

## OPEC+ cuts output

After an eventful two days, the group pleasantly surprised the market by agreeing to cut output by 1.2MMbbls/d. But the big question for the market now is will this be enough?



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### What was agreed?

As we were [expecting](#) in the lead up to OPEC+ meetings, the group agreed they would cut oil production by 1.2MMbbls/d from October 2018 levels starting in January for an initial six month period.

The group will meet once again in April 2019 to review the deal. OPEC producers will make up 800Mbbls/d of the cut, while non-OPEC members will contribute 400Mbbls/d. It makes sense that OPEC+ have decided to meet in April to review the deal, as this coincides with when current waivers for buyers of Iranian oil expire.

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One of the difficulties in the negotiations this week was around exemptions for certain countries. Iran made it very clear that given current US sanctions, it would only support the deal if it was exempted from making cuts. This did seem to delay the decision during the OPEC meeting on Thursday; however, the group have finally agreed that Iran will be exempt from the deal, along with Venezuela and Libya.

Interestingly, this does mean that Nigeria will now be part of the production cuts, which is a change from the previous deal, where they got relief, due to production at the time, well below their normal levels.

The other big issue was around how much Russia was willing to cut, with initial reports suggesting that they would only be willing to cut by a maximum of 150Mbbbls/d. These reports certainly weighed on the market. However, Russia does appear to have finally relaxed its stance, agreeing to cut production by 2% from October levels. This is equivalent to a cut of around 220Mbbbls/d. However, the Russian Energy Minister has said that it will take several months for Russia to hit 100% conformity with the deal- much like we saw at the start of 2017 with the initial deal.

[Crude oil: Crunch time for OPEC+](#)

## Saudi Arabia carries the group

Saudi Arabia will be making significant cuts under the extended deal.

In October, Saudi Arabia produced 10.63MMbbbls/d, which will be the reference number used for reductions. However, Saudi Arabia, according to the Saudi Energy Minister produced 11.1MMbbbls/d in November, so as a starting point Saudi Arabia will have to cut by around 500Mbbbls/d just to get back to the October reference month before the agreed cuts are actually made.

The Saudis believe that they will produce around 10.7MMbbbls/d over December, and then in January, as a result of the deal along with lower seasonal demand, production is expected to fall to 10.2MMbbbls/d. This suggests that Saudi Arabia will cut 900Mbbbls/d from November levels.

### What does this mean for the market?

Assuming strong compliance with the deal, the global balance sheet should be largely balanced over the first half of 2019. This return to balance is also helped out by Canada's announcement that it would cut oil output by 325Mbbbls/d until they have brought domestic inventories back to normal levels.

As a result of these cuts, we continue to hold the view that prices should trend back above US\$70/bbl in the short term. Meanwhile, our 2019 average forecast for ICE Brent is US\$70/bbl.

However, there is still plenty of uncertainty as we move into 2019. First, how will President Trump respond to OPEC's announced cuts? Secondly, there are still demand concerns as we move into the New Year, and how this evolves will depend largely on trade talks between China and the US. Then finally, the market will be watching very closely what happens with Iranian output and exports as we approach the expiry of waivers for buyers of Iranian oil in April.

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