrels a day. So the first result is change in direction of trade. The second result is the filling of the Chinese strategic reserves. And as you recall from our previous Interview, the implications of the Chinese filling up and reusing that are huge.

Erik: Quick question Anas. When you say the filling, do you mean it is now full and there's no more room or do you mean they're still filling it?

Anas: The total capacity in China to fill their strategic and commercial is about 1.4 billion. Right now they have about 1 to 1.1 billion. So they still have about 300 million space to fill in. So they still have space. But right now, their inventories are going down because of the reopening because of the massive growth in the transportation sector. So their inventories are drawing down. But they still have a very large, large inventories. The third result, which is a very important result is the black market in oil has become the largest in the history of the oil industry. And yes, there is a lot of things to talk about when you talk about black market in oil. But there is a hidden dimension that is going to cause a lot of problems to everyone in this industry. And is going to have you and I are going to have problems every time we talk or every time you have a show. And the reason why, because quality of the data in oil and gas started deteriorating since 2017. And it got worse over time. But now because we have this black market, the data is really bad. And OPEC is going to have problems. And the CEO of any oil company is going to have problems, traders are going to have some serious problems. And the media basically can't run away with any story. Because there no one have a definitive answer, or no one has the real data. So anyone can come up with any data in this atmosphere that we are in.

So one of the implications of the large black market is the deterioration of the data quality. Another result, and lesson we learned from the crisis during the last year is the reduction of the role of OPEC+. And we've seen that with the release of the SPR in the United States. And we've seen that with the push of the SPR in China. And now we have a new dimension to this, which is very interesting. The market power of OPEC almost diminished. Because all the focus right now is not on the production, on the spare capacity, on the production spare capacity of OPEC. It is on the spare capacity of refiners around the world. Those with large spare capacity, they

can import a lot of Russian oil, refine it, and then send the products back to Europe. And that's legal, by the way. So who is influencing the market right now? Countries with large spare capacity of refining. And that's China and India. So they literally pulled the rug from under OPEC at this stage because of this.

And the final big story out of the year of conflict is that Russia, if you go back to 2019, the Russia was supposed to increase its production capacity, and move toward 11.5 million barrels a day of production. And what we know right now is Russia was unable to return to pre-COVID production. It got stuck. So that Russian oil that's supposed to be in the market is no longer there. And it may not be there for years to come. As for gas, that we learned several political and economic lessons when it comes to energy. One of them is that the American shale revolution appeared to have huge political dimensions. and the administration's whether the Trump administration or the Biden administration exploited that to the maximum. There was no way on earth that President Trump could have re-imposed the sanctions on Iran or imposed sanctions on Venezuela in 2018 without the shale revolution. There was no way Europe could stand in front of Putin today without the shale revolution, because of all the LNG and all the oil that we supply them with. So all of a sudden the shale revolution is way bigger than what we even dreamt off. And it is literally reaching the four corners, the impact is reaching the four corners of the world because of that political dimension of it.

One of the main results and what we learned from this conflict is the European shift from dependence on Russian gas to dependence on US LNG. And if you really want to choose the most important event, if you ask me just to choose one event, one result out of this one year, I will tell you is this one, that the shift from dependence on Russia to dependence on US LNG. This is the main outcome of this conflict. And this dependence is not going to vanish quickly, even if we end up with peace, even if Russia will draw his troops and sanctions and that LNG is literally engraved in stone in Europe right now. So that's really the most important event. And it transformed the global energy system, probably for the next two-three decades. And the final one, when it comes to natural gas that and this might apply to the whole energy world, not only to natural gas, that when it comes to Europe, United States and Canada, basically the West in general, those countries are idealistic, when it comes to the environment, when it comes to climate change, welfare, and human rights. But they will do it as long as they are comfortable, as long as their welfare is intact. But once the economies are affected, once their welfare is intact, then the environment climate change, human rights are out of the window. And this is really one of the main lessons we learned from this experience. Just look at Germany, they went back to coal, they literally throw away all the climate change rhetoric they've been talking about. They've been telling Africa and Asia to stop using coal. That's it, COP26 was about ending the coal. and now they are going back to that. We've seen the German police basically going literally removing a whole village from a top of a hill, simply because there is an old coal mine they need to reopen there. Human rights basically, literally went out of the window. So that was one of the main lessons too.

