PREVIEW: OPEC and OPEC+ Meetings on November 30th and December 1st

- **OPEC and OPEC+ producers will meet November 30th and December 1st respectively**
- **A three-month extension of current cuts through Q1 2021 is largely priced into the oil market**
- **OPEC+ failure to extend could trigger an oil price decline, whilst “buy the rumour, sell the fact” play cannot be dismissed**

OVERVIEW:

OPEC and OPEC+ producers will meet November 30th and December 1st respectively to discuss and draft a potential tweak to the current Declaration of Cooperation (DoC), rolled out in light of the pandemic to recalibrate the demand /supply imbalance. The current DoC is split into three phases:

1. 9.7mln BPD total output reduction between May and July 2020.
2. 7.7mln BPD total output reduction between July and December 2020.
3. 5.7mln BPD total output reduction between January 2021 and April 2022 (subject to review in December 2021).

Market expectations (as things stand) are widely skewed towards the second tranche (7.7mln BPD cuts) being extended through Q1 2021, a view also backed by Goldman Sachs, ING and UBS, despite positive vaccine developments and amid rising production in Libya. Recent sources also noted OPEC+ is still leaning towards a rollover of the current tranche notwithstanding the recent oil price rally, with Russia likely to agree to this if necessary, however, enthusiasm for cuts is not universal.

*__NOTE: The Newsquawk real-time social media OPEC monitoring tool will be available for the event__

JMMC FALLOUT The Joint Ministerial Monitoring Committee (JMMC) statement on November 17th gave no detail on its recommendations but said it will be provided on December 1st. The Committee reiterated the “critical importance of adhering to full conformity and compensating the overproduced volumes, in order to achieve the objective of market rebalancing and to avoid undue delay in the process.” There was also chatter that OPEC+ is mulling deeper production cuts, though this was downplayed by a delegate as the idea reportedly did not garner widespread support.

COMPLIANCE COMPLICATIONS Compliance among producers remain an issue as the latest October figures from the JMMC suggest sub-par conformity, namely from UAE, Nigeria, Iraq, Gabon, Equatorial Guinea, Angola and Azerbaijan for a total group cumulative overproduction of 2.346mln BPD (see Figure 1). However, desks do not expect these compliance difficulties to be a near-term risk given the “vigilant and proactive” stance signalled by OPEC+ in recent meetings, with the group likely to reaffirm its stance on full compliance and specifics likely to be ironed out in the coming months with further compensation quotas. OPEC+ delegates cited by EnergyIntel also noted that “catch-up” cuts for straddlers “could be extended as part of a deal to support oil prices by prolonging the alliance's current level of production cuts into next year.”

DEMAND AND OIL PRICE DEVELOPMENTS The positively received vaccine updates from Pfizer/BioNTech (PFE /BNTX), Moderna (MRNA), AstraZeneca (AZN/Oxford) and the Russian Direct Investment Fund (RDIF) have provided a rosier (or less dire) demand outlook for the complex due to the prospect of a recovery in activity and jet fuel demand. Still, re-emerging COVID-19 cases and uncertain timeframes for mass rollouts of approved vaccines continue to cloud near-term outlook. Analysts at Goldman Sachs indicate that this solidifies the argument for an extension of current cuts. Further, IEA’s November OMR also suggested “it is far too early to know how and when vaccines will allow normal life to resume. For now, our forecasts do not anticipate a significant impact in the first half of 2021.” Nonetheless, the vaccine fanfare this month has provided the crude market with a boost, resulting in the Brent curve edging back into backwardation (theoretically a near-term bullish signal) **-** Figure 2 below indicates the shallowing contango following the releases of each of the three major vaccine updates. However, ING is sceptical about the recent Brent backwardation into early 2022 given the soft near-term demand outlook and fragile balance sheet over Q1 2021, whilst the WTI curve makes more sense, with timespreads in contango in the near term (reflecting weaker fundamentals) but with backwardation commencing from the May 2021 contract.

- **PRICE RALLY**: The recent rally has prompted some to question the eagerness of some members to get on-board with extended cuts. “Clearly, if the market continues to strengthen between now and then, there is the risk that a growing number of members of the deal will become increasingly reluctant to rollover cuts", ING says, "the group would likely be more open to rolling over cuts if prices were trading around the US$40/bbl level, however with Brent quickly approaching US$50/bbl, there might be some opposition within the group to delay an easing in cuts." Hence, the bank sees risk skewed to the downside - "it is unlikely that OPEC+ surprise with a six-month rollover given the latest move in prices, while the three-month rollover is already largely priced in. So anything less than a three-month extension will likely be seen as bearish."

