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MACROCOSM

Deregulate, Sanction and Tariff, Baby, Deregulate, Sanction and Tariff!

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Trump unleashes fossil fuel production at home, and crushes it in Iran and Venezuela.

One of our signature market calls this year, anticipating the effects of Trumponomics, was the paradoxical combination of lower crude oil prices and strong performance by energy stocks ("Oil Under Trump: War, Peace, and Mostly Deregulation" November 20, 2025). As of this writing, WTI crude is down 3.8%, while the S&P 500 energy sector is up 8.9% (even more paradoxical and wonderful, that's against the backdrop of the S&P 500 down 1.8%). Here's why.

FIRST, THE GEOPOLITICS The Middle East continues to be the potential black swan event that could push crude oil prices much higher as President Donald J. Trump attacks Houthis, Iran's proxies, who disrupt global shipping through the Red Sea. Trump has rightly turned his attention to Iran, the number one funder of terrorism in the region. Taking steps to reduce Iranian crude oil exports of about 1 million barrels per day, mostly to China, is a prerequisite to reduce funding for terrorists in the region.

Trump is ramping up sanctions enforcement on Iranian crude oil exports, by sanctioning both vessels that transport Iranian crude and customers who unload it. For example, on March 20, the Treasury Office of Foreign Asset Control (OFAB) sanctioned a tea pot refinery in China for off-loading Iranian oil and identified eight "shadow fleet" tankers that have been moving Iranian oil to China. In his first term, Trump withdrew the US from the Iranian nuclear deal and snapped back sanctions on crude oil. Iranian production fell from 3.8 million barrels per day in May 2018 to 2 million barrels per day in December 2020 (see "Iran Deal: More Fire and More Fury, Pure Trump" May 9, 2018). *During Trump's second term, we see Iranian production falling by about 1.3 million barrels per day under a maximum pressure campaign*.

At the same time, Trump issued on Monday an executive order calling for tariffs of 25% (in addition to any other tariffs) on US imports from nations buying oil from Venezuela. As with most of Trump's tariffs, these aren't exactly a done deal. Under the order, from April 2, the Secretary of State will have discretion to impose the tariffs up to the 25% level – or not.

Update to strategic view

OIL, US STOCKS: As we expected, energy stocks have strongly outperformed the broader market, even with lower crude prices. Trump's sanction enforcement against Iran and threatened tariffs on importers of Venezuelan crude pressure China, by far the largest customer of both. This will allow Saudi and UAE to ramp up production from swing capacity. Trump's deregulatory initiatives are sweeping and fundamental, including the likely elimination of the 2009 Endangerment Finding that labeled carbon a poison. Pipelines are suddenly being permitted. Leases on federal lands are thrown wide open. Alaska is a go. Bonding fees are slashed. Emissions and CAFÉ standards are loosened. This will save the oil industry as much as $10 per barrel, preserving unit margins even if prices fall. We retain our $60-$80 price target, but expect to lower it next year as producers and consumers respond to these incentives.

[Strategy dashboard]

As with the sanctions on Iranian crude, these tariffs would seem to be directed primarily at China. China imports about half of Venezuela's approximately 800,000 barrels per day of exports, receiving the crude in payment for infrastructure loans. This echoes our view that Trump's tariff threats against Canada and Mexico are not really about fentanyl interdiction, but about pressuring our neighbors to erect tariff walls against China as high as ours (see "Uncertainty Has Become a Cliché" March 17, 2025). *This expands what we see as Trump's vision of a "Fortress North America" erected against China to a broader hemispheric "Fortress Americas."*

As Iran and Venezuela lose volumes in the international market due to sanctions enforcement and tariffs, several members in *the OPEC+ cartel that collectively withheld 2.2 million barrels per day from the market since June 2023* (see "Oil Weirdly in Balance" June 14, 2024) *will seize this opening to increase crude oil production and exports*. Saudi Arabia, for example, could increase production by 1 to 2 million barrels per day without any difficulties. The United Arab Emirates has 1 million barrels per day in spare capacity today and will have another million barrels per day in incremental crude oil production by 2027.