And in general, this does not apply only to applies to everything in energy, we have two points. The first point is that the same countries that they oppose subsidies to fossil fuel, the same

countries that were telling other countries not to give subsidies to fossil fuel, they reenact on that, and they are giving subsidies in billions of dollars to their populations to use fossil fuel under the guise of we are going to reduce the burden, prices are too high, etc. But they literally sacrifice all the climate change rhetoric by giving those subsidies to their own people. And the final lesson, and that's in general, not only related to energy, but to everything is sanctions do not work. Embargoes do not work. Price ceilings or price caps do not work. And evidence abound regardless of the political rhetoric, regardless of what the media is saying. The fact that 10 rounds of sanctions, and nothing happened on the ground tells you that sanctions failed. The fact that the whole rhetoric about price ceiling does not make sense. And this obsession with the idea of price ceiling or price cap. They said price caps reduced Russia revenues. Well, the price cap was imposed on December 5, it takes for oil to be sold and the money is collected. And then you pay taxes and it becomes government revenues. It takes about three to six months at least to become revenues. And all of a sudden, according to Janet Yellen, this happened a week later, it is just a joke.

Erik: Anas, before we move into the slide deck, I want to ask you about what the heck has happened with respect to the supply of oil. And what to me, is a very unexpected and sudden abundance of oil in 2023. Now, in the end of 2022, there was a narrative a lot of people agreed with it's not just me. We had Goldman Sachs and several other very, you know, well known commentators and analysts saying, look, we got a real problem here, which is we've got massive draw downs of commercial inventory. Meanwhile, the Biden administration is drawing down the Strategic Petroleum Reserve, and who knows exactly when they're going to stop but it can't last forever. Eventually, it'll run out so this is unsustainable. If you were to stop drawing down the Strategic Petroleum Reserve, which was being drawn down at a rate of a million barrels per day, and sometimes higher. Well, that's the entire spare capacity of Saudi Arabia. So you would, you would use up all of the remaining spare capacity, if you didn't have that. And what people were predicting was at some point, they're going to stop drawing down the SPR. And we're going to have an outright crisis that's going to send prices to the moon, because there's suddenly just not going to be enough oil to meet demand. And boy, put your seatbelt on because if China starts to reopen on top of everything else, then it's going to be an absolute shit show.

Well, the crazy thing Anas, is a lot of parts of that story happened, they did stop drawing down the Strategic Petroleum Reserve. Now, it's been announced that they're going to draw some more, but they haven't started drawing that next 26 million barrels, or whatever yet, they did stop drawing it down in the middle of December, end of December sometime. And you would think okay, here's the big moment that everybody was waiting for. And what happens? We get nine weeks in a row of big inventory builds, not draw downs. And it seems to me that okay, this is a huge surprise. But wait a minute, the market actually bottomed in price in the middle of December, which suggests that maybe not everybody knew this was coming. But somebody did, because the market knew to discount that there was going to be some oil coming back into the market. Sure caught me by surprise. Is this a result of China winding down its refilling of its SPR or what's going on here that that caused this sudden string of nine, I think it is in a row, big builds on inventory and are they going to continue?

Anas: The group that you talked about the beginning of your statements, I'm glad that I wasn't in that group. And the evidence is our last episode, because we talked about this, as you recall. And in that was in the group that says that we do have plenty of oil, and the SPR, stopping the SPR release is going to have impact. And China is going to have a limited impact, etc. I was among this group. And I'm glad that I was right on this. For those and for your listeners who are interested in this, there are two things they can go back to we don't have enough time to discuss. First of all, there is a 30 minute video on the SPR they can go and check it out. And it is on my Twitter account, explaining all of this in details. And the second one is we have our own 2023 oil market outlook. And we removed the paywall, so it is available to for everyone to read, it's on our Substack. And in it basically we discussed all those points too. And our view basically was that ending the SPR releases is not going to have an impact. And China is going to have a limited impact in the first half of the year, simply because the rebound is only in transportation.