SUPPLY SITUATION The oil producers will have to factor in supply side developments since the rollout of the DoC, events that were not foreseen nor assumed at the time:

- **LIBYA**: Libyan crude output has been on a steep upswing in the past couple of months following the lifting on blockades which saw exports from five key oil terminals halted in January, translating to an output slump to ~70k BPD vs ~1.1mln BPD pre-blockade, the latest Libyan production printed at ~1.2mln BPD. Libya is currently exempt from OPEC quotas, and the NOC head stated it will join the allocations once production reaches 1.7mln BPD. OPEC previously stated it will be keeping an eye on sustained production from Libya. On that note, an armed group attempted to break into the headquarters of Libya's NOC on November 23rd, in turn reigniting fears of the country's fragile output.
- **UAE**: Some desks are also eyeing potential complications by UAE to raise its baseline quota, thus translating to higher output from the nation. However, this risk is unlikely to materialise as the country's energy minister recently noted "that all Opec-plus members should achieve full compliance with the existing agreement before the current level of cuts can be extended into next year", according to EnergyIntel, whilst Goldman Sachs also warns unilateral production hikes will likely trigger a price war.
- **IRAN**: A Biden administration has raised the likelihood of Iranian oil returning to the market as expectations are titled towards the Democrat unwinding some restrictions put in place by the Trump admin. That being said, this return is unlikely to take place until end-2021/22, ING believes, "by that stage, oil demand should have recovered enough for the market to be able to absorb additional supply", contingent on COVID-19 and vaccine developments.
- **NIGERIA**: Desks note that Nigeria has been complicating matters as it has advocated the exclusion of output from its Agbami oil field from its quota on grounds that its output should be clasiffied as condensate as opposed to crude oil.

FORECASTS: Analysts at GS forecast Brent to average USD 47/bbl in Q1 2021 assuming a three-month extension of current cuts, whilst an adherence to the current DoC (i.e. a 2mln BPD production increase) would warrant USD 42/bbl in the period. "This illustrates once again how short-term revenue maximization always comes through production cuts, as a 2 mb/d production increase but $5/bbl negative price impact would end up reducing core-OPEC and Russia's 1Q21 fiscal revenues by more than $5 bn", GS says. Meanwhile, UBS sees a Brent average of USD 45/bbl in Q1 next year (see Figure 3 below), with the assumption of a vaccine rollout in 2021. "A 3-month extension protects price downside as policy struggles to mitigate winter virus waves. 2021 is a year of price recovery and normalisation", the bank states.

October 2020 % Conformity considering submitted compensation plans

	Ministerial Decision			Compensation in October 2020			% Conformity October 2020)			
Country	Reference production	Decided Reduction	Required/ Voluntary Production	Additional Reduction	Total required Reduction	Required/ Voluntary Production	Without compensation	Including compensation	Difference	Cumulative overproduction
Algeria	1,057	-193	864		-193	864	104%	104%	0%	No overprod.
Angola	1,528	-279	1,249	-35	-314	1,214	123%	109%	-14%	25
Congo	325	-59	266		-59	266	92%	92%	0%	174
Equatorial Guinea	127	-23	104	-12	-35	92	92%	60%	-32%	40
Gabon	187	-34	153	-74	-108	79	-10%	-3%	7%	263
Iran, I.R.	na	na	na		na	na	na	na	na	na
Iraq	4,653	-849	3,804	-165	-1,014	3,639	97%	81%	-16%	610
Kuwait	2,809	-512	2,297		-512	2,297	102%	102%	0%	No overprod.
Libya	na	na	na		na	na	na	na	na	na
Nigeria	1,829	-334	1,495	-75	-409	1,420	109%	89%	-20%	209
Saudi Arabia	11,000	-2,007	8,993		-2,007	8,993	102%	102%	0%	No overprod.
UAE	3,168	-578	2,590	-100	-678	2,490	126%	108%	-19%	No overprod.
Venezuela	na	na	na		na	na	na	na	na	na
Total OPEC-10	26,683	-4,868	21,815	-461	-5,329	21,354	105%	96%	-9%	1,321
Azerbaijan	718	-131	587	0	-131	587	98%	98%	0%	6
Bahrain	205	-37	168		-37	168	93%	93%	0%	No overprod.
Brunei	102	-19	83		-19	83	88%	88%	0%	24
Kazakhstan	1,709	-312	1,397		-312	1,397	91%	91%	0%	178
Malaysia	595	-109	486		-109	486	139%	139%	0%	No overprod.
Mexico	na	na	na		na	na	na	na	na	na
Oman	883	-161	722		-161	722	100%	100%	0%	No overprod.
Russia	11,000	-2,007	8,993		-2,007	8,993	96%	96%	0%	531
Sudan	75	-14	61		-14	61	107%	107%	0%	6
South Sudan	130	-24	106		-24	106	-76%	-76%	0%	280
Total participating Non-OPEC	15,417	-2,814	12,603	0	-2,814	12,603	96%	96%	0%	1,025
Total OPEC-10 + Non OPEC	42,100	-7,682	34,418	-461	-8,143	33,957	101%	96%	-6%	2,346

