

OPEC Decision

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OPEC 174th Meeting outcome

Organization of Petroleum Exporting Countries (OPEC) and its allies, (countries involved in the Declaration of Cooperation) had assembled for a meeting to discuss the current global oil markets condition and to further discuss short- to medium term prospects.

Verdict: OPEC and its allies have decided to increase production which could range between 600,000- 1 mn barrels a day. This comes on the back of a decision taken earlier to reduce output by 1.8 mn barrels a day.

Some issues which are still a concern are:

- The adherence of Iran, Iraq and Venezuela still remains fragile as the situation in Venezuela has not improved, Iran is facing sanctions from the US and has very little to gain from the deal to increase output and Iraq had always opposed the decision of raising the output. This can cause an imbalance in the oil market as these countries don't have the spare capacity compared with countries like Saudi Arabia, Russia and UAE.
- India, China and other major Asian oil importing countries face the Asian premium problem of being charged a higher price on crude oil.
- The meeting did not conclude on the exact increase in production nor the distribution across countries. This can turn out to be an issue as Saudi Arabia has vested interest in keeping the oil prices high on the approach of the Saudi Aramco IPO. On the other hand Russia is extremely keen to pump excess oil as it has already lost considerable market share with US increasing the tight oil/shale oil supply in the global economy.

This could lead to the supply being increased by between 6,00,000 barrels to 1 million barrels a day.

The next meeting of OPEC would be on 3rd December 2018.

CARE Ratings views and opinions

1. We expect the price of Brent **to be range bound between \$70-\$75/bbl in the coming months**. With OPEC pumping in additional supply after 18 months of adherence and US increasing its supply, price of oil will be less pressured. Also it should be remembered that the increase in oil supply announced would still be lower than the cut decided on earlier. On the other side with the world demand of crude oil rising and with the uncertainty in the global political scenario we believe

price of oil can rise despite of the increase in supply. Indian Basket of Crude will remain \$2/bbl lower than the Brent prices on an average monthly basis.

2. India will get some relief as prices of oil will be lower than the highs of \$78-\$80, which will improve our import bill as India imports 80%-85% of its consumption requirements. This will have a positive effect on market sentiment affecting our exchange rate and reduce the headline inflation. The OPEC decision would also get factored by the MPC when it meets next for taking a call on interest rates.

3. Prices of natural gas and LNG to fall as prices of crude oil to ease. Prices of natural gas and crude oil move in tandem. This is a positive for fertilizer, power, and petrochemical companies which use natural gas as a feedstock.