

5th Ministerial OPEC and Non-OPEC meeting decision

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Overview

OPEC and its non-OPEC members held its 5th ministerial meeting, with the aim of reaching an accord over production levels for the next six months.

Verdict: The OPEC+ members have decided to cut production by 1.2 million barrels per day (mb/d), effective from January 2019 onwards. OPEC is slated to cut 0.8 mb/d and non-OPEC members have agreed upon 0.4 mb/d cut for the next 6 months.

Producers will use the October output levels as a baseline for cuts and the agreement will be reviewed in April.

OPEC agreed to exempt Iran, along with Venezuela and Libya. Nigeria, which was exempt under the previous deal, will participate in the round of cuts January 2019 onwards.

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

CARE Ratings Outlook

Price call

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;

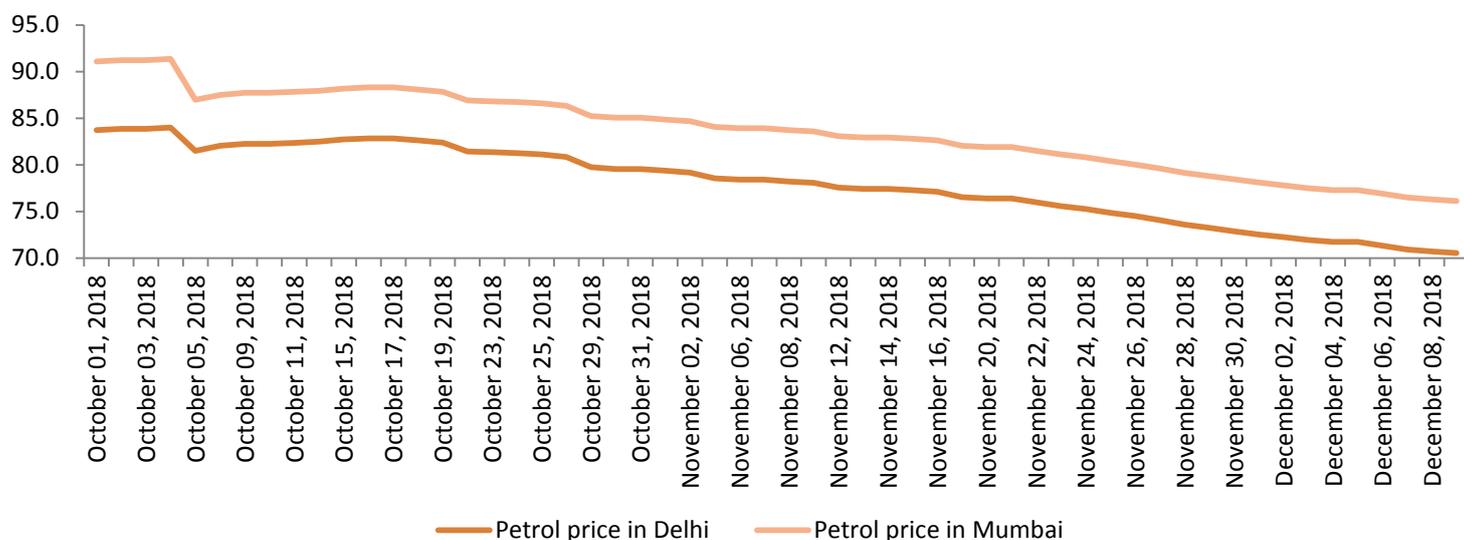
- U.S. oil production has been surging and is poised to expand further next year as new pipelines come into functioning. U.S. Energy Information Administration (EIA) has reported that the US has become a net exporter of oil, gasoline and other refined fuels for the first time in 75 years.
- Global oil 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 and Iraq also exiting the group as it looks to boost production in the aftermath of the war against the Islamic State.

