VERITEN

Episode Transcription
(moderately edited for readability)

Hi, it's Arjun. We are back from a week off celebrating America's 250th birthday, and ahead of some upcoming travel we have over the remainder of July, both for work and personal reasons. We want to do a series of videos over the next few weeks on our key takeaways, at least at this juncture, of the Strait of Hormuz crisis. As always, our focus is on longer term themes and perspectives and implications. We are absolutely not trying to do a play by play of current events.

Of course, even as we're recording this, we are seeing renewed hostilities and new military strikes between the US and Iran. We are recording this Wednesday, July 8th in the morning. President Trump has stated that the 14 point MOU is over, and we're seeing oil prices rally in response. Going forward, we expect lots of twists and turns. We've said repeatedly this concept of the Strait being, quote, open or closed is nebulous. It's going to be both open and closed regularly. A 47-year history should not make us think that peace between the US and Iran is going to be a quick or easy, as we're seeing. There's going to be lots of turmoil, lots of twists and turns along the way. It is all part of our Geopolitical Super Vol mega theme that we continue to think is the right perspective here.

With all that said, there are absolutely some longer term takeaways and conclusions that are starting to emerge from this crisis, and that is the point of these videos. We're going to start this week by reflecting on what we consider our top surprises, as well as some non surprises that are counters to that. The top surprises fall into three buckets: (1) crude oil markets, (2) refining markets, and (3) the health of the broader economy and stock market.

#1 Surprise: Impact of China's import reductions on crude oil

Our number one surprise through this crisis as it relates to oil markets absolutely has to be China's dramatic reduction in its oil imports by anywhere from 4-6 million barrels a day. When you think about what was a 15 million barrels a day crude oil hit from the Strait initially being closed, 5 million barrels a day is accounted for by Saudi redirecting exports to their east to west pipeline—both not a surprise and also sustainable. We don't think it was surprising that the US looked to aggressively take inventories from its SPR and commercial stocks, as well as SPRs from some other countries as well, but that is temporary. There's only so much more that we can do of that, but it's not surprising.

What has been surprising, and what we have been most surprised by, is China reducing its oil imports by 4-6 million barrels a day. We knew that they had built up their SPRs meaningfully in recent years, but their willingness to so quickly and aggressively utilize those stockpiles, we think it's taken most people by surprise. It is ultimately not sustainable either. They for sure are going to get back to, in our opinion, for sure get back to someday importing plus or minus that 12 million barrels a day. But of course, there's likely a longer shelf life to their ability to continue to keep their imports lower.

We think the fact that Saudi Arabia, the United States, and China together, either coincidentally or collectively, have been the stabilizing forces—that is a noteworthy development in oil markets. What OPEC's, i.e. Saudi's, doing has always gone into expectations. We think the US shale oil supply response, of course, has been a big feature of markets. But the idea that these three countries have been really the most important drivers of oil market stability, relative to the extremes—relative to $150-$200 on the one end, or the fear of an oil glut and being sub-$50. China has been the biggest surprise as the moderating force. It was last year where there was some oversupply and

China soaked it up with the rest period. It kept oil from being even lower. And we think it's a big reason why we didn't stay at over $100 very long, and we never got to the $150-$200 a barrel.

Non-surprise #1: The return of "oil glut" calls from the IEA and leading banks
Now, as part of this, as recently as a week ago and certainly two weeks ago, are we not surprised that the IEA and some leading banks were again calling for a massive oil glut? We're not surprised, even as we fully disagree with the oil glut view.

We disagreed going into 2026 that there was going to be an oversupply of 2-4 million barrels a day as bad or worse than COVID. We disagreed with that. Now the talk is 3-6 million barrels a day of oversupply in 2027. Absolute nonsense. We do not agree with it. We do not think that is likely.

In the same way, we push back on the perma bulls arguing for $150-$200 a barrel of oil, which you can get to temporarily, but it's not going to last. You'd end up with a deep recession, so what's the relevance of highlighting it beyond a short term risk? It's not a bullish thing. The same thing is true of these oil gluttons—we're going to push back on it. But we're not surprised it is being promoted.

There's a real tendency in the oil market to want to extrapolate the extreme. So on the one hand we believe in volatility—it's been our core theme. But we have to observe and take lessons from what's actually happened. China has been a moderating force here. They are the surprising moderating force. And I suspect if we did have oversupply again, you'd be seeing them soak up the barrels.

Now, in the very short run, oil had pulled back from whatever it was, $90-$100 a barrel towards $70. And at least in the very short term, the Strait of Hormuz had been opening, the oil that was trapped was getting out. And as of last Tuesday, China hadn't gotten back to 12 million barrels a day. So we get and appreciate the sell-off that had happened. That's just the noise in the market.

George Costanza advice applied to commodity markets: "Today, I shall do the opposite"
At Veriten, we're not trying to give trading or investment advice—it's not our goal. But there is—I'm going to say it's the George Costanza lesson here "Today I shall do the opposite." And maybe some of these oil market observers ought to think about that.

