175th OPEC meeting decision

7th December, 2018 I Industry Research

Contac:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022- 6754 3489

Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
91-22-6754 3492

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

Overview

OPEC held its 175th meeting, with the aim of reaching an accord over production levels for the next six months.

As of now

- U.S. oil production has increased and during the first week of November has reached, 11.6 million barrels per day (mbpd). The number of active rigs is increasing and crude oil production is almost reaching 11.7 mbpd.
- OPEC as a group produced 33.08 million barrels a day (mbpd) of crude in November whereas Saudi Arabia produced 11.02 mbpd. (the highest Saudi Arabia has ever pumped)
- Alberta has announced production cuts of lowering the output by 325,000 barrels per day (bpd) beginning in January to erase the stockpile glut and ease the strain on the region's takeaway capacity.
- Qatar has announced its withdrawal from OPEC effective from January 2019. The Qatari government has quoted it was mainly for technical reasons and to mainly focus on natural gas production. Its departure from the cartel should have little impact on oil prices, as it accounts for less than 2% of OPEC's output.

Verdict: *OPEC has agreed on a tentative output cut but is to yet decide exact figures and quantum of cut after its meeting with Russia and other OPEC+ members. The output cut could range from 1 mbpd- 1.3 mbpd depending on Russia's take of how much crude oil production it can trim.*

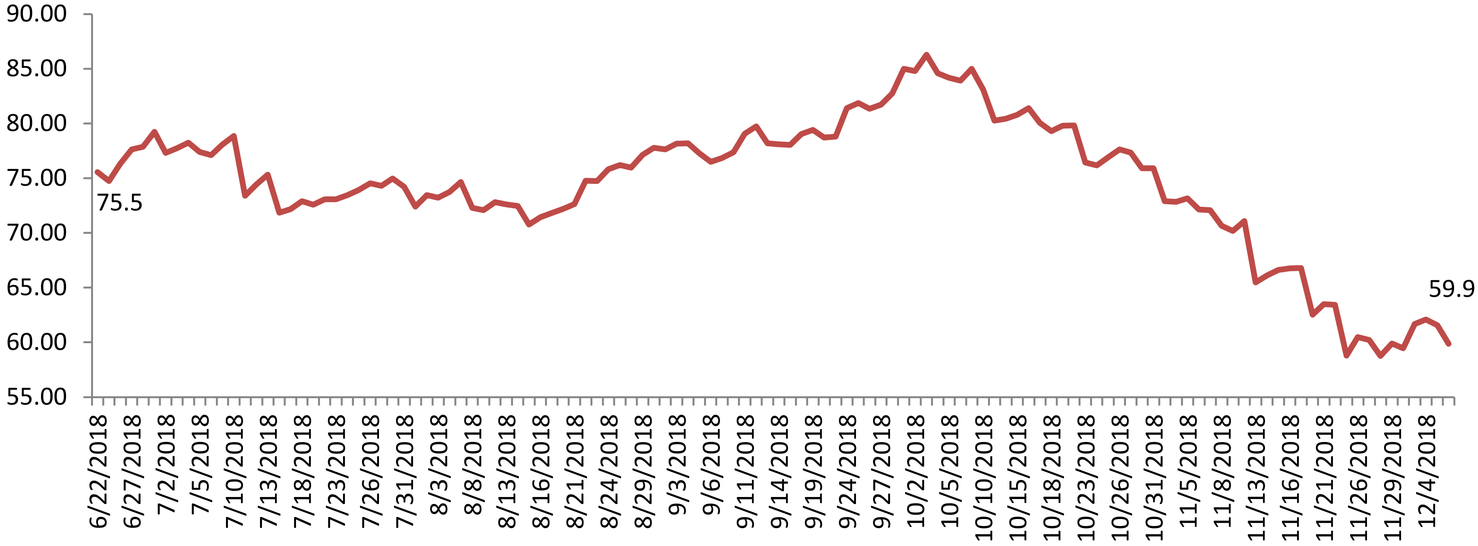
The OPEC and non OPEC members are also facing external pressures from various government bodies (particularly from the US and Indian government) in order to keep the production supply at an ambient level and to also factor the sanctions on Iran which could lead to a supply deficit once the 180 day waiver period granted to India, China, Italy, Greece, Japan, South Korea, Taiwan and Turkey comes to an end.

Many of the members of the cartel have also opposed going through a production cut and hence the final decision and implementation seems quite vague;

- Russia has also mentioned a drastic production cut from its end will not be possible given the need for oil increases in Russia during the winter months.

- Iran will not be forming part of the production cuts as it has been subject to US sanctions.
- The cartel is also discussing if Venezuela and Libya should be exempted as well given the oil and political situation prevailing in their respective economies.

Chart 1: Price Movements in Brent since the previous meeting held by OPEC and Non OPEC countries



Source: Bloomberg

Post the meeting the Brent oil prices have fallen below the 60-level to end at USD 59.9/bbl registering a 2.7% fall the previous close of USD 61.6/bbl. Oil prices have fallen in accord of the no decision taken by the OPEC.

The oil market's focus, as quickly shifted from possible supply shortages to worries about a potential glut caused, among other things, by a slowing world economy and unexpectedly robust output from the US.

CARE Ratings Views and Outlook

The oil markets are well supplied at the moment with the increase in the US production. Given the current oil market scenario, we believe prices of crude oil are not rise more than USD 65/bbl. Prices are not to exceed the USD 65/bbl limit but at the same time the fall in prices is also to be limited given;

- U.S. oil production has been surging and is poised to expand further next year as new pipelines come into functioning. U.S. Energy Information Administration (EIA) has reported that the US has become a net exporter of oil, gasoline and other refined fuels for the first time in 75 years.
- Global oil demand is showing signs of cooling given the slowdown in the world economy and an escalation of the U.S.-China trade war post the 90-day truce period.
- OPEC said demand for its oil next year would be about 1.1 million barrels a day less than in 2018, and 1.4 million below current OPEC production.
- Once the 180 day truce period comes to an end for the Iranian sanctions there will be a supply void which will be difficult for oil importing countries and to also change their oil vendors given the discounts and flexibility in payments offered by the Iranian government.

- The supply void is also to be caused by the production cuts implemented by the OPEC+ members and by the Canadian supply cuts.
- There are visible cracks now in the OPEC with Qatar leaving the cartel there has been a potentiality of Iraq also to exit the group as it looks to boost production in the aftermath of the war against the Islamic State.