# TO BRING DOWN OIL PRICES, TRUMP MUST TAKE LITTLE ACTION AND STAY PATIENT

**Energy policy was at the top of the agenda during the election campaign and in the first few weeks of the Trump presidency. Its objectives are to reaffirm America's domination of the global hydrocarbon market (the United States has been the world's leading oil producer since 2019) and to ensure low prices for US consumers. In practice, this is manifesting in a desire to increase US oil and gas production by three million barrels of oil equivalent per day, for an average crude oil production of over 13 million b/d in 2024. But is this goal realistic?**

Two key factors need to be taken into account: firstly, unlike OPEC producers, US oil companies are private and have shareholders to pay, and secondly, the producer's breakeven prices for new oilfields is fairly high (around USD 65/b). Against this backdrop, there is an obvious contradiction between encouraging private companies to invest and the risk of damaging their profitability. Therefore, government leverage is primarily regulatory, and its impact is at best medium term (developing the pipeline network and opening up access to new federal land for drilling) or economically relatively marginal (reducing the fees paid by producers to improve the breakeven point).

Another potential course of action, which depends directly on the presidency, would be to tap into the US Strategic Petroleum Reserves. Although their current level is higher than the regulatory minimum (90 days of net oil imports), these reserves are at their lowest level for some forty years. They fell sharply in 2022 in response to the rise in prices following the outbreak of war in Ukraine. Therefore, we are currently in a phase of refilling these reserves, and President Trump pledged to pursue this policy during his campaign.

More indirectly, and as recent statements have indicated, Trump could put pressure on OPEC to bring oil back onto the market. This would of course primarily affect Saudi Arabia, the producer with the largest spare capacity. In the short term, this possibility seems unlikely, unless we assume that it is part of a wider economic and geopolitical negotiation as part of the reshuffling of regional balances. From an economic point of view, Saudi Arabia has no interest in reducing prices, even to gain market share. The kingdom is facing major financial needs as part of its economic transformation plan, and the current level of oil prices makes it impossible to meet this financing requirement. In 2025, the Saudi government will only be able to balance its budget if the price of oil exceeds USD 90 per barrel.

Taking a step back, if we look at the outlook for the world oil market in 2025, we might be tempted to say that the best way for Trump to bring down the price of a barrel of oil is not to act, as the market will take care of it. In our central scenario, the price of a barrel of oil is set to decline: demand is likely to grow only moderately, still adversely affected by the Chinese slowdown, while non-OPEC+ producers will continue to increase their production, preventing OPEC+ producers from re-entering the market, as this would risk significantly lowering prices.

Excess supply on the market should be around 0.5m b/d in 2025. After rising at the start of the year as a result of US sanctions against Russian tankers and severe winter weather, the price of a barrel of Brent should fall from the current USD 77/b to USD 70/b over the course of the year, a level that seems acceptable to the US presidency.

While Trump's policy may have an impact on the price of oil, it will be felt more significantly on the international relations and geopolitical front, and with a bullish influence. The inclusion of hydrocarbon products in the increases in customs duties against Canada and Mexico (which export 4m and 0.5m b/d respectively to US refiners) should entail higher gasoline prices for US consumers. Furthermore, the application of additional sanctions on oil exports from Iran and Venezuela would push up crude oil prices on international markets. Conversely, a ceasefire in Ukraine, which would allow sanctions on Russian oil to be lifted gradually, would have a downward effect on world prices. However, with an unchanged OPEC+ policy, the impact would probably be limited, given that Russia is already producing at a level corresponding to its OPEC+ quota.

As our colleagues pointed out in an editorial on the dollar published on January 21st (Could Trump drive down the dollar?), President Trump's statements on his oil policy are full of contradictions, as the administration's objective does not match the goal of producers, while domestic policy objectives (including lowering prices for consumers) clash with a foreign policy that is a source of inflationary pressure. Therefore, it will be important to keep a close eye on the timing of US policy. Too much haste could lead to tensions on the oil market and fuel price rises. Better coordination, both between the main producers (which is unlikely), and also between the domestic and foreign objectives of US policy (which is more likely), would avoid many sources of volatility in 2025.

**Pascal Devaux**