If you look at long dated 60-months forward crude oil, it has been in a generally stable band, $65-$70 a barrel. And our view is it's likely to remain there for the foreseeable future. All the work has happened at the front end, a steep backwardation of month one to month 60 that had been as high as $25-$30 a barrel. That is not a time to be more bullish. That's a sign of stress. By the same token, the opposite is also true. We don't think structural contango is here to stay in this kind of Geopolitical Super Vol market. We're going to continue to have disruptions, and the underlying trend in oil demand is otherwise one of growth—never mind the need for SPR replenishment and so forth.

We're not giving trading advice, we're trying to give psychological advice here. Let's not get too bullish during the periods of peak steep backwardation. Let's not get too bearish during the periods of slight contango. That is not the nature of the market we're in.

From a corporate perspective, which is what we try and do at Veriten, what is the long term advice here? At a normal trough you should earn a decent return. You should never lose money at a deep trough. And then when we have all these ups and downs in oil, when we add them all up, can you do a mid-teens cash-on-cash return or better and have competitive per share growth? It is not about trying to guess oil prices. It is not about trying to say where did this all settle out. It's going to be volatile. Don't get too excited at super steep backwardations. Don't be ready to jump out the window at the modest contangos that you have. Take advice from George Costanza: today I shall do the opposite.

Non-surprise #2: It's not a smooth path for peace in an Age of Drones
The final point, and again, we don't know if this should be a surprise or not, is that in an Age of Drones, the idea that we were just going to have smooth conditions in the Strait of Hormuz, especially given the long history of the US and Iran, we're not surprised at the sell off we had been having. But we think markets do need to recognize, that in an Age of Drones, ongoing turmoil, ongoing ups and downs is more likely than stable peace, or for that matter, stable war. The Age of Drones implies a lack of stability, in these extremes.

#2 Surprise: Refining most disrupted from geopolitical turmoil

Our second major surprise is around refining markets, and the fact that they have actually been more structurally disrupted from the Age of Drones than crude oil. We've been conditioned, probably many people have, that geopolitical turmoil is bullish for crude oil, meaning you have crude oil supply disruption risk. And in fact, that has not really been the case so far in this crisis. It was a fear in the early days: could there be a broader regional war? Would oil infrastructure get damaged? We think we got to the point, especially after that April 7th cease fire, where certainly in the case of Saudi and UAE and most likely Kuwait, that their oil fields weren't going to be damaged, and that whenever the Strait resumed to some of the amount of shipping, they'd be able to get their oil out, maybe even with flush production. We think Iraq's been a slightly bigger wild card on that. But even in the case of Iraq, there's been a base case expectation that it might take a little more time, but the volumes would eventually be there. So the idea of a sustained and, let's just call it more permanent, disruption, we think that part is coming out of oil markets.

On the other hand, it's coming into refining markets. It's most evident in Russia-Ukraine. We have been surprised that Ukraine, through the use of drones, has been able to hit Russian refineries not just a few miles away, but in some cases, we think, thousands of miles away, to become really skilled at this thing. We think it's going to be an ongoing feature of markets in general, but it's been a bigger disrupter to the refining business.

The refining business, you also have to remember, is a business that probably most suffered under those peak oil demand, energy transition, climate crisis narratives, where people thought if not by 2025, then maybe by 2030, or at least by 2035, oil demand was going to peak and then roll over. And that has been a real crimp on adding new refineries, especially in the rest of the world, which is where we've generally had them. There are some ongoing projects, always.

Our view has been obliterating peak oil demand. We continue to believe in that, that oil demand will structurally grow in the years ahead as we meet the massive unmet energy needs of the other 7 billion people on Earth. And it is refining, that market, that has been kind of the more—the margin has been more positively impacted from this ongoing disruption—really our number two surprise.

Why not highlight LNG as well?
In the case of LNG, a couple of thoughts here. There's no doubt that Ras Laffan is very material to LNG exports, something like 17% of the LNG export market, and that is a concentrated risk from a geopolitical standpoint. And we saw that in the early days of the war, where a couple of trains were hit; they're going to be out for an extended period of time. We've also said Ras Laffan Industrial City is our favorite industrial city in the world. But it is a concentrated geopolitical risk, a possible vector for attack.

In the case of LNG markets, number one, unlike refining, there is a recognition that those markets are going to grow, and there's lots of CAPEX going on in lots of different places. So we're getting a huge build out in the US Gulf Coast. Canada looks like even they might expand. Other countries, in all parts of the world, there's a real diversification of supply growth there.

So while it would be very material if Qatar was to be shut down again, we think there's also kind of the assumption that the country of Qatar recognizes they're very dependent on the Strait, and they're going to figure out the ways in which they can ensure their LNG gets out. So in that sense, a lower likelihood of ongoing risk. And then you also have other supply sources. It's not that you don't have other supply sources in refining, it's a global business. But again, there's been an inherent pessimism to that business that, it seems to me, is the sort of most impacted in terms of, if you want to call it, a risk premium or what have you, a disruption premium—refining, we're going to say, over LNG, and certainly over, in terms of being the surprise, which is the point of this video.