But what we've been talking about all along is that within a certain range, there is a substitution between the SPR and the commercial inventories. Because the idea was, by the way the SPR is subsidy to the oil majors. It's the taxpayer money being used to subsidize the oil majors because the oil majors if there is no SPR, then commercial storage would be way, way higher, and they have to pay it out of their own money. So what happened is we knew all along that there is this substitution, we just we did not know the range. And now we are learning about the ranges. So as the SPR was drained, all of a sudden companies felt look, I have a problem here. So the commercial inventory start going up as a substitution to minimize the risk of disruption. Because the cost to the companies is very high. And to give you an example, there is a possibility that the Biden administration cannot release any more sour crude, although we have like 200 something million barrels in the caverns, probably because of technical issues. I don't know exactly. But it seems that the administration is willing to use more light sweet, but they don't want to touch this the medium sour, why the market needs medium sour. So are there problems there? I hope there'll be investigation in the Congress where they can subpoena all those guys of the SPR. And we know that the real story about the integrity of the caverns and the quality of the crude and all that stuff. Because they are people who are talking about the drawdown of their inventories. The stories could be way bigger than that. So I am not surprised that inventories went up simply because of that substitution. I am not surprised that prices did not go up because of China, because we knew all along that the Chinese economy is very weak. And the rebound is going to be mostly in the transportation sector.

In addition, we have other issues that people did not pay attention to. As you know, everyone was predicting that the reopening is going to lead to a massive growth in demand to compensate for the last two years, this did not happen. And the reason why it did not happen simply because of high oil prices on one hand, and the high value of the dollar, because oil is priced in dollar. On the other side, the projected growth in oil demand in the oil producing countries themselves did not materialize, which was a surprise to me, because I was one of those people who were predicting higher demand in those countries and did not happen, which means that they became more conservative than ever, and the government did not spend that

much money to stimulate the economy. And all of a sudden, now we look at the numbers, and they are way lower than what we predicted. So we have lower demand all over the place, of course, lower demand because of lower growth, demand continued to grow. And it's way higher than before. It just the growth was way lower.

And the final point was most people predicted that Russia and crude whether production or exports with declined substantially. And I lost a number of followers on Twitter, because I kept saying no, it's not going to happen. And people thought I was supporting Putin because I said that. And the fact is, we already have enough evidence from sanctions around the world for 120 years that sanctions do not work. We already know how the Russians basically borrowed a page from the Iranian book. And they transferred that to 1000 books. So we knew that. So if you add all of those together, you can see where we have increasing supply, lower demand than predicted. And we ended up with the current situation that we are in. The only reason why we are in the 80s today, because OPEC led by Saudi Arabia cut production more than expected. And that's why we are in the 80s. Otherwise, we would have been in the 70s.

Erik: Now they stopped actually drawing down the SPR in mid to late December. And then we have this series of builds and commercial inventory. And I thought okay, we don't need to be tapping, you know, strategic reserves, because we're seeing a recovery now in commercial inventory. I was caught totally by surprise when even in the face of this string of builds, which it seems like okay, that's the message there is we don't need to be drawing the SPR down. Then the Biden administration after that series of builds, announces that they're going to draw down another 26 million barrels. Sounds like a great mystery. But you actually predicted that long before it was announced. What did you see there and how did you know it was coming?

Anas: Well, we know that there are congressional requirements for releasing the SPR. And in that video, that 30 minute video that I mentioned, is illustrated in details with pictures and all the things. So we knew that they have to withdraw 26 million. But the question in our mind was, can the Biden administration go back and tell them? Well, we already counted that as part of the 180? Yes, they can. But why did not do it? They can just tell them that unless there is some really legal issues they don't want to deal with. But they can go back and tell them look, where do you sold this early? The other one is, yes, the Congress basically forced the Biden administration to sell the 26 million, but the Biden administration can decide on the timing, and can decide on the crude quality and they decided that it has to be like sweet, I don't think we need like sweet. That's not what the market needs, like sweet. That means this is going to be exported, we are not going to use it within the United States. And the timing basically. Depends on how you think about it. If you think about it, that they are smart, and they are doing it just before the summer driving season. And because it's April to June, and before OPEC meeting OPEC plus meeting in June but that's sending the wrong message to OPEC anyway, so you can criticize that view anyway by saying well, now OPEC can react to it and just cut production. So we don't know why the Biden administration chose this time and chose this this crude quality, but it's not related to the Biden administration. It is related to the Congressional requirements.