According to the OPEC monthly oil monitor report, OPEC+ increased production by about 400,000 barrels per day in February 2025 versus January with nearly half of the increase coming from Kazakhstan. And OPEC+ is still trying to curb members who are producing above their quota. So, there is a significant amount of non-sanctioned supply to bring into the market within the cartel.

The interplay between reducing market access to sanctioned oil and increasing OPEC+ production has yet to move crude oil out of our price range of \$60-\$80 (again, see "Oil Under Trump: War, Peace, and Mostly Deregulation"). This forecast reflects our confidence in the Trump administration's ability to manage geopolitical factors and coordinate with OPEC+ efficiently.

Russian crude oil supply, according to the OPEC monthly oil monitor report, has been roughly equal to that of Saudi Arabia at about 9 million barrels per day for the first two months of the year, despite the 11th-hour sanctions by the Joseph R. Biden administration at the beginning of the year. These sanctions identified 180 vessels in Russia's "shadow fleet" – 20% of the global Aframax tankers – for closer monitoring. As the US, the European Union and the G-7 found out over the past three years, sanctions are a wasting asset and difficult to keep enforcing, especially in a country like Russia with multiple ports of export and dozens of trading partners.

NOW, THE POLITICS During the transition from less Iranian crude oil exports to more OPEC+ exports, the US oil industry should see only modest production gains of 300,000 barrels per day on an annual basis during 2025. Most producers do not want to put the cart before the horse: it took about a year for President Biden to write all of his anti-oil & gas executive orders. So we see greater scope for production gains in 2026

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than 2025 as CEOs wait for the Trump administration to reverse Biden-era anti-fossil fuel policies that effectively raised their cost of production and lowered operating margins. *Producing more later – when the cost of production is down about $10 per barrel* (more on this in a moment) – *will yield higher profits for an industry in tune with stock buybacks and rising dividend yield.*

Shortly after taking office, Trump declared a National Energy Emergency and created the National Energy Dominance Council, designed to increase US oil and gas production, reduce costs, and ultimately reduce fuel prices at the pump. Biden's anti-oil and gas policies functioned as a tax on American consumers at about $100 billion per year and a loss of 2 to 3 million barrels per day in crude oil production.

Here is a review of key Trump executive actions that reverse the anti-fossil fuel policies of the previous administration:

- *Trump reversed Biden's executive order issuing a moratorium on all oil and natural gas leasing activities in Alaska.* Two major producers will collectively produce more than a quarter million barrels per day and help save the Trans-Alaskan Pipeline (TAPS) by sending more volumes through it.
    - Santos – an Australian oil and gas company – moved aggressively to build their pipeline from the 80,000 barrels per day Pikka project to connect to TAPS, which started the day after Donald Trump won the presidency; oil will be flowing by early 2026.
    - ConocoPhillips should complete its 180,000 barrels per day Willow project by early 2029. While Biden took the credit for approving the pared-back project in 2023, it was Trump's Department of the Interior that approved the Environmental Impact Assessment in 2020. What Biden actually did was delay it and reduce its scope.
- It's not only Alaska that has received approval from Trump to drill baby, drill. *All federal on-shore lands and off-shore waters are now open for development.* Currently, federal lands and offshore leases produce about 20% of total US crude oil production. Looking at it in a holistic way, when the government leases more federal lands it has a positive tangential impact on private lands abutting them. Longer laterals can expand their footprints, thereby increasing the size of drainage, raising volumes produced and lowering costs. Just as important, *the Trump administration is reducing fees to develop new acreage and the regulatory burden associated with it*.
    - We expect the Trump administration to lower rental rates on oil and gas leases. Prior to the Biden administration, acreage rental rates were $1.50 per acre per year for the first 5 years and then $2 per acre for the next five years. Under Biden's Inflation Reduction Act (IRA), the Bureau of Land Management (BLM) doubled rates to $3 per acre per

year for the first two years, $5 for the next 6 years and then $15 thereafter. Moreover, we think Trump will abolish the $5 per acre nomination fee imposed by the IRA in 2022.

