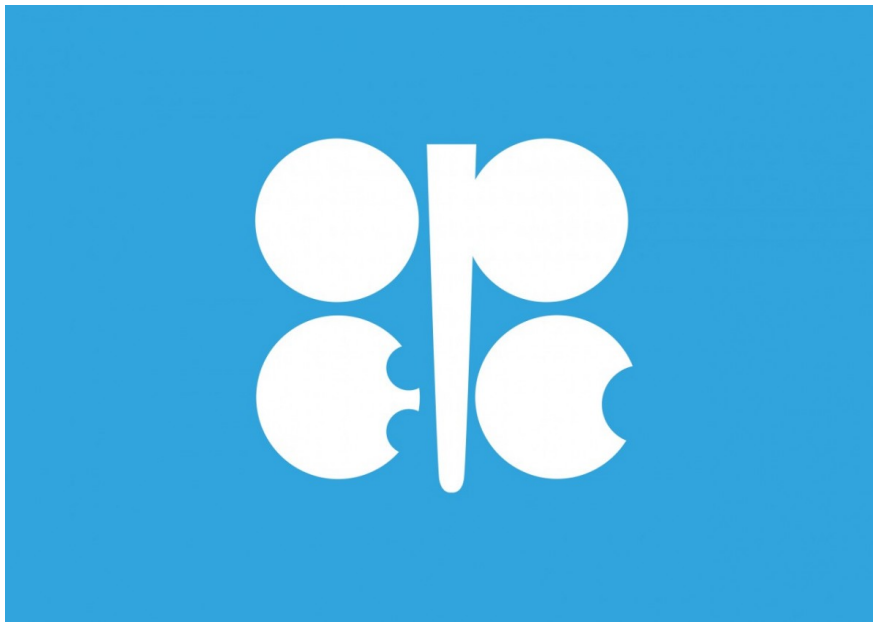


## We have an OPEC+ deal

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

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