Impact on India

- Any increase in oil prices is always going to be a cause of concern for India considering we import more than 80% of our oil requirements. **In the current financial year, India has imported around 4.6 mb/d.**
 - Impact is to be felt in terms of trade deficit, on the markets, Indian basket of crude oil prices and exchange rate.
 - We assume at the macro level with imports of 1643 million barrels of crude oil in FY19 a dollar increase in prices on a permanent basis would increase the bill by roughly USD 1.6 billion per annum
- Crude oil and its products have a weight of 10.4% in the WPI. Of this crude oil and natural gas have a weight of 2.4% and mineral oils around 8%. With the exception of LPG and kerosene (with combined weight of 0.83%), the rest would be driven by market forces. Therefore, any increase in the price of crude oil would tend to impact the WPI inflation number commensurately. In terms of the CPI, fuel related items have a weight of nearly 2.7-2.8% directly. Fall in the crude oil prices will impact the WPI more than the CPI.
- India had been facing a relief in fuel prices due to the global fall in fuel prices. Now in India prices change every fortnight based on the changes in the price of crude oil and changes in tax rate. We can maybe foresee an increase in petrol and diesel in the coming few days, depending on how the oil markets react in the reduction in supply from the OPEC+ members. (Prices of Petrol were INR 70.5/litre and INR 76.1/litre whereas prices of diesel were INR 65.1/litre INR 68.1/litre in Delhi and Mumbai respectively).

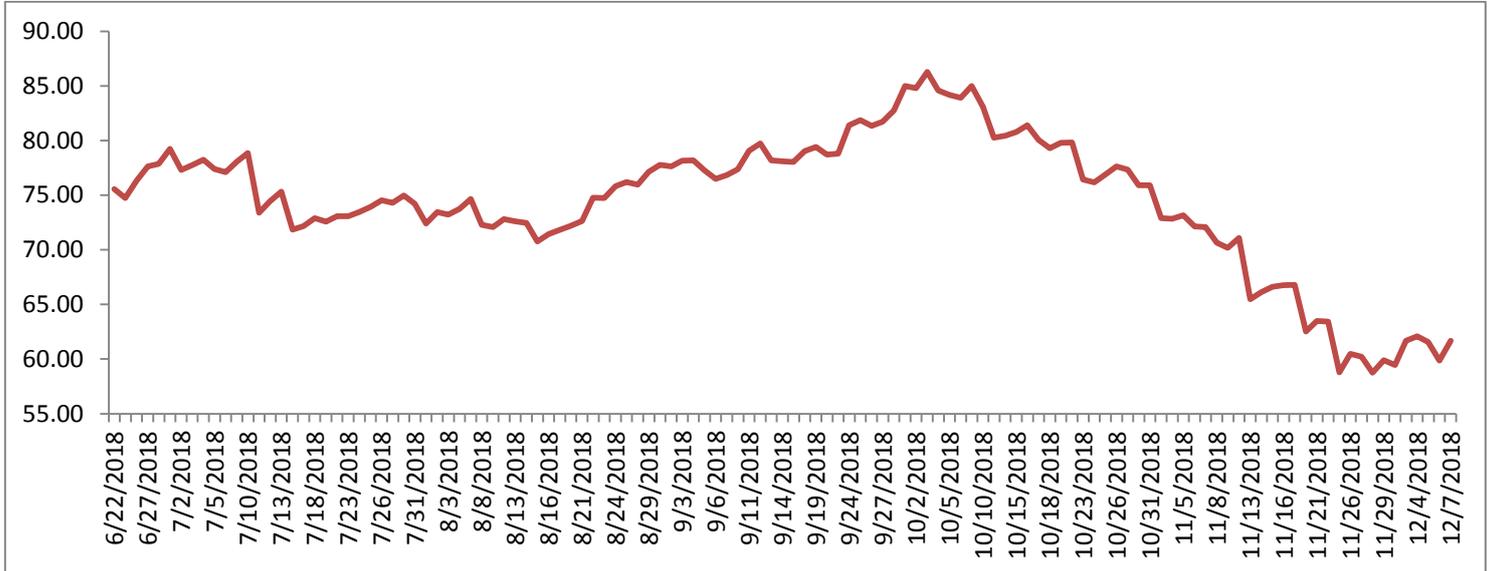
Chart: Daily prices of Petrol October 2018 onwards (INR/Litre)



Source: IOC

Appendix

Chart 2: Price Movements in Brent since the previous meeting held by OPEC and Non OPEC countries



Source: Bloomberg

Post the 175th meeting which was held on a Thursday 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 had fallen in accord of the no decision taken by the OPEC.

On Friday with the final verdict and confirmed Russia’s participation, the oil prices rose by 3%, ending at USD 61.7/bbl.

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