Record US oil stock release

President Biden has confirmed that the US will release in the region of 180MMbbls of crude oil from its Strategic Petroleum Reserve (SPR) over the next six months. It appears that this will be part of a broader coordinated release from other countries. Whilst it is a significant volume, it is still a short-term fix for a medium to long term issue

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What was announced?

President Biden confirmed that the US will release 1MMbbls/d of crude oil from its SPR over the next six months, which would work out to a total of around 180MMbbls being released to the market. Comments from the president suggest that this would be a straightforward release, rather than an exchange, given that he commented, *"And we'll use the revenue from selling the oil now to restock the Strategic Petroleum Reserve when prices are lower..."*. This would be the largest stock release from the SPR ever seen and would take SPR levels to their lowest levels since the 1980s.

The US is also wanting to make this part of a broader coordinated release with other countries and believes that other countries could agree to release anywhere between 30-50MMbbls. The IEA is scheduled to meet on 1 April.

The US administration believes that releases will help to ease the tightness in the market until we see stronger growth from US producers, which he expects heading into autumn- with an additional 1MMbbls/d of oil production. In addition, President Biden is looking to put in place a *"use it or lose it"* policy, which will penalise those producers who are sitting on unused permits for production on federal lands.

Will it be enough?

There is no questioning that this is a significant release. However, as we have seen in the past, a lot of these releases offer, at best, short-term relief to the market. The underlying issues remain. Given the tightness in the market, and the self-sanctioning we are seeing with Russian oil, the market needs to see solutions which are longer term in nature. It would be naïve to think that once the war is over, European buyers will return to pre-war behaviour and increase their share of Russian oil purchases again. Comments from EU officials make it clear that the region will work towards independence from Russian fossil fuels.

The US administration has said that the SPR release will tide the market over until we see stronger US production growth (1MMbbls/d by autumn). However, if we look at the EIA's latest Short Term Energy Outlook from early March, they are forecasting that US crude oil production will grow by around 580Mbbls/d between March and September. It is only by the end of this year/ early next year when output is expected to be around 1MMbbls/d above March 2022 levels. In addition, it is important to remember that analysts would have already taken into consideration growth in US output, yet many of their supply/demand balances (including ours) still suggest a deficit environment for the remainder of this year.

Ultimately, whether the SPR release is enough will depend on how large and prolonged disruptions to Russian oil supply are due to self-sanctioning. We are assuming that Russian supply will be 2m b/d lower for the remainder of this year due to self-sanctioning. Clearly, under such a scenario the SPR release falls short. However, if we were to see an end to the war and less self-sanctioning, the SPR release has the potential to be more successful in bringing prices down.

For now, we believe that the SPR release will provide more of a cap to prices, rather than lead to significant downside in the medium term. As a result, we have left our forecasts unchanged. And this obviously assumes that we do not see an EU ban or Iranian like sanctions on Russian oil.

Potential obstacles

Releasing 1MMbbls/d of crude oil from the SPR for a sustained period of time has never happened before. Theoretically, the SPR can release 4.4MMbbls/d for a period of 90 days, after which the withdrawal rate starts to decline. The Department of Energy has stated that 1MMbbls/d of oil can be drawn down over a period of a year and a half. Although, in reality we will need to see if it can happen, given we have never seen such a larger release over a prolonged period. According to Argus, the maximum drawdown we have seen is 864Mbbls/d.

The US will also look to process any requests for waivers from the Jones Act, which requires that crude transported between US ports be done on US flagged tankers. This should help remove potential bottlenecks along the supply chain.

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