Erik: Let's take a look at the first graph in the slide deck on page one, which is natural gas prices. Now I think it's important to point out that the orange, which is European Nat Gas and the green, which is a US Nat Gas, they're actually on different scales, you've kind of leveled them to show the patterns there. But European Nat Gas is always much more expensive than US Nat Gas. The big spike or peak that you see in the center of the chart on the orange was the highest demand, you know, in the wake of the invasion in Ukraine and so forth. That was in in Europe, that's where the prices really went crazy. And you see that in sympathy, they've both come off quite a bit since then. But a lot of people were predicting that what was going to happen is because it became necessary to export so much US gas to Europe, people thought those prices were would converge. Actually, the US prices would go up and European prices would come down as we arbitrage that market, it seems like they didn't is that because of transportation costs or what's going on here?

Anas: Well, the conversion is not going to happen probably for several years, simply because they are two separate markets. The LNG market is not International, per se, yet. We still need more time. And one of the reasons why because we have the long term contracts that are oil indexed, not related to Henry Hub so that's number one. Number two, is one of the main lessons that we learned through this year of conflict, that many countries that thought they are better off going to the spot market. And we have to create this futures market for LNG and this, this, this... They found out that moving from long term contracts to spot market was a big mistake, not only because of high prices, because of the security of supplies. So we have, we've seen many countries going back to Qatar and Australia and Trinidad and other places and signing those long term contracts again, although their plan was not to do so. So that's part of the fact of why they did not converge.

We have other problem, by the way, because people are wondering why prices collapsed quickly like this. And of course, there are several reasons for this. One of them is we have a decline in demand in Europe because of high prices, lower income, and governments switching to coal and people are switching to wood, etc. But at the same time, we've seen a mild winter, that contributed to lower prices. In the US, we lost two BCF a day from Freeport because of the fire. So that reduced the LNG supplies worldwide. But it pushed back two BCF to the US market. At the same time, we have a new development that very few people paid attention to. If you look at the numbers, we've seen the rig count in shale plays going up throughout the year. And if you recall, if you go back to November and October just before the election, and that's in 2020 when people realized that Trump might lose the election. What the Trump administration did is they give 1000s of leases, to oil companies, oil and gas companies. And most of them are on federal land. And it just happened that the western flank of the Permian in New Mexico is mostly federal land. So companies moved in and this area is very rich. But what we're finding out is with the increase in the rig count and the activities in the area, all of a sudden we found out that oil wells are producing massive amount of condensate, NGLs and natural gas. So shale plays basically, the oil wells produced massive amount of gas that was not accounted for. People were thinking we will get more oil and they got more gas. And especially in the fourth quarter of the year, we got a lot of guys from the western side of the Permian. So there were a lot of guys in the United States, while Freeport was still closed.

Erik: With Freeport open now, let's talk about what the internationalization of liquefied natural gas looks like. Where are we in the story and what lays ahead because it seems to me that right after the Russian invasion, President Biden said to the world okay look, we got Europe's back, don't worry about it. We're going to send you plenty of natural gas and then a whole bunch of people in the oil and gas industry raised their hand and said, Wait a minute, wait a minute. That's impossible. Freeport offline is a major, major impediment. And even if Freeport wasn't offline, we don't have anything close to enough natural gas ships because they're very specialized ships for transporting liquefied natural gas. There's nowhere close to enough of them to meet Europe supply. This talk that President Biden is making about US natural gas supplying Europe is crazy never going to happen. Well, wait a minute, it seems like it did happen. How did it happen? And you know, how could we be that far off in terms of understanding what was possible logistically? And now with Freeport reopened, how much more is possible logistically. Is this market really becoming internationalized?

Anas: No and President Biden's statement became true simply because of the mild winter and the use of coal in Europe. Without the use of coal, without the reduction in welfare and all the instructions to conserve energy in Europe. None of this would have happened, we would have seen some major crisis in Europe. And you are right, we are not going to find enough ships, basically to ship the LNG, even without the incidence of the Freeport. So really, the weather played a role here, and the policies of the Europeans. And by the way the policies of the Europeans, if you ask anyone in the energy market, whether on the left or the right, and tell them what happened, they will tell you this is crazy, there is no way this will happen. To tell them that look, Germany is going to re-enact on nuclear and they will extend the life of the of those plants. They will say no, tell them Germany is going to go back to coal. They would say no way. You would say Sweden is going to go back to oil, they will say no way. Say that those countries are going to impose restrictions, where they will limit the number of showers, and the heat, and the thermostat, and this stuff. All of this happened. So the general welfare of Europe declined substantially in a way where no one could have predicted. The return to coil, no one predicted this. So what helped them basically is the mild winter, and all those policies together. And high prices forced people to go back to wood. That was not even in the picture. So the original theme that you talked about is absolutely correct, that the issue is still there, we have the coming winter, we don't know how severe is going to be. But Europe is not out of the woods yet.

