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 432Mbbls/d when they met yesterday and instead agreed on a supply increase of around 648Mbbls/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.

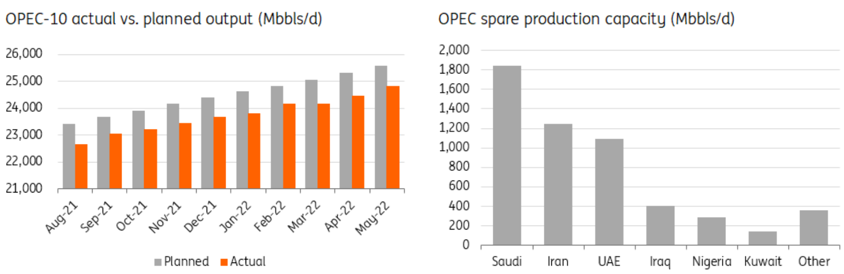
Russia will likely continue to see output edge lower, as sanctions increasingly start to bite. And most other producers do not have the capacity to increase output much more from their current levels. It is only Saudi Arabia, the UAE and Iraq who have a meaningful amount of spare capacity, and so we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

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