PREVIEW: OPEC+ Decision on Sunday 4th June 2023

OVERVIEW

- It is currently unclear which path the alliance of oil producers will opt for at the upcoming weekend meeting, although **desks are seemingly in consensus that the group will keep production steady** but will stress flexibility.
- **Analysts are also in unison in assigning non-zero chances of further production cuts**, mainly given the Saudi Energy Minister's recent warning to speculators, and the fall in prices since the group's surprise, coordinated, voluntary curb announcement in April.

SCHEDULE*:

- **Saturday**: 11:00BST/06:00EDT - Ministers meet
- **Sunday**: 13:00BST/08:00EDT - OPEC+ decison-making meeting

According to Reuters sources

RECENT SOURCES:

- Sources suggested **OPEC+ is unlikely to deepen output cuts at the June 4th meeting**, according to Reuters.
- Reuters sources suggested it is too soon to be sure of the outcome on Sunday; another source said **the idea of formalising the voluntary cuts as an OPEC+ decision was being looked at.**
- Two OPEC+ delegates said further output cuts were unlikely at this weekend's OPEC confab, CNBC sources reported. **A third source said that OPEC+ would be comfortable with futures above USD 75/bbl, a fourth source estimated near USD 70-80/bbl.**

RECENT COMMENTARY:

HAWKISH COMMENTARY:

- **Saudi Energy Minister Prince Abdulaziz (23rd May) -** "Speculators, like in any market, are there to stay. I keep advising them that they will be ouching — they did ouch in April... I don't have to show my cards I'm not a poker player... but I would just tell them: watch out."

DOVISH COMMENTARY:

- **Russian Deputy PM Novak (May 25th) -** "OPEC+ is unlikely to take any new steps at its first face-to-face meeting in six months on June 4 after an output cut decision taken a month ago."
- **Russian President Putin (May 24th) -** "Energy prices are approaching an economically justified level."
- **UAE Energy Minister Al Mazrouei (May 9th) -** "I'm not that worried about [balancing oil supply/demand in] the very, very short term."
- **Iraqi Energy Minister Abdul-Ghani (May 12th) -** "At the next meeting, which will be held on the 3rd and 4th (of June), there will be no additional reduction, and as for Iraq, we cannot reduce further."

OTHER COMMENTARY:

- **Iranian President Raisi (May 29th) -** Told OPEC Secretary General that he hopes oil producers can calm down the market and called for unity among its members, according to Reuters.
- **United States (May 15th) -** "The Department of Energy (DOE) announced today that it will purchase up to 3mln barrels of oil for the Strategic Petroleum Reserve (SPR) in continuation of the Biden-Harris Administration’s three-part replenishment plan. "

MAIN FACTORS:

OIL PRICE:

- Oil prices have declined some 8% since the eve of the additional, coordinated, and voluntary cuts announced between the nine major members. Prices are now under the USD 80-85/bbl range - which activated the OPEC put in April 2023 and October 2022, according to Goldman Sachs. ***This supports the case for further production cuts.***

SUPPLY/DEMAND BALANCE:

- Desks expect the oil market to tighten on the back of Chinese demand continuing to come back online. Several prominent desks see the market in deficit in H2 2023. Analysts at ING believe the market to be in a deficit of some 2mln BPD over the latter part of 2023, while - Goldman Sachs' of "signs that the market remains on track for H2 deficits." ***This supports the case for a hold on production.***

ECONOMIC OUTLOOK:

- Analysts have been citing the recent rout in oil prices to extreme bearish positioning alongside expectations of global growth slowdown - not helped by sentiment from the mini-banking crisis alongside the US debt ceiling debacle. Chinese Data has mostly been disappointing recently, with the most recent Retail Sales, Industrial Output, and NBS Official PMIs all pointing to slower economic activity in China, although the Caixin Manufacturing PMI offered some relief as it was unexpectedly revised higher. ***This supports the case for further production cuts.***

US SPR:

- US Energy Secretary announced mid-May that the DOE is looking to purchase up to 3mln barrels of sour crude for the SPR. Despite the volumes being somewhat small (vs the 220mln barrels release), ING at the time suggested “the move does show that the US administration is serious about refilling the SPR, something that the market started doubting in recent months. ***This supports the case for a hold on production.***

RECENT CUTS:

- On April 2nd, 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 total cuts announced by OPEC amount 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. Desks suggest the group may want to, for this month at least, take a wait-and-see approach to observe the effects of these cuts. ***This supports the case for a hold on production.***

MAIN OPTIONS:

1) Make official the voluntary cuts, and expand cuts to smaller producers:

- The most recent cuts by the nine members were voluntary cuts, meaning that this does not impact the numbers in the OPEC+ output pact, although officialise this would make members bound to the voluntary cuts. In terms of the smaller producers cutting, desks suggest this will lead to only a modest impact on broader output.

