

## OPEC+ to take more action in 2020

Deeper cuts announced by OPEC+ in December should do a good job in supporting oil prices around current levels over the first quarter. But we still think the group will need to take action to tackle the surplus over the second



### OPEC performance

OPEC as a group has done well this year in sticking to its production cuts, with year to date compliance averaging around 137%. That strong overall number does, however, mask the lack of individual compliance by some members. Saudi Arabia has carried the deal, having produced around 500Mbbls/d below their initial quota, and that's helped tighten the market. This has made up for some of the poor compliance from the likes of Nigeria and Iraq. There will be pressure on these two nations to comply in the future, particularly with the group having just recently made deeper cuts.

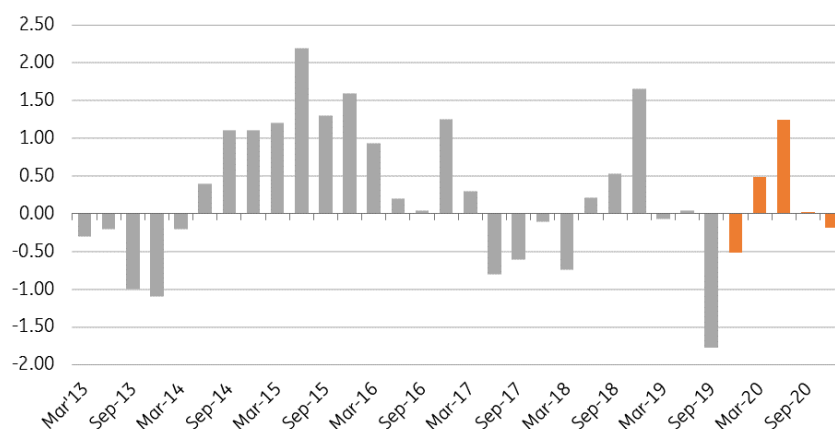
The largest OPEC declines have come from a member which is exempt from cuts. Iran has seen oil production fall by around 1.17MMbbls since October 2018 - the reference month for cuts for those members in the deal. The driver behind this fall has been the effectiveness of US sanctions in limiting exports of Iranian oil. Looking into 2020, we expect that Iranian output will remain stable at around 2.1MMbbls/d.

One factor that has made the life of OPEC+ even more difficult is the disappointing demand growth

seen this year. At the start of 2019, it was forecast that demand over the year would grow by 1.4MMbbls/d, while now the IEA is estimating that it will grow by just 1MMbbls/d. This slowdown shouldn't come as too much of a surprise given the ongoing trade uncertainty and slowdown witnessed in a number of economies.

Despite poorer demand growth, OPEC has managed to draw down inventories by almost 1.8MMbbls/d over 3Q19, and we forecast inventories will decline by around 500Mbbls/d over 4Q19.

## Global oil market balance (MMbbls/d)



Source: IEA, EIA, OPEC, ING Research

## The 2020 market outlook

The stock draws we have seen for much of this year are expected to reverse in the first half of 2020 despite the fact that the current OPEC+ deal is set to expire at the end of March next year. OPEC+ members at their December meeting agreed to deepen production cuts over 1Q20 by 500MMbbls/d, which takes total production cuts to 1.7MMbbls/d for the quarter. While these cuts alone are not overly constructive given that OPEC+ is already over-complying with the deal, the fact that Saudi Arabia has said it will produce 400MMbbls/d below its quota level makes the cuts look more meaningful. This would see Saudi Arabia producing around 9.7MMbbls/d in 1Q20 compared to an average of around 9.8MMbbls/d so far in 2019. Stronger cuts from Saudi Arabia mean that OPEC+ will in fact be cutting by 2.1MMbbls/d.

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There is no doubt that the decision from OPEC+ was constructive in the immediate term, with deeper than expected cuts. However, whilst the cuts will eat into a significant surplus over 1Q20, it still leaves the market in surplus of around 500MMbbls/d.

The other issue is that whilst OPEC+ has tackled a large part of the surplus in the first quarter of 2020, it has yet to address the surplus over the second quarter. We don't believe this is an issue given that this will be something OPEC+ discusses at its meeting in early March when the

group has a better picture on the 2020 environment. Our balance sheet suggests that OPEC+ will need to revert back to cuts of 1.2MMbbls/d over 2Q20 in order to keep the market in balance.

As for the second half of 2020, we see the market as more balanced, with the growing likelihood of a deficit over this period. As such, we don't expect any production limits to be agreed over the latter part of the year.

We believe that the action taken by OPEC+ will be enough to support prices in the short term. Expectations that OPEC+ will take action over 2Q20, followed by tightening market fundamentals for 2H20, mean that we see ICE Brent averaging US\$62/bbl over the year.

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

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