#3 Surprise: Resiliency of AI trade and S&P 500

The third big surprise area has been the health and resilience of the broader stock market, the broader economy, and the overall AI trade. You look at a stock price chart of the S&P 500, you'd never know that a major war in a major region had happened. On the one hand, this bodes well for our Power Surge! power super-cycle theme, and we've touched upon that in other videos. We think the real turning point here was the April 7th cease fire, because that also coincided with Q1 earnings and very good performance from the tech and AI trade. Generally speaking, we're not commenting on whether there are bubbles or not bubbles in AI oriented companies. That's not the point. What we're talking about is just the health of the broader stock market, the health of our Power Surge trade. And there's been a resiliency to that. There's been a lack of impact from this crisis on that.

Are we not surprised that the US economy has fared better than it did, say, in the 1970s?

That has not surprised us as much. We should all be extremely grateful that we had the shale oil revolution, and prior to that the shale gas revolution, and the result of shale gas, the LNG export boom, and through it all, a really healthy and resilient refining sector that ensures we have enough refined products for our country and that we're also able to export to other countries. All four areas critically important.

When we started publishing *Super-Spiked*, we stressed the importance of having a healthy, profitable, and resilient domestic oil and gas industry, and that stood in contrast to the narratives at the time, which were some version of keep it in the ground, get rid of this industry, including in our own country. Now you can say that it was extreme activist, that believe in that, but there was a lot of silence from people closer to the middle, maybe the middle left or otherwise, who did not vocally stand up against those extremist views. And that is almost as wrong.

Our point would simply be, we need to remember this going forward. This crisis will someday truly fade, may not be this year or next year, and we need to remember, whether it's 2028 or 2032 or in some future election cycle, to push back on those that believe in keep it in the ground and want to do away with the most important industry in the US economy, the energy industry. Without energy, you actually don't have anything else. We need a healthy, resilient upstream, downstream, LNG, all these different areas, and it should be supported by everyone, everywhere.

⚡On A Personal Note – World Cup Surprises and Non-Surprises

So we'll end this video on a personal note, and we're going to stick with the theme of top surprises and non-surprises, and apply it to the World Cup.

Our number one surprise: low scoring does not mean boring.
I think all the games I've watched have been absolutely riveting. But the fact that it's zero-zero, or, excuse me, nil-nil, in the 80th minute, and then you have some exciting finishes, I've actually been as riveted by those games as the occasional one that has a few more goals attached to it.

Maybe this shouldn't be surprising, in two of my favorite sports, baseball and basketball. I like defense, I love the pitcher's duel. One nothing. Two one. One of my favorite games of all time was a game, I think it was game five, 1996 Braves-Yankees, Andy Pettitte won one nothing. That was the Girardi triple game, where he drove in the one run. And I remember a reporter asking Andy Pettitte, the starting pitcher, do you wish you'd had more run support? He's like, no, I got my one run, my job is to make that one run holds up. That is absolutely the right perspective. Him, Mariano Rivera, the Yankees, of course, won that World Series in 1996. Pitching duels are something I enjoy.

In basketball, it's always been frustrating when the Knicks don't play defense, and we will always prioritize strong defense over the fool's gold of outscoring through the three point shot. The three point line needs adjustment in basketball, by the way. But defense always—what I appreciated about those 1990s Knicks teams was the strong defense, and I think that helped spur the Knicks to this most recent championship that they've had. So I shouldn't have been surprised that when it comes to World Cup soccer, that I enjoyed the nature of these games, which are inherently lower scoring.

Number two surprise: the Fox studio show is simply awful.
You might say, why are you surprised about that? You never like the studio shows when it comes to the NBA or MLB for these national games. Basketball and baseball are sports where there are so many games, 82 in the NBA, 162 in baseball, you get very used to your local announcers. The studio shows are always just, who are they for? Definitely not for the die-hard fans. This World Cup is proof they're not for the non-die-heard fans either. I'm not some die-hard soccer fan, and even I think they could massively improve the quality of both the pregame show and the post-game shows.

The post-game analysis is almost non-existent, including in these games where there's some controversy, like Argentina-Egypt. Fox did a really bad job after that. When are they going to talk about the goal that was taken away from Egypt, and some of the favoritism towards Argentina or so forth? I did know that Telemundo is a much better way to watch these games; that I knew from four years ago. But how bad these studio shows are, maybe I shouldn't be so surprised.

And our number three surprise is to see how much fun European tourists are having in America.
It is great to see the videos, the reporting, whether it's in papers or Twitter or on TV, of really fans, especially the European fans, coming here and being surprised at how much they're enjoying the United States. But as much as it is great to see that, it's also in the opposite direction: how much local communities in all these cities have embraced these European tourists. And I think it is probably the reminder that you have to see things firsthand. You can't rely on perception, whether it's media accounts or social media accounts, whatever the case may be, of a city.

I know this from New York. New York is absolutely alive and vibrant. You can dislike Mamdani, you can like him, but that is not New York. New York has been really fun for the last couple of years, and I think that is at odds with the perception from those that are out there. And so my point would simply be, the perceptions of America as sort of dilapidated infrastructure, crimes and shootings and all these kind of things that I think a lot of these European tourists have—it is proof that wherever, whatever place you're talking about, you actually have to go and see for yourself in person.

Thank you.