Preview: OPEC+ JMMC Meeting at 11:00BST/06:00EDT

- **The JMMC is set to discuss oil market conditions after OPEC+ countries announced surprise voluntary production cuts.**
- **OPEC+ cuts now total around 1.65 million BPD through to the end of 2023, with the White House deeming the decision "ill-advised."**
- **The move raises concerns over inflation, geopolitics, and potential US responses.**

OVERVIEW/SCHEDULE:

- **The Joint Ministerial Monitoring Committee (JMMC) is slated to meet at 11:00 BST/06:00 EDT** to discuss current oil market conditions and the outlook.
- **The meeting was initially expected to be a non-event before OPEC countries, in a surprise move over the weekend, announced coordinated voluntary production cuts.** The de-facto head of Saudi Arabia suggested the move was "a precautionary measure aimed at supporting the stability of the oil market," according to Energy Intelligence.
- **The confab will now be eyed for more clarity as to why members opted for an emergency policy change** after delegates and sources last week suggested the continuation of the current policy, while the Saudi Energy Minister last month said the production targets are "here to stay for the rest of the year, period."

PRODUCTION DETAILS:

The total cuts announced by OPEC amounts to 1.157mln BPD (from May through to the end of 2023), and with Russia's previously announced 500k BPD, this equates to an OPEC+ tally total of 1.657mln BPD.

- **RUSSIA**: Extended its previously announced 500k BPD cut till the end of 2023 (from June)
- **SAUDI ARABIA**: 500k BPD
- **IRAQ**: 211k BPD
- **UAE**: 144k BPD
- **KUWAIT**: 128k BPD
- **KAZAKHSTAN**: 78k BPD
- **ALGERIA**: 48k BPD
- **OMAN**: 40k BPD
- **GABON**: 8k BPD

HOUSE VIEWS:

- **GOLDMAN SACHS** raised its Brent crude price forecast by USD 5/bbl to USD 95/bbl for December 2023 and to USD 100/bbl (previously USD 97/bbl) for December 2024. "Unlike during the previous OPEC+ cut in October, the momentum for global oil demand is positive amid a strong recovery in China and resilient refining margins." Goldman Sachs wrote that "as we have argued, OPEC+ has very significant pricing power relative to the past, and the surprise cut is consistent with its new doctrine to act pre-emptively because it can without significant losses in market share." The bank said that it was already assuming that Russian cuts would extend into the second half of 2023, and it has now lowered its end-2023 OPEC+ production forecast by 1.1mln BPD.
- **JP MORGAN** said the OPEC cuts are already reflected in their price view and still sees Brent averaging USD 89 /bbl in Q2 2023, before rising to USD 94/bbl in Q4 2023, and finishing around USD 96/bbl.
- **BANK OF AMERICA** maintains its Brent forecast of USD 90/bbl in H2 2023 but suggests it is still unclear how much of the planned cuts will lead to actual volume reduction. "OPEC is no longer afraid of a major US shale oil supply response if Brent crude oil prices trade above USD 80/bbl, so cutting volumes to push oil prices higher does not carry the same risks it did five years ago," the desk said.
- **CITI** suggested, "OPEC+ resumed its recently-abandoned decision to become the 'central bankers' of oil... markets can expect a price overshoot just as Fed tightening and banking turmoil led prices to fall two weeks ago far more than balances warranted."
- **ANZ** believes the probability of reaching USD 100/bbl before the end of the year has increased - "This measure does send a pretty strong signal to the market that they're going to support prices."

- **CBA** said the move will amount to "about 1.1% of global supply in the next two months and about 1.6% of global supply in the back half of this year."
- **SEB** said the cuts will help drive Brent towards USD 100/bbl faster - "We have previously argued that OPEC has a lot of 'dry powder' in terms of yet unused potential for further production cuts. This still holds true even after the latest cuts. The consequence is that there is limited downside price risk."
- **RBC** predicts the announcement will result in actual cuts of some 700k BPD.

WHITE HOUSE:

The White House said the OPEC+ decision was "ill-advised under current market conditions" and added that the administration will work to ensure energy markets support economic growth and lower prices for American consumers. Analysts highlight some moves the US can take in response:

- **STRATEGIC PETROLEUM RESERVE (SPR) RELEASE**: Desks suggest the SPR could be tapped, although stockpiles currently stand at around half of their capacity following the 180 million barrel release after the Ukraine war. On this note, FT sources suggested Saudi Arabia was "irritated" that the Biden administration recently said they are in no rush to refill the SPR.
- **EXPORT CURBS**: This is a measure touted last year (but never implemented) after gasoline prices hit an all-time high. Desks cited by Bloomberg said the curbs could backfire and result in higher prices in some parts of the States.
- **PRESSURE DOMESTIC PRODUCERS**: The US government could exert more pressure on the US energy sector to pump more supply in a bid to keep prices tamed. The National Security Council, after the OPEC move, said, "We will continue to work with all producers and consumers to ensure energy markets support economic growth and lower prices for American consumers."
- **NOPEC BILL**: The White House hinted last year that it could support legislation that would allow the US to sue OPEC nations. The Biden administration ended up not pursuing this route amid concerns over diplomatic relations.
- **SIT AND WAIT**: Some suggest the US could do nothing as a market-based move from OPEC does not require an administration response.

MACRO IMPLICATIONS:

- **INFLATION**: The rise in oil prices brings about renewed jitters of energy-driven inflation just as the Fed is seen approaching the peak rate. Headline inflation was seen cooling among some major economies largely due to base effects from 2022. Bond yields and the Dollar were bid in early trade on Monday.
- **GEOPOLITICS**: Desks are also eyeing the possibility of tensions flaring up between Washington and Riyadh as the Biden administration previously pushed Saudi Arabia to pump more oil to keep prices down. As a reminder, in October 2022, OPEC+ made a surprise cut just before the US midterm elections, and President Biden said Saudi Arabia would face consequences if it did not increase production to help stabilize prices.