  - Under Biden, royalty rates on production from new leases were raised to 18.75% from 12.5%. We think the Trump administration will lower that rate back to 12.5%, which is what most states and private landowners pay as a royalty rate. At least one analyst thinks federal royalty rates on oil & gas could be zero.
  - Federal lease bonding requirements – which the Biden administration raised dramatically to $150,000 in 2023 – fall back to $10,000 under President Trump. We also expect President Trump to eliminate Biden's overreach into state laws by mandating a $500,000 lease bond at state level. Trump will allow each individual state to set its own bonding requirements as they did in the past.
  - On February 27 the Republican-controlled Congress shot down the IRA's methane emission fee on oil and gas companies that release at "high-levels." Biden did not have the votes to pass this part of the legislation after the Environmental Protection Agency took more than two years to write the rule. The fee would have charged $900 per ton this year and $1,500 in 2026.
  - The Environmental Protection Agency has issued 18 deregulatory actions.
  - *The agency will revise the draconian CAFE requirements that effectively mandated domestic electric vehicle production*. Manufacturers will be able to provide vehicles and powertrains that they actually know how to make profitably and that the American public actually wants. More internal combustion engine vehicle sales will be consuming more volumes of gasoline and diesel, which will increase demand for crude oil.
  - *Most fundamental, the EPA will "reconsider" – which means, will eliminate – the 2009 "Endangerment Finding" that effectively declared carbon dioxide to be a poison like mercury or arsenic, granting the agency sweeping police powers to regulate it.* This has been the legal platform that has supported fifteen years of regulatory overreach. The first Trump administration lacked the knowledge or the will to deal with it. The second is dealing with it.
  - The agency will also "reconsider" – which means, will eliminate – the regulation of power plants under the Clean Power Plan 2.0.
- We think the impact of reversing the Biden-era anti-oil and gas legislation and regulations is about $10 per barrel of crude. If we were to take President Trump at his word when he promised gasoline prices at $1.87 per gallon by the end of his second term,

> then West Texas Intermediate crude oil prices would need to be about $50 per barrel. At $69 now, that seems like a reach – but directionally almost certain. Remember, we're the ones who wrote a [*2015 Wall Street Journal* article] calling for a long-term equilibrium price in the $40 per barrel range – and adjusted for CPI inflation over the intervening 10 years, that's now (wait for it) $50.

Transport is another key cost determinant for the price of crude oil, gasoline, and diesel. With the Energy Dominance Council and National Energy Emergency powers exercised by Trump, ***new and expanded pipelines should facilitate higher crude oil production going forward***. With major natural gas pipelines such as the 2.5 billion cubic feet per day Matterhorn Express coming on-line to take Permian crude-associated gas volumes to the LNG market on the Gulf Coast, West Texas operators can drill more oil wells going forward because they will not have to flare associated natural gas at the well-head. For crude oil pipelines, Enbridge's Gray Oak pipeline will add an additional 120,000 barrels per day to its capacity at the end of 2025. And we wrote about several oil export terminals in Texas that are currently under construction to increase US crude oil exports (see "Oil Under Trump: War, Peace, and Mostly Deregulation" November 20, 2025).

Trump also mentioned the 830,000 barrels per day Keystone XL pipeline in February. It has been the flashpoint for the North American oil and gas transport industry – and its environmentalist opponents – for a decade. A project that should have been completed in President Barack H. Obama's first-term (but was nixed in 2015) was resurrected in 2017 by Trump on his first day in office with no results to speak of. In 2020, the US reversed course again as Biden revoked a key permit to the Keystone XL pipeline in his first day in office. A year-and-a-half later, TC Energy (formerly TransCanada Corporation) confirmed that it scuttled the project. President Trump has pledged to jump-start the pipeline.

