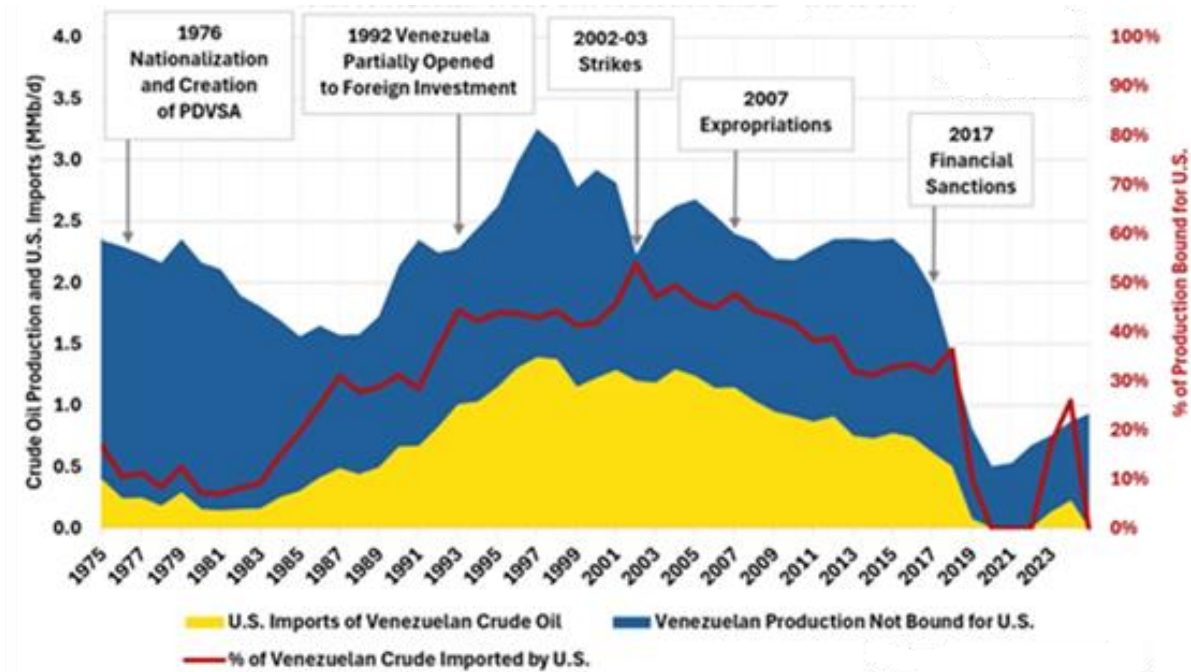


Venezuela Oil Potential Knock-Ons...This Remains Fluid

As illustrated below, Venezuelan oil production peaked in the late 1990s, which required significant capital investment from U.S. and global energy companies. Exports to the U.S. peaked ~5 years later. Today, the majority of Venezuelan exports flow to China (~75%) and Cuba, with a minimal amount reaching the U.S. market.

Total Venezuelan Crude Oil Production and Exports to the U.S.

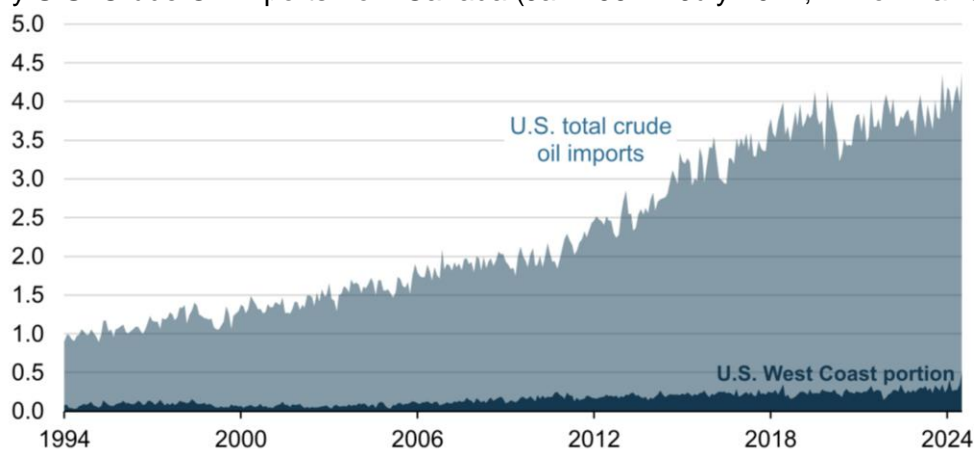


Source: Bloomberg, U.S. Energy Information Administration.

What is not widely discussed, until recently, is the grade of Venezuelan production. It is “heavy” in nature, and has high sulphur and metals content. This is a key consideration as processing of this unique crude oil feed stock is limited to certain ‘specialized’ refineries globally.

Given the historically unreliable nature of Venezuelan oil flows (think nationalization in ‘70s and expropriations in 2007), U.S. refineries turned to a reliable, growing, and friendly source of supply with deep reserves in Canada. As illustrated on the following page, Canada has become the dominant supplier of heavy oil into the U.S. over the years. Given a variety of factors, these Canadian barrels are difficult to impossible to replace in a cost-effective way in the short- to medium-term (5-10 years). Factors include lack of comparable crude slates for U.S. refineries, logistical issues, cost competitiveness, depth of supply, capital investment into refineries...the list goes on.

Monthly U.S. Crude Oil Imports from Canada (Jan 1994 – July 2024; Million Barrels/Day)



Source: U.S. Energy Information Administration. Crude Oil Imports from Canada Reached a Record After Pipeline Expansion. October 30, 2024.

The uncertainty surrounding Venezuela will continue to impact the global oil markets along with the outlook and valuation of Canadian producers. These headline impacts may cause temporary delays in investment decisions from various companies, and given sub- \$60 WTI prices, this is not the investment climate in which global energy companies choose to make multiyear commitments, especially in politically sensitive and unstable regions. Ask yourself this question, if you are at the helm of Exxon, Chevron or ConocoPhillips, and are accountable to shareholders, do you deviate from the plan that took you 5-10 years to put together for a new venture into Venezuela? Likely not.

Large scale capital investment will be required in Venezuela over the next 5-10+ years in order to grow production significantly. There is a mismatch between the investment horizon (decades) vs political term (next U.S. presidential election in 2028). Also consider what will the agenda of the next U.S. President be? Lastly, who has this capital in today's environment? Authoritarian countries: China, Russia and parts of the Middle East.

Other considerations are geopolitical and include the impact on China (major importer of Venezuelan crude and investor in their energy complex), Russian and Iranian condensate supply into Venezuela to 'blend or dilute' the heavy oil, and Cuba as an importer of Venezuelan crude (critical for electricity); the knock-on effects are continuous. Venezuela is likely the first domino.

Many questions remain unanswerable today; however, what we do know is that Trump wants lower energy prices and inflation – but at what ultimate cost?

Aleksy Wojcik
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