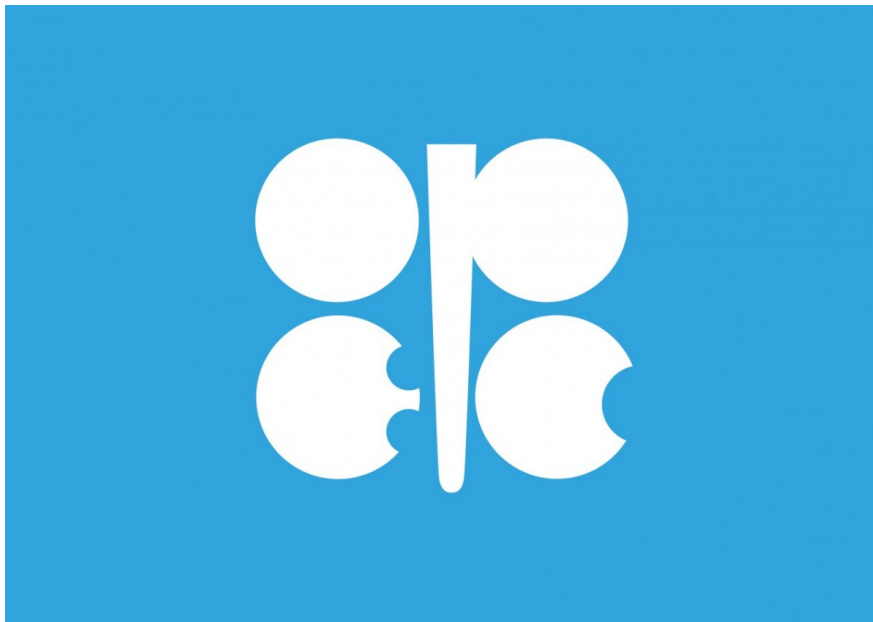


## OPEC+ supply increase an empty gesture

OPEC+ held yet another relatively quick meeting yesterday. Although rather than rubberstamping their standard increase, the group agreed to increase output by around 50% more for July and August. However, the impact of this increase should be fairly limited



### What did OPEC+ decide?

For a change, OPEC+ strayed from its standard increase of around 432Mbbbls/d when they met yesterday and instead agreed on a supply increase of around 648Mbbbls/d for both July and August. The output increase, as usual, will be prorated amongst members, including Russia.

There were reports leading up to the meeting that Russia could potentially receive an exemption from the output cut deal, which would have possibly opened the door for other members to increase output more aggressively. However, clearly, this has not happened.

Despite OPEC+ having agreed on production levels for the next 2 months, the group will still hold their next meeting on 30 June.

### Can they increase output by this amount?

The key point to note is that a number of OPEC+ producers have struggled to hit their production

targets for several months now, even with the smaller monthly increases that we have seen. Therefore, it is unlikely that the group will manage to hit these more aggressive supply increases for the next 2 months.

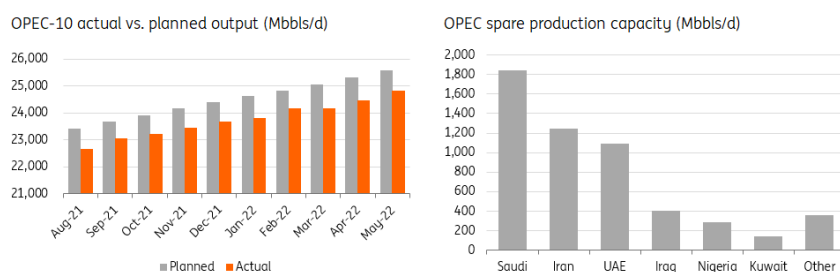
Russia will likely continue to see output edge lower, as sanctions increasingly start to bite. And most other producers do not have the capacity to increase output much more from their current levels. It is only Saudi Arabia, the UAE and Iraq who have a meaningful amount of spare capacity, and so we should at least see these three nations hitting their agreed output levels over the summer.

If Saudi Arabia and the UAE were willing to produce above their target levels, this would obviously be more helpful for the market, as they could compensate for the shortfall from other producers. However, as we have seen under this deal, they have generally not pumped above their agreed output levels. They could also be reluctant to eat too much into their spare capacity.

However, we will need to see what happens in the coming months, given that there are reports that President Biden is planning to visit Saudi Arabia, with the likely aim of getting Saudi Arabia to open the taps a bit further. There are US mid-terms later this year, and Biden will be feeling the pressure to try to lower gasoline prices ahead of these elections.

For now though, whilst on paper OPEC+ have agreed on a larger supply increase, in practice, we believe that the actual production increase will be much more modest. Therefore, this latest meeting has not changed our view and we still expect ICE Brent to average US\$122/bbl over the 2H22.

## OPEC-10 output falling short of targets & limited spare capacity



Source: IEA, OPEC, ING Research

### Author

**Warren Patterson**

Head of Commodities Strategy

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

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.