Mark Vanry on the rising oil and gas market and Wedgemount’s production enhancement plans for their Central Texas assets

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In a recent InvestorNews interview, host Brandon Colwell engaged Wedgemount Resources Corp.’s (CSE: WDGY | OTCQB: WDGRF) President, CEO, and Director Mark Vanry, in a discussion on their Central Texas oil and gas assets and the ambitious production enhancement program they have set in motion.

Unpacking OPEC’s Latest Oil Production Cut: Is China Pulling the Strings?

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In a surprise move, OPEC+ decided on the weekend to cut its oil output by around 1.16 million barrels per day. On the surface, this seems like a very bullish move for oil prices, and indeed it was as WTI spiked from just over US$75/bbl to just over US$80/bbl on the news. But is this cut as bullish as it appears? On the surface, I would argue that “no, it isn’t”, as a lot of the cuts primarily involved realigning the quotas with the recent actual production. And it is only 8 members of OPEC+ that are making production 'cuts'. Nevertheless, I think the impact on oil prices could become like the forecast for interest rates – higher for longer, in light of what some of these actions signal to the global political structure.

China's recent diplomacy

Without trying to become too much of a conspiracy theorist, let's look at the timeline of recent events. In late March, China's President Xi Jinping traveled to Moscow to visit President Vladimir Putin. The "good friends" announced they had agreed to cooperate on a range of economic and business areas, but what stands out most to me was the comment on increasing the use of "local" currency. China has been pushing for the internationalization of its currency for years now (to usurp the US Dollar) and during this visit, Russia agreed to support using the Chinese yuan in transactions between itself and its partners in Asia, Africa, and Latin America. And who's buying most of Russia's oil these days, which also accounts for the largest component of Russian GDP? According to Bloomberg News, it is China.

Next, we see the announcement that China has brokered a peace deal between long-time rivals Saudi Arabia and Iran. Obviously, it would have been almost impossible for the United States to pull this deal off given its current relationship (or lack thereof) with Iran, but it came as a surprise to many that China was successful in seemingly a short period of time. Where am I going with this? Arguably the only true cut in OPEC oil production in this latest round is going to come from the 0.5 million barrels per day that the Saudis volunteered.

Inflation, interest rates, and the banking crisis

Who stands to see the most pain from tightening the oil supply, which in turn leads to higher oil prices? Mostly, the developed Western nations who are already fighting with inflation and trying to combat that issue with higher interest rates which seem to be pushing a lot of the G7 countries towards a recession. The U.S. is front and center in this battle and has called the OPEC+ production cuts "inadvisable".

If you really want to go down the rabbit hole with me on this, I'll pose one more tidbit before I swing back to less nefarious reasons to be bullish oil. There's one more case to be made for China trying to control the global puppet strings to disrupt the West and its beloved Democracy. As the financial crisis was percolating and Credit Suisse was getting caught up in the panic (although arguably CS was a sinking ship for a long time and this was simply the straw that broke the camel's back), its largest investor, the Saudi National Bank, said it could not provide the Swiss bank with any further financial assistance. Coincidence? Perhaps, but part of me thinks China is playing a long game here and is selectively calling in favors that cause the most disruption to the West and its hallmark institutions like the banking system.

Oil production cuts or production reality

Whether one believes there is more to the latest OPEC cuts than simply price management or not, there is certainly reason to pay attention to what is happening globally to oil supply and where that might lead. The reality is, as the world spurns fossil fuels and champions renewable energy, it should come as no surprise that OPEC crude oil production has lagged output targets for quite some time because of dwindling capacity, underinvestment, and Western sanctions to certain OPEC+ members.

And this isn't just true for OPEC, but virtually all crude oil production globally has not seen the investment required to grow production. On top of that, not only are we not at peak oil demand but we might not even be close yet as growing nations like China and developing nations like India see oil consumption that is growing at a faster rate than renewable energy is reducing overall demand. In fact, OPEC is projecting year-on-year growth of 2.3 million barrels-per-day ("bpd") in 2023 to over 103 million bpd by Q4/2023.

Table 4 - 2: World oil demand in 2023*, mb/d

World oil demand	2022	1Q23	2Q23	3Q23	4Q23	2023	Change 2023/22 Growth	%
Americas	25.03	24.86	25.17	25.63	25.18	25.21	0.18	0.73
of which US	*20.46*	*20.41*	*20.46*	*20.85*	*20.49*	*20.55*	*0.09*	*0.46*
Europe	13.52	13.12	13.41	14.11	13.42	13.52	0.00	0.02
Asia Pacific	7.46	7.89	7.05	7.27	7.79	7.50	0.04	0.55
Total OECD	**46.00**	**45.88**	**45.63**	**47.01**	**46.39**	**46.23**	**0.23**	**0.49**
China	14.85	15.23	15.40	15.43	16.16	15.56	0.71	4.75
India	5.14	5.41	5.44	5.21	5.50	5.39	0.25	4.96
Other Asia	9.02	9.46	9.65	9.14	9.24	9.37	0.35	3.83
Latin America	6.43	6.44	6.49	6.71	6.65	6.58	0.15	2.29
Middle East	8.28	8.45	8.46	8.84	8.71	8.61	0.33	4.02
Africa	4.40	4.71	4.34	4.43	4.88	4.59	0.19	4.32
Russia	3.55	3.68	3.45	3.59	3.82	3.64	0.09	2.50
Other Eurasia	1.15	1.21	1.16	1.02	1.22	1.15	0.01	0.51
Other Europe	0.77	0.80	0.76	0.75	0.83	0.79	0.02	2.32
Total Non-OECD	**53.58**	**55.40**	**55.14**	**55.13**	**57.00**	**55.67**	**2.09**	**3.90**
Total World	**99.58**	**101.28**	**100.77**	**102.14**	**103.39**	**101.90**	**2.32**	**2.33**
Previous Estimate	99.55	101.26	100.70	101.99	103.51	101.87	2.32	2.33
Revision	0.03	0.02	0.07	0.15	-0.12	0.03	0.00	0.00

*Note: * 2023 = Forecast. Totals may not add up due to independent rounding. Source: OPEC.*

Source: OPEC Monthly Oil Market Report [March 2023](#)

Final thoughts

I'll be the first to admit, that I may be reading far too much into what I think is Chinese hegemony. That's fine, but don't lose sight of what's really happening to macro oil supply and demand. Demand continues to creep higher and I wouldn't be surprised to see OPEC reversing its latest cuts before the end of 2023 or possibly even earlier if the U.S. doesn’t slip into a recession. It’s a delicate balancing act between higher prices that kill demand and prices that drop too low and spark demand. The pendulum often swings too far when it comes to the price of oil, but ultimately if there isn’t enough capital being deployed to keep production in line then prices can start moving very quickly.