OPEC+ surprises the market again

OPEC+ is making a habit of surprising the market these days, with the group deciding it would keep output levels largely unchanged for April. Only Russia and Kazakhstan will be easing next month, by a combined 150Mbbls/d, which is far less than the 1.5MMbbls/d the market was expecting

Very limited OPEC+ easing

In the lead up to Thursday's meeting there was plenty of uncertainty around what OPEC+ might do, particularly given the strength that we have seen in the market so far this year, with Brent up more than 28% YTD.

The group at the start of the year held off from easing output cuts, whilst we also saw Saudi Arabia surprise the market back then with an additional 1MMbbls/d of voluntary cuts for February and March. So, heading into Thursday's meeting, expectations were that we would at least see Saudi Arabia end its voluntary cut , however the Kingdom has decided that it will continue to hold off this supply from the market through the month of April as well.

Meanwhile, the stronger price environment led to the expectation that there would be pressure from within the group to start easing, particularly from the likes of Russia. Expectations were that the group would ease cuts by 500Mbbls/d, however this has not happened. Instead only Russia and

Kazakhstan will be increasing output, by 130Mbbls/d and 20Mbbls/d respectively. These were the only two members to ease over February and March as well, with the group using the excuse that it is due to “seasonal consumption patterns”.

While OPEC+ clearly do see improving fundamentals for the oil market, they are still conscious of the fact that there is plenty of uncertainty around the demand outlook, and so do appear to be taking a more cautious approach.

There is also an element where OPEC+ do not believe that US oil production will be able to respond to the higher price environment, at least not any time soon. This was pretty clear with the Saudi energy minister commenting that “drill baby, drill is gone forever”. If this is the attitude that OPEC+ are taking it does suggest that they believe they can push prices even higher, without the risk of losing market share. Meanwhile, political pressure from the US will likely be less, with President Trump now out of office. Although saying that, there will likely be growing pressure from other key importers.

Tighter market, higher prices

Clearly due to the lack of easing, we will see a tighter than expected market in the coming months, which should send prices higher in the short term. However, with the group next set to meet on 1 April it is difficult to see how they could justify maintaining current output levels further into 2Q21. Pressure within the group will only grow to increase output in the current price environment. In addition to this, we will need to see how compliance holds up, with stronger prices increasing the temptation for some members to increase output. We expect that higher prices for the remainder of this month will push the group to start easing more aggressively from 1 May onwards. This should bring some stability to prices. However, as we have seen a couple times already this year, it is risky second guessing what OPEC+ may do.

Given the latest decision from OPEC+, we have revised higher our oil price forecasts, and would not be surprised to see Brent testing US$70/bbl ahead of the next OPEC+ meeting. Assuming they decide to start easing then, it should bring some stability to the market. We see Brent averaging US$67/bbl over 2Q21, and US$70/bbl over 2H21. A stronger demand recovery over 2H21 should continue offering support to prices, as OPEC+ eases. Meanwhile, for 2022 we have made only minor changes, with stronger prices now suggesting that we could see further upside in US output next year.

ING oil price forecast

Current	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
ICE Brent (US$/bbl)	62	67	70	70	68	70	73	70
NYMEX WTI (US$/bbl)	59	64	67	67	65	67	70	67
Previous	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**	**3Q22**	**4Q22**
ICE Brent (US$/bbl)	60	63	66	69	65	70	73	70
NYMEX WTI (US$/bbl)	58	61	64	67	62	67	70	67

Source: ING Research

Knocking on US shale’s door

Taking the view that the US shale industry will not bounce back is a brave one. If we have learnt anything in recent years, it has been how resilient the US oil industry can be.

In the short term, clearly the US industry will struggle to respond to these higher prices. However, come 2022 there is the potential for further production growth from the US. The US oil rig count has trended higher for the last 5 months or so, and with prices set to remain well supported, we would expect to see the level of drilling activity to only pick up in the months ahead. This does suggest further upside to US oil output next year. At the moment, the EIA is forecasting that US oil production will grow by around 500Mbbls/d YoY, while there are some forecasts for even stronger US output growth going into 2022, and these will only grow if we continue to see further price strength through this year. If we look at the WTI forward curve, it is basically trading above US$55/bbl through until the end of 2022, while the entire forward curve is above US$50/bbl.

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