newsquawk

PREVIEW: JMMC and OPEC+ on Wednesday 5th from 13:00BST/08:00EDT

- **OPEC+ is likely to agree to cut oil, output, with expectations ranging from 0.5-2.0mln BPD; more recent expectations tilt towards the top end of the range.**
- **The JMMC is set to meet at 13:00BST/08:00EDT, with the OPEC+ ministerial meeting slated for around 13:30BST/08:30EDT. A press conference is then expected to take place (time TBC).**
- **Expectations thus far point to a smooth meeting**.

EXPECTATIONS:

OPEC+ is likely to agree on output cuts, with expectations ranging from 0.5-2.0mln BPD, as per several source reports, with the more recent reports tilting towards the top end of the range. The most recent reporting points towards a 2mln figure.

- Bloomberg and Reuters reported that OPEC+ is considering a cut to targets of **as much as 2mln BPD.**
- Saudi Arabia, Russia and other producers are set to announce deep cuts at the OPEC+ meeting on Wednesday, according to the FT citing sources, who are reportedly pushing for cuts of 1-2mln BPD or more **- these could be phased in over several months**
- Reuters and Bloomberg sources over the weekend suggested cuts could exceed 1mln BPD, and Saudi Arabia may also opt for an additional voluntary cut.
- Reuters then cited sources saying that OPEC+ was discussing a potential oil output cut in excess of 1mln BPD, *excluding* any voluntary cuts.
- Energy Intelligence said talks among delegates thus far indicated a cut of 1.5mln or more was under consideration, though it is unclear if this would be phased in.
- It's also worth being aware of an OPEC source cited by Reuters who suggested that the likely figure would be closer to 500k BPD. Sources via Reuters last week suggested Russia was likely to propose a reduction of around 1mln BPD. Talks are expected to continue ahead of the meeting.

SCHEDULE :

OPEC+ will be meeting in person in Vienna for the first time since March 2020. The Joint Technical Committee (JTC) meeting was scrapped for this month.

- The **JMMC** is set to meet at 13:00BST/08:00EDT.
- The **OPEC+** ministerial meeting slated for around 13:30BST/08:30EDT.
- A **press conference** is then expected to take place afterwards (time TBC).
- **Expectations thus far point to a smooth meeting**, according to Energy Intelligence.

FACTORS :

PRICES: Crude prices have been volatile and on a downward trajectory throughout the second half of the year due to demand woes emanating from deeper recession fears – with Brent prices down almost USD 15/bbl from the high seen at the prior meeting.

- According to an FT report in early September, the Saudi Energy Minister was under pressure from the Saudi Crown Prince to keep prices near to USD 100/bbl, whilst Reuters suggested Saudi and Russia both saw USD 100/bbl as a fair price.
- "Saudi Arabia is keen to lower output both to prop up prices and so it can keep some production capacity in reserve. The kingdom fears that Russian output could fall sharply later this year when western sanctions against its oil exports tighten", according to the FT citing people brief on Saudi's thinking.
- Although, when questioned by Energy Intelligence, the Saudi Energy Minister said "OPEC+, as is well known, does not target prices or prices ranges. Its aim is to support market stability and supply and demand balance".
- **From a geopolitical standpoint, significant cuts to output targets are not likely to sit well with Washington**, which has been attempting to pressure Saudi Arabia to raise oil production levels in a bid to push down prices

and tame energy inflation. On this front, the *NOPEC bill (No Oil Producing and Exporting Cartels) may resurface* in wake of the meeting.
- The US is reportedly pushing OPEC+ nations not to proceed with an output cut and is arguing that economic fundamentals do not support an output cut, according to a Reuters source.

DEMAND: The fear of recession against the backdrop of rising interest rates from major economies has provided a double whammy to the demand side of the equation.

- The September Oil Market Report (OMR) maintained its 2022 and 2023 forecasts, with a “recently observed trend for additional oil demand growth due to fuel switching in power generation.”
- That being said, since then the Purchasing Managers Index (PMI) metrics out of Europe painted a bleaker growth picture for the continent – “A eurozone recession is on the cards as companies report worsening business conditions and intensifying price pressures linked to soaring energy costs”, the release said.
- In China, the “zero COVID” policy remains a headwind to demand, with holidaymakers this week bracing for more disruptions during the Golden Week holiday as the Chinese government attempts to contain COVID cases ahead of the Communist Party National Congress mid-October.

SUPPLY: Limited spare capacity has been an ongoing burden for the group of oil producers.

- According to an internal document cited by Reuters, OPEC+ fell short of its target by 3.58mln BPD in August having missed the target by 2.89mln BPD in July. As a reminder, the IEA estimates Saudi has a short-order capacity (reachable in less than 90 days) of around 1.2mln BPD, with the longer-term capacity predicted to be nearer to 2.1mln BPD. The argument OPEC watchers have been flagging is the state of confidence within the group (to stabilise the oil market) if they have no spare capacity, with oil traders warning of a potential upward spiral in oil prices if this “worst case” scenario were to occur. Cutting output targets would water down the issue of over-compliance. **It’s also worth distinguishing between target cuts and actual barrels coming off the market (likely to be lower than proposed cuts given the over-compliance).**
- Elsewhere, FT sources suggested that Saudi Arabia was concerned that “Russian output could fall sharply later this year when western sanctions against its oil exports tighten”.
- Furthermore, Iranian barrels do not look set to return to international markets just yet as nuclear deal talks remain at a standstill; neither Tehran or Washington are willing to provide enough concessions to move forward.
- On the other side, US Strategic Petroleum Reserve (SPR) sales could be utilised to offset some effects of OPEC+ production cuts, although the SPR has seen continuous drains with levels reported to be down to those seen in 1984.

HOUSE VIEWS:

- **JP Morgan** suggested in recent days a cut of around 1mln BPD was on the cards and could help arrest the price decline.
- **UBS** said that only a production cut by OPEC+ can break the negative momentum within the oil market in the short-term, and to provide a stronger floor in oil prices, Saudi would need to make extra voluntary cuts.
- **RBC** sees a 'significant chance' of substantial OPEC+ supply cut and said OPEC+ may cut by 500k-1mln BPD at the October 5th meeting.
- **Goldman Sachs** said an OPEC+ supply cut would reinforce its bullish oil price view, and would help to limit downside to prices in the scenario of disappointing economic growth.