Erik: Moving on to page two, where we talk about Russian natural gas exports. Help me understand what happened with Russian gas Anas because we know the case of oil. Okay, Europe imposes a bunch of sanctions and embargoes and so forth, they just sold the oil to somebody else, because oil is really easy to move around. And there's a black market and so forth. Natural gas is much, much harder, it's harder to physically transport it, if there's no pipeline, there's not enough natural gas ships, did they end up just flaring off their natural gas or were they able to sell it to somebody else? What happened?

Anas: Okay let me just explain what that chart shows. Basically, that chart shows that there was a time when Europe was dependent on Russian gas by about 40%. And that declined in January to 7%, which is the lowest in history. And when we talk about sanctions, forget about what the Western media is saying because the Western media and Western politicians are making kind of a big deal out of we impose sanctions and we did this and we did this and we did this. But look at the facts on the ground. The facts on the ground is Putin has been trying since 2014, to diversify exports. That's why he built all those pipelines to China. That's why he has all those deals, etc. So when we talk about dependence of the EU on Russia, it really came from both sides. It's not one sided. It's not like the EU does not want to. The EU wanted the gas, it was the Russians who said no, Why? Because there are several reasons. When LNG was at \$70. The Russian gas, the long term contract basically was sold at like \$9. If Russia can successfully break that contract, they can divert that and sell the gas in the spot market at a way higher price, or convert it to LNG and make more money.

Erik: Who's buying it from Russia in the spot market if there's no pipeline anyplace else besides Europe? Where does it go?

Anas: Well, we have pipelines going to China. So they increased the shipping to China significantly. And at the same time they diverted a lot of gas to the LNG. So their LNG basically skyrocketed. And with LNG, it was Europe and everyone else who is buying. But the idea here is this came from both sides and Putin wanted really to shift the gas imports somewhere else, and the companies wanted because they make more money in the spot market. Way more money.

Erik: Anas, let's move ahead to page five, where we look at the price charts for Brent and where we are so far in 2023. I want to compare the outlook that we've discussed in our previous interviews and talk a little bit more about what you see ahead in the future. Because the view that I've had has been look, we're probably going to have a global recession that's going to depress demand and so forth. But it has seemed to me that we've had so much damage to the industry during the pandemic that was not cured afterwards, because there's been such a reduction of investment in oil and gas as a result of pressure from ESG. And now we've got these outfits like ShareAction that are lobbying bankers to stop financing any new oil and gas projects anywhere. They're, you know, sabotaging frankly, the energy markets, supposedly, in the name of energy transition, although I don't think they're achieving their own stated goals. It seemed to me like we were in a situation where the global economy can not return to its pre-pandemic growth trajectory, because there just isn't enough energy supply in order to accommodate that. And we seem to have almost run out of OPEC spare capacity. I thought in some of our past interviews, you agreed that eventually that's where we were headed. I thought it was going to happen a little sooner than it has. Right now, we're seeing if anything, prices are languishing down here. And we're not seeing a resumption, even with China's reopening of higher prices. Am I just early or do I have a misunderstanding of the overall picture?

Anas: Generally speaking, when we look at chart, figure five, there is something stunning about it. And what you see here is you see that massive increase in prices in 2022. That's the maroon line and then if you look at the bottom, that's the black one, that's the 2020. And if you look at them carefully, you see they are they are almost a mirror image of each other, which is striking. That's number one. Number two, if you look at current prices, and that's the red line, it goes almost in the middle in between the two. And if you look at the chart that we have in the 2023 outlook, where we collected all the prices from all those who matter, it goes through the middle. So the minimum, the minimum of 2021 and the height of 2022 basically determine all the price forecasts for 2023. So that's stunning in various ways. So is the market really adjusting to the volatility in this case? So if you look at the red line, it's almost between the two, the two extremes here.

