

Oil prices to stabilise post supply cut of 1.2 mbpd

Key Highlights:

- ❑ OPEC and its allies, after 2 days of meeting finally agreed to strike a deal to cut 1.2 million barrels per day, where the OPEC is willing to contribute to a supply cut of 0.8 million barrels, Russia will contribute to a cut of 0.2 mbpd and other non-opec countries to contribute in the remainder cut
- ❑ Iran was exempted from the supply cut as it is already under US sanctions, along with Venezuela, Iran and Libya.
- ❑ The deal was struck in the backdrop of nearly 30% plunge in the oil prices since October as there has been an increase of supply from non-opec countries, specially United States.
- ❑ Since July 2018, OPEC has increased its oil supply by more than 1.1 mbpd and now a cut in oil supply will remove the excess oil supply from the market. Still, the three largest producers, Saudi Arabia, United States and Russia contribute around one-third to the world oil supply and all three nations are producing at the rate of more than 11 mbpd. Especially, US alone raised its output by 2 mbpd this year signaling a huge surplus may emerge if the demand weakens.
- ❑ After the current fall in crude below \$60 a barrel, the supply cuts helped the crude to jump 5% and breathe a sigh of relief and reached \$63
- ❑ Another key event before the meet was of Kuwait not wanting to be a part of OPEC anymore and concentrate on its personal interests to increase its production of gas.
- ❑ We believe the current oil policy will limit the downside and support the crude oil in the near term. However, the slowdown in the world-wide economic growth will weigh on oil demand next year as higher prices may cause sharp fall in demand and with rapid growth in US production, likely to put renewed downward pressure on prices. Therefore, we expect WTI prices to slowly stable around \$57-\$60 per barrel in the near term.

Exhibit: OPEC oil production (mbpd)

Country	2016	2017	3Q 18	Aug-18	Sep-18	Oct-18
Algeria	1.1	1.0	1.1	1.1	1.1	1.1
Angola	1.7	1.6	1.5	1.5	1.5	1.5
Congo	0.2	0.3	0.3	0.3	0.3	0.3
Ecuador	0.5	0.5	0.5	0.5	0.5	0.5
Equatorial Guinea	0.2	0.1	0.1	0.1	0.1	0.1
Gabon	0.2	0.2	0.2	0.2	0.2	0.2
Iran	3.5	3.8	3.6	3.6	3.5	3.3
Iraq	4.4	4.4	4.6	4.6	4.7	4.7
Kuwait	2.9	2.7	2.8	2.8	2.8	2.8
Libya	0.4	0.8	0.9	1.0	1.1	1.1
Nigeria	1.6	1.7	1.7	1.7	1.8	1.8
Qatar	0.7	0.6	0.6	0.6	0.6	0.6
Saudi Arabia	10.4	10.0	10.4	10.4	10.5	10.6
UAE	3.0	2.9	3.0	3.0	3.0	3.2
Veneuela	2.2	1.9	1.2	1.2	1.2	1.2
Total	32.9	32.6	32.6	32.6	32.8	32.9

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Exhibit: Crude supply from Non-OPEC oil producing countries (mbpd)

