

Investments - Flash

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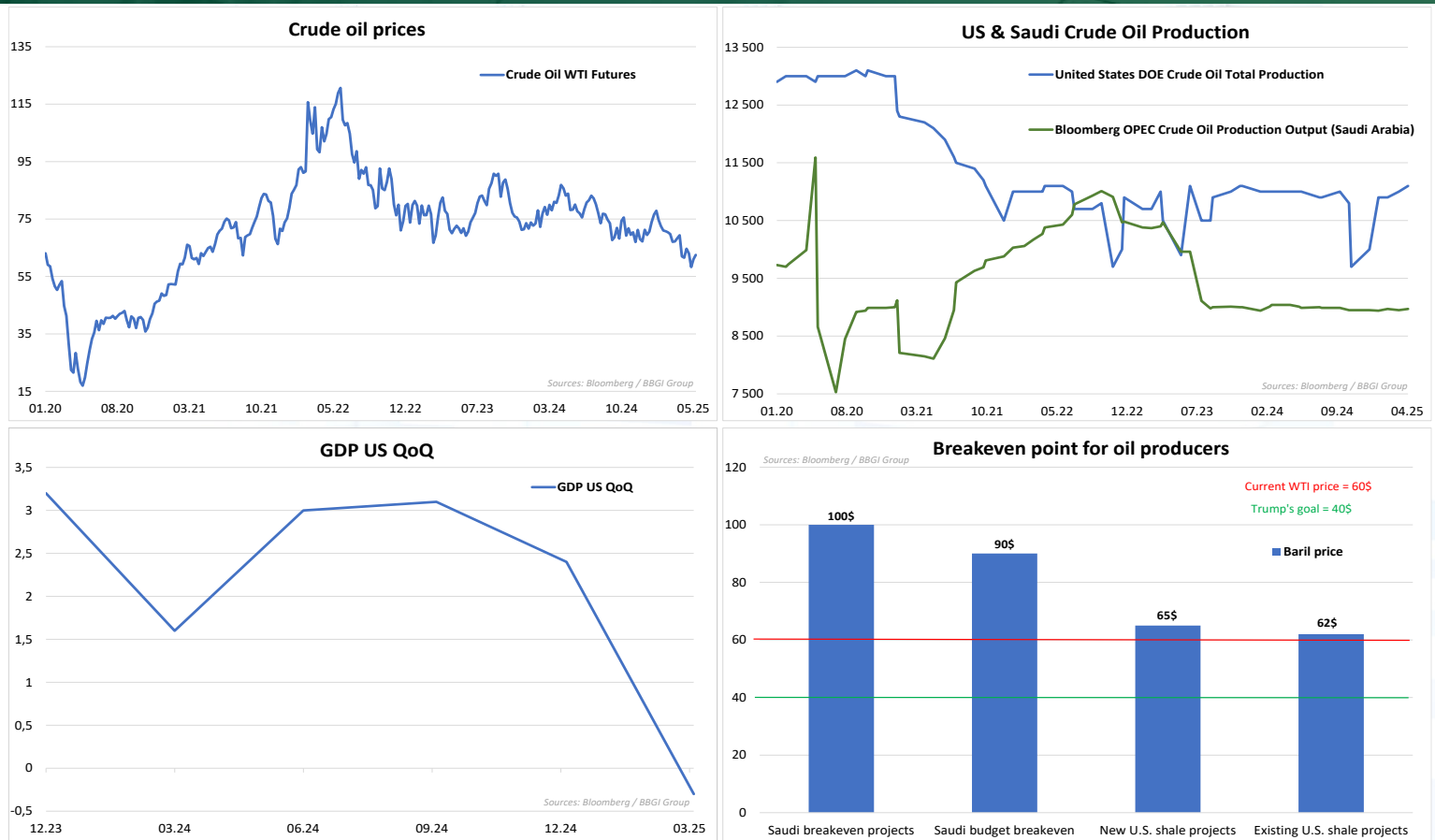


CRUDE OIL PRICE BELOW BREAK-EVEN POINT

The oil industry and Saudi Arabia need a rebound in oil prices

Since the start of the second quarter and the disclosure of Trump's aggressive policy of tariff hikes, the risks of recession have risen considerably. The publication of the first-quarter US GDP confirmed this rise in risk, and crude oil prices quickly plunged back below \$70 a barrel for WTI. After dropping to \$55, the recent rebound put the price back slightly above \$60 a barrel. This price level is not at all satisfactory for American producers, nor for other oil-producing countries such as Saudi Arabia. Despite Trump's stance, shale oil producers are not benefiting at this level. The break-even point for most of them is estimated at \$62, and \$65 for new projects. Rising production costs in 2025 should further increase these break-even points. Despite political support, U.S. producers are likely to cut production in the coming months. In Saudi Arabia, despite reduced dependence on crude oil, the price of crude remains important for balancing the budget. It is still estimated that the country will need crude oil above \$90 in 2025

to balance its budget, and this IMF estimate can be increased beyond \$100 by considering the massive infrastructure and economic diversification spending that is planned. Expected revenues for 2025 of \$327 billion could fall to \$270 billion if crude remains at \$65. A \$60 billion drop in oil revenues seems considerable and hardly acceptable, despite the country's substantial foreign currency reserves (\$454 billion) to balance its budget. A drop in Chinese demand is always a possibility, as witnessed by the apparent -5.6% decline the previous month. Trump's schizophrenic desire for a barrel at \$40, when he wants to motivate the US oil industry, makes no sense to any major player in the sector. Returning to the economic reality of market prices, we believe that crude prices have reached a threshold of constraints that will limit production and allow prices to rise again, despite a US recession that will have no major impact on demand in the rest of the world.



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