2) Symbolic production cut:

- This has been seen before, in September 2022, OPEC+ opted for a symbolic 100k BPD output cut. Energy Intelligence at the time suggested "OPEC-plus ministers hope the decision will send a strong signal to the market that the alliance is serious about implementing further cuts in the future, if required."

3) Hold but hawkish rhetoric:

- It's fair to say a hold will likely exert more downward pressure on crude prices. To offset this (at least partly), the group will likely offer hawkish rhetoric and stress the readiness to act if needed.

Other nuances:

- OPEC+ will likely signal solid cohesion among members.

- Some are also keeping an eye on compliance and a possible compensation scheme. To recap, during the COVID period, the compensation scheme was designed to manage and counteract the overproduction of oil by certain countries within the agreement. Essentially, countries that failed to reach their output cut targets (producing more oil than they should according to the agreed-upon quotas) are expected to compensate for this overproduction in subsequent months. This would be accomplished by making extra cuts in their production equivalent to the excess production from previous months.

SAUDI-RUSSIA

- **Desks are keeping an eye on Saudi-Russo relations after shipping data offered evidence that Russia was not complying with the 500k BPD cuts it announced in March.**
- Vessel data tracked by Bloomberg suggests shipments of Russian crude beyond its borders are rising. "Crude shipments from Russian ports in the four weeks to May 21 were more than 480,000 barrels a day higher than during the four weeks to Feb. 26... February was the baseline month for the Russian production cut."
- Meanwhile, Kpler's data shows an increased flow of some 320k BPD over the same period.
- "Instead, shipments during the most recent period are up by more than 1mln barrels a day from the final four weeks of last year. **That figure's important, because Russia has claimed that seaborne crude flows have been supported since the output cut by the diversion of barrels previously delivered by pipeline to several European countries.**", Bloomberg says.

MEDIA BAN

- FT reported recently that a slew of media groups have been barred from attending the OPEC+ meeting this weekend.
- No reason was for the unusual ban by OPEC, although it was reportedly driven by Saudi.
- Organisations such as Bloomberg, Reuters, WSJ, Dow are all affected, while the FT, alongside a number of specialist trade publications, have received invitations.
- Given the meeting will be happening over the weekend and during market closures, all information should be known by the time oil futures come back online.

HOUSE CALLS:

GOLDMAN SACHS:

- "We expect the nine major OPEC+ producers which announced voluntary production cuts in April to keep production unchanged, but utilize some partly offsetting hawkish rhetoric."
- "We forecast a hold for major producers because they likely first want to observe the impact of fresh cuts which just started this month."
- "Looking beyond Sunday's meeting, we believe that elevated OPEC pricing power should allow the group to deliver additional cuts if oil prices were to remain below $80/bbl in H2."

HSBC:

- "We think OPEC+ will wait to see the impact of the latest series of cuts before making any further changes to supply."
- "We continue to think OPEC+ will take a flexible approach – if the expected deficit does not materialise in the summer, we could see further cuts from the organisation."

BARCLAYS:

- "likely remain proactive with a primary goal of avoiding a sustained surplus, in our view, as the sharp increase in inventory cover and ensuing further deterioration in sentiment might lead to a significant increase in volatility."
- "We forecast a supply deficit in the second half of the year as non-OPEC+ supply growth decelerates and OPEC+ countries restrain output amid a seasonal boost in demand."

RABOBANK:

- "We see OPEC+ staying the course and continuing the April cuts ... The surprise April cut boosted prices by $5-$7 for about three weeks."
- "A second cut would display their fears more openly and indicates greater weakness; we construe a second cut as a bearish signal unless the cuts are extremely substantive."

*SIDE NOTE: Platts, the price-reporting agency, has noted that the crude transactions used to determine the Brent price are becoming less frequent, increasing the risk of price manipulation by traders. To mitigate this, Platts will include transactions of West Texas Intermediate (WTI) Midland, a U.S. crude similar to Brent, in its calculations for deliveries starting from June 2023.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com