

OPEC+ meeting review

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Overview

OPEC and its non-OPEC members held its 6th ministerial meeting, with the aim of reaching an accord over world production and inventory level.

Verdict: The OPEC+ members **have decided to extend their on-going production cuts for the next 9 months instead of the usual 6 months i.e. from 1st July 2019 to 31st March 2020.**

Since January 1st 2019, OPEC+ countries have been restricting oil supply by curbing production by 1.2 million barrels per day (mb/d).

(OPEC had agreed to cut 0.8 mb/d and non-OPEC members had agreed to cut 0.4 mb/d).

Now why did OPEC+ decide to continue with the production cuts?

Keeping the oil fundamentals in mind, OPEC+ member countries decided to continue with the on-going supply even as the inventory of excess oil is under control.

Given the current state of the world economy, oil demand for 2019 is slated to grow by 1.14 million barrels a day (mb/d), whereas non-OPEC supply in 2019 is expected to grow at a robust pace of 2.14 mb/d, year-on-year.

In order to avoid a supply overhang, the members decided to continue and extend with the on-going production cuts.

CARE Ratings Outlook

Price call

We believe price of Brent is to range between USD 63-68/bbl range in the coming few months.

- The OPEC+ group has been successful in bolstering the oil prices but increase in the US production and stockpile data has often undermined the group's efforts.
- We believe US production is to rise as the current US government has vested interest in keeping the oil prices low on account of the Elections next year.

- A possible truce between US and China, sanctions on Iran and Venezuela and rising tensions between US and Iran regarding the attacks at the Strait of Hormuz could support the price of crude oil going forward.

Impact on India

If price of oil is to be range bound we don't force much of an impact on the Indian economy. An increase in price usually affects the trade deficit, the markets, the Indian Basket of crude and the inflation as India imports more than 80% of its oil consumption needs.

In the current financial year (FY20) India has imported 4.7 mb/d. If we assume imports of 1,704 million barrels during FY20 at the macro level, a dollar increase in prices on a permanent basis would increase the bill by roughly USD 1.7 billion per annum, vice-versa

Appendix

Table 1: World Oil Production* of Top 5 leading oil producers (mb/d)

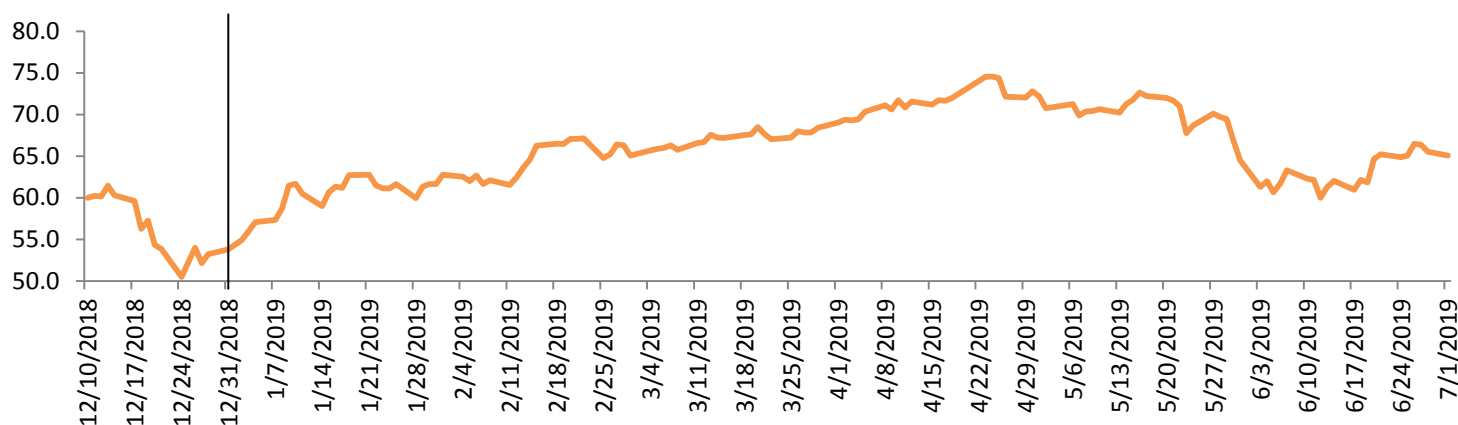
	2018	Mar-19	Apr-19	May-19
US	15.49	16.79	16.89	17.04
Russia	11.49	11.63	11.57	11.44
Saudi Arabia	10.33	9.8	9.81	9.7
Canada	5.21	5.29	5.31	5.04
Iraq	4.57	4.57	4.65	4.78
Total (World)	100.1	99.49	99.6	99.5
Total OPEC	37.4	35.72	35.76	35.53

Source: IEA

Note: Comprises of crude oil, condensates, NGLs, and oil from unconventional sources.

Originally envisioned as a short-term fix in 2017 to drain excess global stockpiles, the OPEC+ group have tried to control the upsurge in US production. While the strategy has succeeded in raising prices temporarily, OPEC's share of the global oil market has fallen over time. Sanctions on Iran and Venezuela have also added to the loss in market share in the last few months.

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



Source: Bloomberg

Oil prices have risen 1st January 2019 onwards once the OPEC+ production cuts came into effect but have slide mid -April onwards due to the heightened tensions between the US-China, increase in US production and stockpiles and due to weaken growth prospects of the global economy.

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