# QatarEnergy to acquire two new exploration blocks offshore Egypt


QatarEnergy has signed a farm-in agreement with ExxonMobil to acquire a 40% participating interest in two exploration blocks offshore Egypt.

Under the terms of the agreement, which is subject to customary approvals by the government of Egypt, QatarEnergy will acquire a 40% working interest in each of the “Cairo” and

“Masry” Offshore Concession Agreements, while ExxonMobil (the Operator) will retain the remaining 60% working interest.

Commenting on the signing of this agreement, HE Minister of State for Energy Affairs, the President and CEO of QatarEnergy Eng. Saad bin Sherida Al Kaabi said: “I am pleased with our entry into the Cairo and Masry offshore exploration blocks as they expand QatarEnergys presence in the Arab Republic of Egypt and extend our ambitious exploration program in-country.”

“We look forward to working with our valued long-term strategic partner ExxonMobil, as well as with the Egyptian Natural Gas Holding Company (EGAS) and the Egyptian Ministry of Petroleum and Mineral Resources, in this promising and prospective region. I would like to take this opportunity to thank the Egyptian authorities and our partners for their valuable support and cooperation,” His Excellency added.

The Cairo and Masry offshore exploration blocks were awarded to ExxonMobil in January 2023, and cover an area of approximately 11,400 square kilometers in water depths of 2,000 to 3,000 meters.

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# Opec sticks to oil demand view, nudges up economic growth


LONDON, March 12 (Reuters) – OPEC on Tuesday stuck to its forecast for relatively strong growth in global oil demand in 2024 and 2025, and further raised its economic growth forecast for this year saying there was more room for improvement.

The Organization of the Petroleum Exporting Countries said in a monthly report that world oil demand will rise by 2.25 million barrels per day (bpd) in 2024 and by 1.85 million bpd in 2025. Both forecasts were unchanged from last month.

A further boost to economic growth could give additional tailwind to oil demand. OPEC's 2024 growth forecast is already higher than that of the International Energy Agency (IEA), and the two are further apart than they have been for at least 16 years in their demand views.

In the report, OPEC said a "robust dynamic" for economic growth towards the end of 2023 was expected to extend into the first half of 2024 and raised its 2024 economic growth forecast by 0.1 percentage points, following a hike last month.

"While some downside risks persist, a continuation of the expected momentum from the beginning of the year could result in additional upside potential for global economic growth in 2024." OPEC said in the report.

"The 2024 and 2025 growth trajectories of India, China, as well as the United States, could exceed current expectations."

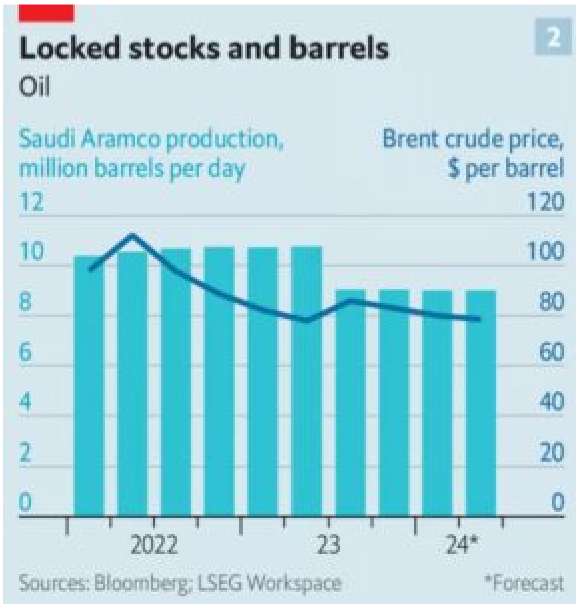
OPEC has stuck to the same demand growth figure since making its first 2024 prediction last July.

Conflict in the Middle East and supply outages have supported oil prices in 2024, although concerns about continued high interest rates have weighed. Brent crude on Tuesday was trading around $82 a barrel.
A rise in prices in February took place as oil market fundamentals continued to strengthen, OPEC said in the report, adding that geopolitical tensions also supported prices.
OPEC now sees world economic growth of 2.8% in 2024, supported by the expectation of a continued easing in general inflation throughout this year. It kept next year’s forecast steady at 2.9%.
“It is anticipated that domestic political and geopolitical developments will likely not significantly impact the growth momentum,” OPEC said.