Number two in our outlook, the way we see it is the first half of the year is going to be difficult no matter what. But when it comes to the second half, and especially to the fourth quarter, the theory that you mentioned about not enough spare capacity, we don't have enough oil, etc. That's where things are going to play. So we got to see we will see it in the fourth quarter, assuming there is no recession in 2023. The issue that we have here, and this is a serious issue. OPEC believes that oil demand will increase by 2 million barrels a day. If you compare the fourth quarter of 2023 to the fourth quarter of 2022. And OPEC believes that 1 million will come from OPEC, and 1 million will come from non-OPEC. The problem is the Saudis emphasized in the last three weeks, emphasized so many times and it's all over the news, whether on Bloomberg or Reuters. And there is an interview from the Saudi energy minister on this saying our plan is to keep the production cut to the end of the year. But OPEC itself in this report says they need to add 1.1 million. So that shows you either the forecasts are wrong, or the plan. This is just talking the market, they are jawboning the market. And by the fourth quarter, they have to increase production no matter what. China's impact is going to be toward the end of the year. The production or the spare capacity impact is going to show up at the end of the year and beginning of 2024. So yes, the theory is still valid. We have problem with timing, and we got to see how the timing is going to work.

Erik: So for the rest of 2023, we should expect the first half really no exciting action. If there's going to be higher oil prices that come in the second half, especially the fourth quarter. What do you see for 2024?

Anas: 2024 is the same story where it's more bullish than even 2022. The issue in 2024 becomes we don't have enough oil, all prices will increase. And the idea that oil prices will reach 200, 300, 400 like some people think, is a complete nonsense. Why? Because we are going to see demand declines and demand destruction. Demand declines are different from demand destruction. Destruction means no return, that's it is gone. Demand decline, it's mostly a decline because of income and higher prices. If income increases, then we have a recovery, if prices decline, we have a recovery. So we are going to see demand decline and demand destruction as a result of those high prices. But there is no reason at that time for prices to decline for an extended period of time. What we are seeing right now is, unlike what people think this is the reality, the reality is we are seeing more spending, E&P spending in oil and gas than what

everyone expected. And if you look at 2022, the growth in spending in 2022, is the highest in history. Let me repeat that, again. The growth and investment in E&P in oil and gas in 2022 is the highest in the history of the oil industry.

And we might get another surprise later on, which means that we can deal with the lack of investment, it seems that the industry is adjusting, but everyone is shy of talking about it because of ESG and all that climate change stuff. What we have a problem with is the investment problem can be solved if people are serious about it. But there is one issue that is going to hit us really hard. And that brings us to the issue of energy crisis that we talked about in the previous show. The problem is not the lack of investment. The main problem we are going to experience in the future is that the failure of green policies by default, is going to increase the demand for oil and gas and coal. And no one is ready for that. It's not incorporated in any Outlook. So it's really the failure of some of the green policies that's going to change the future, it's not the lack of investment.

Erik: One of the green policies that is rapidly gaining traction is this idea of phasing out fossil fuels before phasing in viable replacements. And from Leonardo DiCaprio to ShareAction to Just Stop Oil, what you're seeing is people who are frustrated that we're still addicted to fossil fuels, and they're right about that frustration, taking what I think is a completely counterproductive approach to saying we've got to get rid of oil, and they're not focusing on we need to accelerate the pace of building clean energy replacements, which they should be focusing on. They're focusing on, we're going to lobby and threaten and petition bankers, that if they continue to fund or finance any kind of oil or gas project in any way, we're going to shame them, we're going to cancel them we're going to do whatever it is that we can do. And we're going to have all kinds of activism to try to force a stop to financing of any oil and gas projects. I think this is a crazy turn of events, but it seems to be happening. What do you think the impact is going to be?

Anas: Erik, if you bring DiCaprio on your show, I can assure you, I can assure you he will not be able to answer a single question. He will not be able to answer a single question. Let me give you one of the issues that all those guys do not know about. And it's crazy when you find out they don't know about. For the United States, Europe, India, China, South Korea, and Japan so that's 80% of the world oil demand for all of those countries. If they double, triple, quadruple, or pickup any multi-fold increase in renewable energy has almost zero impact on oil demand, almost zero impact. In the United States, the percentage of oil used in power generation out of the total oil demand is less than half point percentage. So it's not even 1%. So even if the quadruple renewable energy has no impact on oil.