Figure 1
Source: RTRS citing a JMMC document

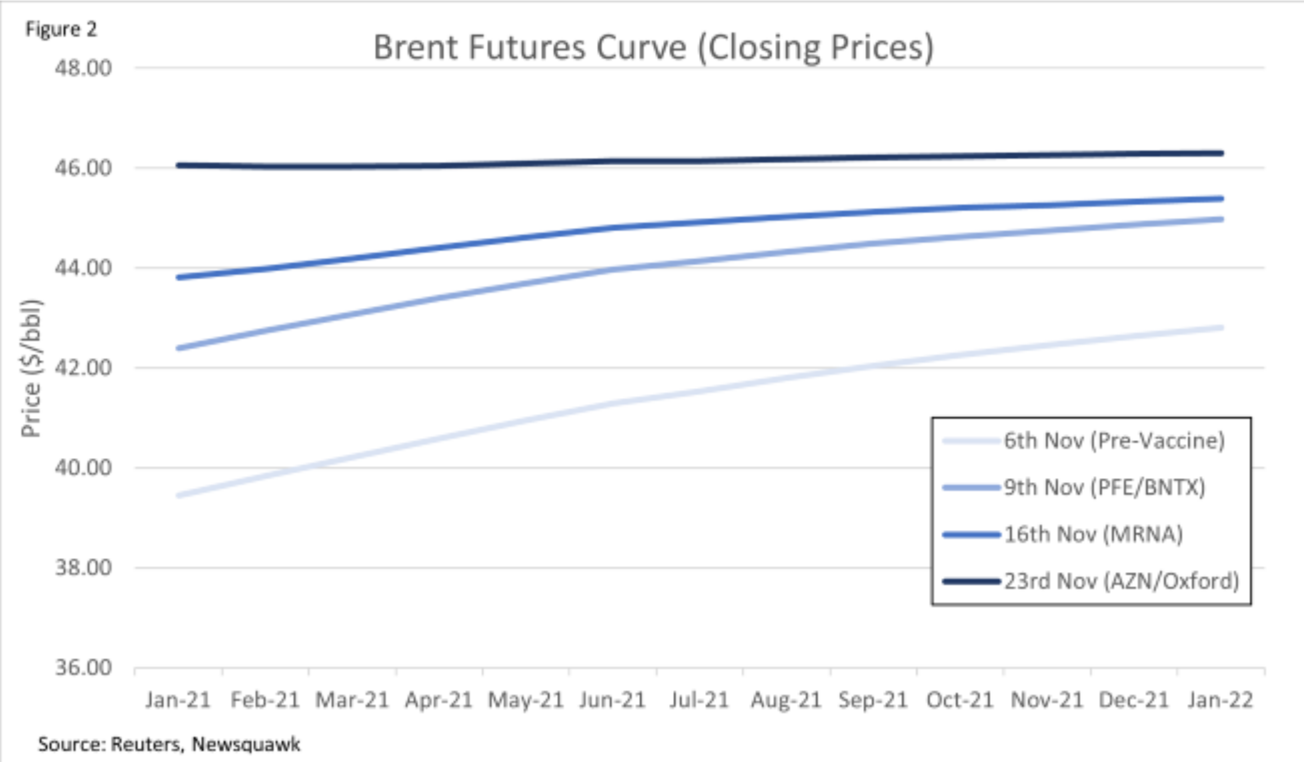

Figure 3: Oil price forecasts ($/bbl)

Brent	2019	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E	2023E
UBSe	63.85	43.00	45.00	50.00	50.00	55.00	50.00	55.00	55.00	55.00	55.00	55.00	57.50
Strip			45.81	45.73	45.81	46.25	45.90	45.71	46.37	45.35	46.70	45.92	46.43
Consensus		42.32	45.76	48.46	50.97	-	49.76	-	-	-	-	56.79	59.33
WTI													
UBSe	57.01	38.80	40.00	45.00	45.00	50.00	45.00	50.00	50.00	50.00	50.00	50.00	52.50
Strip			43.04	43.44	43.58	43.50	43.39	43.34	43.76	43.95	43.29	43.57	43.82
Consensus		38.53	42.61	45.48	47.93	-	46.03	-	-	-	-	52.59	56.16

Source: UBS estimates, Reuters

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