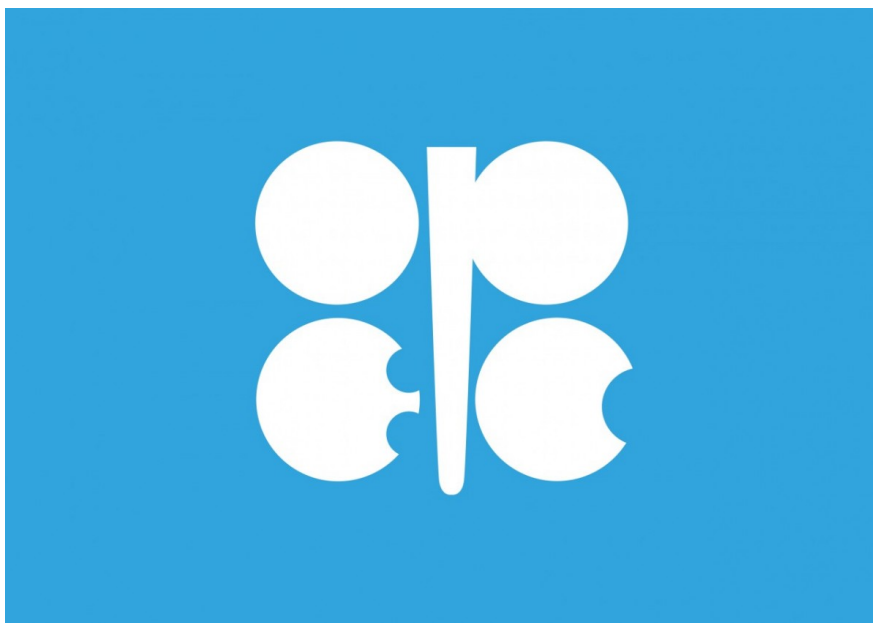


The Commodities Feed: OPEC+ sticks to output hike plan

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Energy

OPEC+ surprised the market yesterday choosing to stick to its plan of increasing oil output by 400Mbbbls/d in January. This would mean that under the deal, the group can produce 40.49MMbbls/d over the month with OPEC's share totalling 24.55MMbbls/d. Expectations heading into the meeting were that the group would at least pause supply increases for a month. As a result, the immediate price reaction was for Brent to fall towards US\$66/bbl and it was down around 4% at one stage. However, this weakness was short-lived and Brent managed to finish the day up more than 1%. The market appears to have taken comfort in the fact that OPEC+ is willing to reconvene and adjust production if necessary due to the Omicron variant.

The decision by the group appears to be an attempt to buy themselves more time. There is still plenty of uncertainty around what the full impact from Omicron will be and so deferring a potential decision until there is more clarity is likely the best course of action. In addition, it appears that some of the pressure that we have seen from the US on Saudi Arabia and the broader group to stabilize oil prices may have worked. Had OPEC+ paused supply increases, the US administration would have possibly perceived this as the group retaliating against its recent SPR

release announcement. And that would have done little to help relations between the Kingdom and the Biden administration.

There is still plenty of uncertainty in the near term with regards to price direction and as a result, the market is likely to remain volatile. The short-term outlook will depend on how governments around the world react to the Omicron variant in the coming weeks. However, until there is more clarity we continue to hold the view that ICE Brent will average US\$76/bbl over 2022. As we have seen in the past, any demand hit would likely see OPEC+ react, which should provide a floor to prices.

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