## BULLISH OPEC, CAUTIOUS IEA

For this year, OPEC’s expectation of oil demand growth is much more than the expansion of 1.22 million bpd so far forecast by the IEA. The IEA, which represents industrialised countries, is scheduled to update its forecasts on Thursday.
OPEC believes oil use will keep rising for the next two decades, while the IEA predicts it will peak by 2030 as the world shifts to cleaner energy. The two have clashed over this and related issues such as the need for more oil industry investment.
According to a Reuters analysis of IEA and OPEC monthly reports dating back to 2008, the 1.03 million bpd gap in their February demand growth forecasts was the biggest in per-barrel terms for this point in the year.
OPEC and the wider OPEC+ alliance have implemented a series of output cuts since late 2022 to support the market. A new cut for the first quarter took effect in January and earlier this month was extended to cover the second quarter.
The OPEC report also said that OPEC oil production rose by 203,000 bpd in February to 26.57 million bpd led by Nigeria and Libya, despite a new round of voluntary output cuts by the OPEC+ alliance that started in January.

# Is Saudi Aramco cooling on crude oil?


Don't bet on it

Has saudi arabia stopped believing in a bright future for petroleum? That is the question that in recent weeks has hung over Saudi Aramco. The desert kingdom's national oil goliath has a central position in the world's oil markets. Its market value of $2trn, five times that of the second-biggest oil firm, ExxonMobil, and its rich valuation relative to profits are predicated in large part on its bountiful reserves of crude and its peerless ability to tap them cheaply and, as oil goes, cleanly (see chart 1). So Saudi Arabia's energy ministry stunned many industry-watchers in January by suspending the firm's long-trumpeted and costly plans for expanding oil-production capacity from 12m to 13m barrels per day (b/d). Was it proof that even the kingpin of oil had finally accepted that oil demand would soon peak and then begin to decline?

To get a hint of Aramco's answer, all eyes turned to its financial results for 2023, reported on March 10th. No one expected a repeat of the year before, when high oil prices and surging demand propelled Aramco's annual net profit to $161bn, the highest ever for any listed firm anywhere. But analysts and investors were still keenly interested in the extent of the decline in the company's revenue and profit, in any changes to its capital-spending plans and, possibly, in the unveiling of an all-new strategy.

In the event, profits did fall sharply, from $161bn in 2022 to $121bn last year, though that was still the second-best performance in the company’s history. Thanks to a recently introduced special dividend, Aramco paid nearly $100bn to shareholders last year, 30% more than amid the bonanza of 2022. It also promised to hand over even more in 2024.

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image: the economist
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introduced special dividend, Aramco paid nearly $100bn to shareholders last year, 30% more than amid the bonanza of 2022. It also promised to hand over even more in 2024.

Shovelling a larger chunk of a smaller haul to owners could, on its own, imply that the company is indeed less gung-ho about its oily future. Except that the rich dividend was accompanied by two developments that point in the opposite direction. First, Aramco is rumoured to be preparing a secondary share offering that could raise perhaps $20bn in the coming months—a move typically associated with expansion rather than contraction. Second, even more tangibly, Aramco is already ramping up capital spending.

Its annual results reveal that investments rose from less than $40bn in 2022 to around $50bn last year. In a call with analysts on March 11th Aramco confirmed that the suspension of its planned capacity expansion will save around $40bn in capital spending between now and 2028. But, it added, that does not mean Aramco is not investing. On the contrary, the aim is to spend between $48bn and $58bn in 2025, and maybe more in the few years after that.

A bit of that money will go to clean projects such as hydrogen, carbon capture, renewables and other clean-energy technologies. Some will go to cleanish ones, such as expanding Aramco's natural-gas production by over 60% from its level of 2021 by 2030, and backing liquefied-natural-gas projects abroad. But most is aimed at ensuring that Aramco can maintain its ability to pump up to 12m b/d of crude.

