

The Commodities Feed: OPEC+ disagreement

Your daily roundup of commodity news and ING views



Source: Shutterstock

Energy

OPEC+ had been doing a good job up until now in showing a united front, with the group wanting to avoid a repeat of March last year when they failed to come to an agreement. Back then, that lack of agreement started a brief price war. Heading into yesterday's highly anticipated meeting, expectations were that OPEC+ would agree on a supply increase of 500Mbbbls/d for August. However, as the meeting got underway there were reports that the group had come to a preliminary agreement to increase output gradually by 2MMbbbls/d between August and December. It is unsurprising that the market rallied on the back of this news, which works out at an increase of just 400Mbbbls/d per month, less than the market was expecting at least for August. OPEC+ had also reportedly come to a preliminary agreement to extend the output cut deal from April 2022 until the end of 2022, with worries that the market would return to surplus when the deal expires in April. Both of these factors are constructive for the market, and this was reflected in the price action as details emerged, with Brent edging closer towards US\$77/bbl.

However, despite the preliminary agreement, the group failed to come to a final agreement. The sticking issue was the UAE wanting to increase its baseline for production cuts, which would in

effect mean that the UAE would be allowed to increase output further. Currently, the UAE's baseline is around 3.2MMbbls/d, and there are reports that they want this increased to around 3.8MMbbls/d. This request was rejected by other members. Talks are set to resume today, in order to try to reach a deal. Failure to come to an agreement could mean that the group continues with current levels of production, which would mean that the market tightens even quicker. Although, the will of some members to stick to their quota under such a scenario would likely be weak, and there is the potential for supply to increase regardless.

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>.