Now, if you want to talk about electric vehicles, yes, electric vehicles are going to use electricity instead of gasoline. Here is the problem that people are not paying attention to. Saudi Arabia is adopting a policy of oil to materials. Oil to petrochemicals. What that means is they say okay, I know my oil demand is going to decline in the future because every Western consultant is telling me about it. But I do have plenty of oil and I do not know what to do with it. So what I'm going to do is this, you will want to go for electric vehicles go for it. But I know one thing, those electric

vehicles are too heavy, because the battery is too heavy. And one way companies are working to reduce the weight of the car is to use materials that are light. And those materials come from oil and gas. End of story. So yes, you don't want to use that in the tank of the car, but you are going to use it in the other part of the car.

Erik: To what extent do you think that these efforts to lobby bankers, major banks to stop financing oil and gas projects. I mean obviously they're having some effect with that. But you also said that 2022 was the biggest spending year ever, is it a matter of private equity providing that financing. So the banks are not involved or...

Anas: Banks were involved, but not some of the some of the banks basically were shying away. But remember that high prices enabled companies to finance themselves. I think based on a recent survey, about 26% of the companies in the United States will finance their operations on their own, because they built a massive amount of cash they are going to use for their spending. So they don't need banks or private equity or anything else about I think almost 40% said they are going to rely on private equity and family offices to finance. So there is in a sense, the pie for the banks is getting smaller and smaller. But banks, we already know about a couple of banks. Basically they created subsidiaries with different names to work on oil and gas, so they won't look bad in front of the greens.

Erik: To what extent will oil prices be affected if the Leonardo DiCaprios of the world continue to not spend their time on macro voices, but instead tell all of their followers to try to shame the banks into not financing any more oil and gas projects?

Anas: You know, this is funny because we get very nasty tweets from the head of the UN calling those who invest in oil and gas crazy. I mean, I'm not exaggerating this you can see the tweets. You just said that those who invest in oil and gas are crazy. You know, we believe them if he does not fly around the world in private jets, just like the DiCaprio or others. When we complained about Greta Thunberg basically going to to help this village that the German government or the German police tried to move those people so they can develop the coal mine. We said okay, how did she arrive to Germany and we're making fun of the point that she has to use some sort of transportation to get there. And then her supporters basically said, oh she used public transportation, she used train. Yeah, it was electric train, but where did the electricity come from. So they really have no argument. And they know that when Germany went back to coal. When BP decided to change his views of the future, because they wanted to cut oil and gas production by 40%. And now they cut that and now they are talking about okay, we need to find a replacement first before we cut fossil fuel. Everyone is retreating, but they are retreating under the color of green.

Erik: Anas, we're not going to have time to get to all of the charts in the deck. But listeners, I do encourage you to peruse them. It's really some excellent content. But Anas, what I want to talk to you about before I let you go is even more excellent content. Actually, all of these charts in the deck came from your Substack and your Substack has become quite the talk of the town. recently in the oil industry. You've always been a very popular guy on Twitter, but the Substack

is really taking off and that is at anasalhajjioa.substack.com. Tell us a little bit more about what's going on there. Why did you launch this particular Substack venture? What can we expect from it and how can people sign up while it's still free? You don't have a paywall yet, but I'm sure it's coming. What's the plan there?

Anas: Well, we started the paywall recently and I just released those charts without the paywall simply because they are important. We have two types of [Substacks](#). We have one that's designed for companies and high net worth individuals, which you will look at. And we have one small one for \$420 a year for almost \$1 a day Substack that's the daily. So we have the daily and we have the weekly. The weekly is the one that's relatively expensive. I can assure you that the price of that sub stack is only 1/10 of what is equal in the market. But for the daily, the daily is very cheap is \$420 a year, almost \$1.15 a day. And in it basically we have charts of the day, we have the main news of the day. And then we have the news of the day or the main story of the day and the news of the day. So we discuss the news, we comment on all the news and on the charts. Very beneficial, people are really excited about it.

For the main one, the weekly you just mentioned, we really discussed some hard issues. So we discuss for example, historically we discussed the pricing in Dollar and Yuan and all this stuff and we debunked all the theories about what's going on with Saudi Arabia and Iraq. We talk about Algeria, we always have something about LNG and natural gas, about Europe, about Russia, all the deep issues that people talk about, all the details, all the numbers, all the charts, and the 10 charts that well 14 charts basically, that I shared with you and they are going to see that.

Erik: Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com.