Given the company's actual output of around 9m b/d (see chart 2), this does not compromise its ability to move markets. If anything, it strengthens Aramco's position because it implies spare capacity of 3m b/d—above the company's historic average of 2m-2.5m b/d, according to Wood Mackenzie, a consultancy. The world's biggest oil firm is, in other words, committed both to pumping oil and to preserving Saudi Arabia's role as the market’s swing producer.

That is in part because the company is also committed to pumping money into the economic vision for Saudi Arabia championed by Muhammad bin Salman, the kingdom’s crown prince and de facto ruler. This became more evident on March 7th, when Aramco announced the transfer of 8% of its shares, worth $164bn, out of the hands of the government and into the Public Investment Fund (pif), a vehicle for Saudi sovereign wealth which Prince Muhammad has tasked with diversifying the economy. This leaves the pif with 16% of Aramco, compared with the 2% or so that is owned by minority shareholders and traded on the Riyadh stock exchange (the rest remains directly in the government’s hands).

In light of all this, Saudi Arabia’s plans to suspend the expansion of production capacity do not reflect a u-turn away from hydrocarbons. Rather, the pause is born of a hard-headed assessment of market realities: a surge in oil production in the Americas, soft demand in China and cuts to output from the opec cartel (of which Saudi Arabia is the most powerful member). As Amin Nasser, Aramco’s chief executive, summed it up in the results presentation, “Oil and gas will be a key part of the global energy mix for many decades to come, alongside new energy solutions.” And so will Aramco. ■

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# Freezing weather is knocking out millions of barrels of US oil output

The wintry weather that blanketed parts of Texas in snow and hammered North Dakota with extreme cold has knocked out millions of barrels of US oil production, and the industry is expected to need weeks to restore output to normal levels.

Production across the US was curtailed by about 10mn barrels this week, according to market participants who asked not to be named because the information is private. Losses in the Permian Basin of Texas and New Mexico are estimated at around 6mn barrels and shut-in output in North Dakota’s Bakken is seen at close to 3.5mn barrels.

In Midland, in the heart of the Texas Permian, temperatures dipped below freezing in 11 out of the 19 days of this month. The cold has been especially bitter in past few days, with the lows below 20F (-7C) for most of the week, according to Accuweather.

Extremely low temperatures freeze water at the wellhead, shutting in production. Icy roads make it diff icult for vacuum trucks — used to haul away waste water — to reach drill pads, causing drillers to either halt pumping or curtail rates, the people said.

The losses currently amount to lessthan 1% of total US crude production, which is around 13mn barrels a day,but they are expected to linger or even rise in North Dakota. In the city of Williston, at the centre of the Bakken formation, below-freezing temperatures are expected

throughout the end of the month, posing continued challenges. Oil producers there may need at least a month to restore output to normal
levels after more than half of the state's flows were cut off this week, state off icials said.

Natural gas gathering systems that are connected to oil wells fill up with liquids during extreme cold, disrupting the operation of
compressors, said Lynn Helms, North Dakota's mineral resources director. Crude wells are then shut in to avoid flaring.

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# Europe's energy crisis is over

LONDON, Nov 28 (Reuters) – From mid-2021 until late 2022, Europe and parts of Asia were gripped by an energy crisis, as oil, gas, coal and power prices surged, in some cases to record highs, forcing households and firms to cut use rapidly.

Russia’s invasion of Ukraine and sanctions imposed in response by the U.S. and its allies disrupted energy supplies that were already stretched by the rebound in industrial production after the coronavirus epidemic.LONDON, Nov 28 (Reuters) – From mid-2021 until late 2022, Europe and parts of Asia were gripped by an energy crisis, as oil, gas, coal and power prices surged, in some cases to record highs, forcing households and firms to cut use rapidly.

Russia’s invasion of Ukraine and sanctions imposed in response by the U.S. and its allies disrupted energy supplies that were already stretched by the rebound in industrial production after the coronavirus epidemic.

But 18-24 months later, the acute phase of the adjustment is complete, with energy inventories comfortable and prices reverting towards long-term inflation-adjusted averages.

