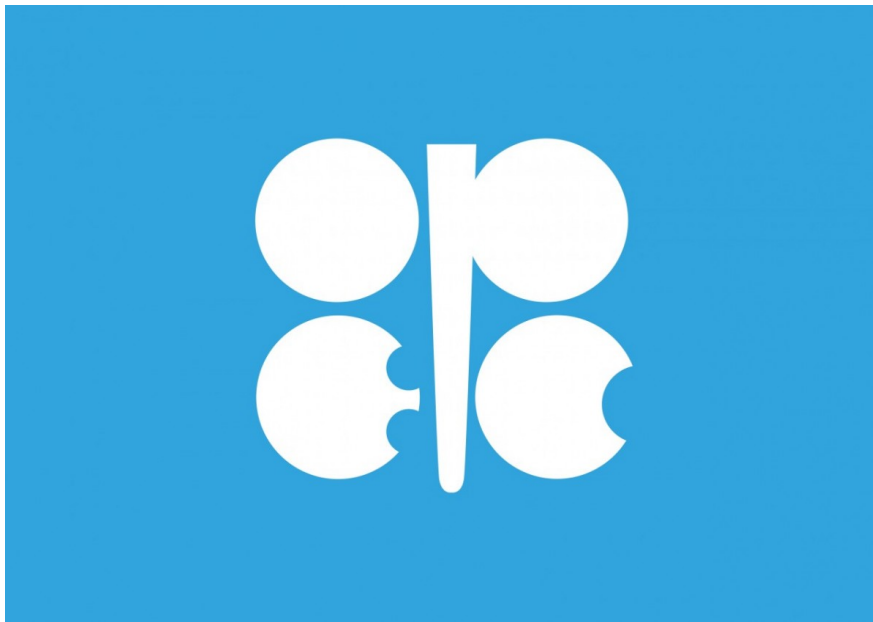


We have an OPEC+ deal

OPEC+ members met once again yesterday to try to finalise a deal. The sticking point had been Mexico not willing to accept its allocated cut. However the group has now agreed on the deal, and cuts are set to go ahead



Size of OPEC+ cuts marginally smaller

Given that Mexico was not willing to accept its full allocated cut, the OPEC+ group has marginally revised lower the overall scale of the cuts. Rather than cutting by 10MMbbls/d over May and June ([as we mentioned yesterday](#)), the group have now agreed to cut by 9.7MMbbls/d over this period. This will then be reduced to 7.7MMbbls/d over 2H20, and further reduced to 5.8MMbbls/d from January 2021 through until the end of April 2022.

Is it enough? And what does it mean for prices?

As we [mentioned in our note yesterday](#), while these cuts are significant, there is still a sizeable surplus expected over the second quarter. Therefore, we still believe that there is downside risk to oil prices from current levels in the short-term. However, the floor for the market is likely somewhat higher, therefore we have revised higher our ICE Brent forecast for 2Q20 from US\$20/bbl to US\$25/bbl.

Given the scale of the cuts through until the end of this year, along with organic declines from other producers, like the US, the outlook for prices over 2H20 does now look more constructive. This is particularly the case if we assume a recovery in demand over the latter part of the year. These factors should lead to sizeable inventory draws by the time we enter that period, and we have consequently revised higher our ICE Brent forecast for 3Q20 from US\$35/bbl to US\$37/bbl, whilst our 4Q20 forecast has been revised from US\$45/bbl to US\$50/bbl.

Clearly demand remains a key uncertainty and risk to this view. If travel restrictions and country lockdowns continue into 2H20, this would likely slow the demand recovery expected for the latter part of this year.

In addition to this, there is always the issue of compliance. The group has agreed on historic cuts, and now we have to see whether they will stick to them. Unlike previous deals, it is hard to see the likes of Saudi Arabia cutting output by more than their quota, in order to make up for shortfalls from others, given the scale that they have already agreed to cut.

Author

Warren Patterson

Head of Commodities Strategy

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>.