TransCanada Energy (and the government of Alberta) opened the 890,000 barrels per day TransMountain Pipeline (TMP – a capacity expansion of 590,000 barrels per day) in June 2024, lessening the need for Keystone XL to export Canadian heavy crude oil. Since its opening, the pipeline has had success in diversifying its heavy crude customer base to China, Hong Kong and Singapore. Prior to the opening of TMP, 99% of heavy crude exports went to the US, but that has since fallen to the low 90's.

Mark Maki, the CEO of TMP, announced the pipeline's three primary goals were met – increase overall Canadian crude oil production by 200,000 barrels per day, lowering the differential price between its Western Canada Select benchmark and WTO by $10 per barrel, and diversify its export base. Volumes diverted to Asia have been only 8% of Canadian heavy crude exports, and even if Canada stopped exporting it to California through the added volumes on TMP, the impact on total heavy crude exports would only amount to 16% of its current output of 3.95 million barrels per day. ***So there is little that Canada can do to diversify exports*** *away from the US market – even if Trump fully follows through on his threat of tariffs*.

AND, OUR OUTLOOK Our global crude oil supply outlook sees additional growth coming from:

- The United States adding 300,000 barrels per day in incremental production this year.
- Canada pitching in another 200,000 barrels per day with the TMP fully on-line.
- Guyana should continue to slowly ramp up production by 200,000 barrels per day, according to the EIA.
- Since last year, Brazilian authorities have stopped several drill ships from extracting oil from the off-shore pre-salt basin and production growth could be flat or up by no more than 100,000 barrels per day.
- Argentina's Vaca Muerte shale is finally ramping up production and exports. The country completed a 160,000 barrels per day pipeline to Chile late last year and is planning to create 180,000 barrels per day pipeline and export terminal on the Atlantic. Crude oil production is reaching an all-time high of 800,000 barrels per day – which should add an additional 100,000 barrels per day to incremental production.
- Norway might peak at 2.1 million barrels per day in 2025, according to the EIA. Incremental production could be about 100,000 barrels per day.

2025 crude oil demand projections see the US and OPEC eye to eye with Europe being the laggard:

- The International Energy Agency sees incremental crude oil demand growth of about 1 million barrels per day, but this is tainted by politically-driven unjustified assumptions about compliance with the Paris Accord's demands for carbon reduction (see "Video: TrendMacro conversation with Mark P. Mills on energy in the age of Trump and DeepSeek" February 12, 2025).
- OPEC and the Energy Information Agency expect 1.4 million barrels per day of liquids demand growth. We have the same forecast.

OPEC+ could more than offset the loss of 1.3 million Iranian barrels per day to the international market for this year and half of next year, with 2026 setting up to be a more volatile pricing environment with downside risk as Trump administration policies start to bear fruit. Non-OPEC+ production can satisfy most of the incremental demand projections of 1.4 million barrels per day with the Americas and Norway covering at least 1 million in 2025. Yet OPEC+ members still have about 900,000 barrels per day of production that it would like to work back into the market in 2026 – this is when we expect that crude oil prices will start to fall.

- For now, we are sticking with our already-lowered predicted range of $60 to $80.

Bottom line

As we expected, energy stocks have strongly outperformed the broader market, even with lower crude prices. Trump's sanction enforcement against Iran and threatened tariffs on importers of Venezuelan crude pressure China, by far the largest customer of both. This will allow Saudi and UAE to ramp up production from swing capacity. Trump's deregulatory initiatives are sweeping and fundamental, including the likely elimination of the 2009 Endangerment Finding that labeled carbon a poison. Pipelines are suddenly being permitted. Leases on federal lands are thrown wide open. Alaska is a go. Bonding fees are slashed. Emissions and CAFÉ standards are loosened. This will save the oil industry as much as $10 per barrel, preserving unit margins even if prices fall. We retain our $60-$80 price target, but expect to lower it next year as producers and consumers respond to these incentives.