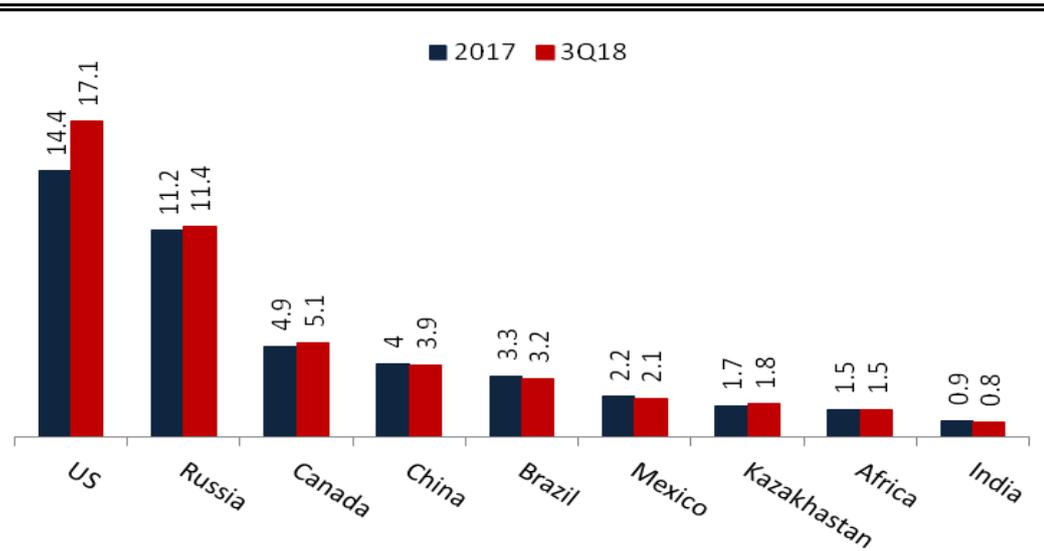
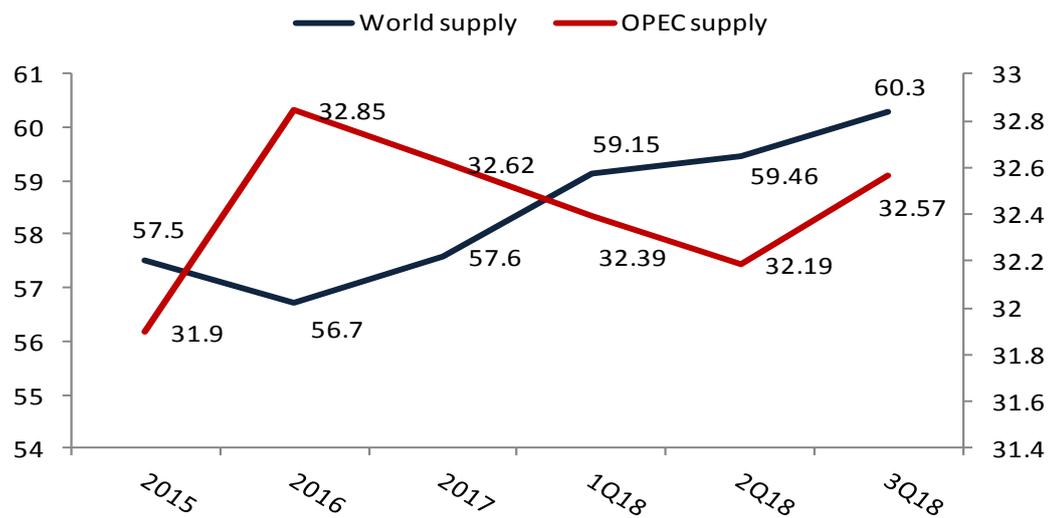


Exhibit: Oil production trends(mbpd)



Since 2017 the world crude oil supply has improved significantly, while the OPEC supply has not moved in a particular direction. A notable increase can be seen from the United States as they have increased their output by 2.7 million barrels per day in a span of 1 and a half year.

OPEC, 173rd meet :

- The previous meeting held by the OPEC countries was on November 30, 2017 in Austria where they took a landmark decision to cut their oil production by 1.2 million barrels per day to a ceiling of 32.5 million barrels a day.
- This decision was taken in lieu of rebalancing the market as crude prices had been soaring very low.
- The decision was intended to keep the oil prices per barrel in between \$40-\$50.
- Russia along with Oman and Mexico , non-OPEC countries also abided with the production cuts and assured of production cut by 558000 barrels per day

OPEC,174th meet :

- OPEC and a group of non-OPEC countries agreed on Saturday that they would return to 100 percent compliance with previously agreed oil output cuts of 1.8 mbpd (OPEC 1.2 mbpd and non OPEC countries 0.6 mbpd in December 2016), after months of underproduction by OPEC countries including Venezuela and Angola (Cut had become almost 2.8 mbpd in recent months). Saudi Energy Minister Khalid al-Falih said OPEC and non-OPEC combined would pump roughly an extra 1 million barrels per day (bpd) in coming months, equal to 1 percent of global supply.
- Venezuela has been pumping more than 500,000 barrels per day below its OPEC target because of natural declines in its oil output.
- Iran counters- Iran said that extra production will be only be the country that has under produced in the past, So Saudi Arabia can produce only 100,000 bpd more. Iran also said max 500,000 bpd can come extra.
- As part of Saturday's deal, Russia plans to increase its output by 200,000 bpd.
- Saudi Arabia says it has two million barrels in spare capacity, well over what is needed. Analysts estimate that Russia could increase production by 400,000 barrels a day. Kuwait and the United Arab Emirates can also add more oil

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