Chartbook: Europe’s energy supplies and prices

There will undoubtedly be more shocks in future, but the disruption associated with the end of the pandemic and Russia’s invasion of Ukraine is over. Markets have adapted.

Europe’s residual issue is that it has swapped relatively cheap Russian pipeline gas for relatively expensive LNG, putting its industrial competitiveness at risk, but that is a chronic problem rather than a crisis.

# OIL

In the oil market, U.S. domestic crude and condensates production has continued to increase and surpassed its pre-pandemic peak in August 2023. Other non-OPEC production sources are also growing steadily.

High-frequency data from the U.S. shows commercial crude inventories were 12 million barrels (+3% or +0.26 standard deviations) above the prior ten-year seasonal average in mid-November, an indication the market is comfortably supplied.

Front-month Brent crude futures have averaged $82 per barrel so far this month, exactly in line with the median since the start of the century after adjusting for inflation.

Brent’s six-month calendar spread has traded in an average backwardation of $1.57, only modestly above the long-term average of $1.04.

By late 2022 and early 2023, fears about over-production and the potential accumulation of oil inventories had replaced concerns about insufficient supplies and the rapid depletion of stocks.

In response, Saudi Arabia and its OPEC+ partners have cut output multiple times to avert an incipient inventory build, in stark contrast to pressure on them a year earlier to raise output to relieve anticipated shortages.

## GAS

Rapid adjustment has also been evident in gas, where U.S. inventories have been consistently above the prior ten-year seasonal average since February 2023, and exports have increased to record rates.

Front-month U.S. gas futures prices have traded close to their lowest levels for 30 years, once adjusted for inflation, confirming the market is responding to an incipient surplus.

In Europe, gas storage has been at record seasonal levels continuously since the end of the first quarter of 2023 following an unusually warm winter in 2022/23 and sharp falls in industrial gas consumption.

Germany’s energy-intensive manufacturing production is down by around 17% since the start of 2022 and shows no sign of recovering.

Total gas use in the European Union’s top 7 consuming countries – Germany, Italy, France, Netherlands, Spain, Belgium and Poland – was down by 13% in the first nine months of 2023 compared with the pre-invasion ten-year seasonal average for 2012-2021.

Inflation-adjusted futures prices for the year ahead have averaged 48 euros per megawatt hour so far in November, down from 223 euros at the height of the crisis in August 2022.

In real terms, year-ahead prices have averaged 53 euros so far in 2023 compared with 23 euros in the five years between 2015 and 2019 and 32 euros between 2010 and 2014.

While prices are still high, they are no longer at crisis levels, and are likely to retreat further in the course of 2024.

## COAL

An even more profound adjustment has occurred in coal, with demand falling sharply as gas supplies have become more plentiful while mine production has ramped up.

Real year-ahead prices for coal delivered to Northwest Europe have averaged just $112 per tonne in November 2023 (69th percentile since 2010) from a record of almost $300 per tonne in September 2022.

On the production side, China, the world’s largest coal miner, increased output by 425 million tonnes (10%) in 2022 and has boosted it by another 144 million tonnes (4%) so far in the first ten months of 2023.

## ADJUSTMENT

Each market has experienced a slightly different adjustment process, but all have been variations of faster production growth and slower consumption increases.

In oil, consumption has grown more slowly owing to a slowdown in the business cycle, while production outside OPEC+ has increased faster, pushing the market towards a surplus.

Russia’s exports have remained high despite sanctions through avoidance (exploiting legal loopholes designed to keep exports flowing and increasing use of dark fleet tankers) and evasion (mis-declaring cargo prices).

In gas, Europe experienced an unusually warm winter in 2022/23 which cut consumption, and has also seen a large reduction in industrial demand from the most energy-intensive users as factories have suspended output.

Europe was able to replace piped gas from Russia with more LNG imports, outbidding other customers in South and East Asia in winter 2022/23, forcing some of the adjustment burden onto poorer countries.

In coal, China’s increasing mine output plus an exponential increase in renewable generation from wind and especially solar have eased shortages and enabled generators to boost fuel inventories.

Other factors that have contributed to the adjustment include high levels of hydro production in Brazil cutting the need for LNG imports, and an unusually mild autumn in Northwest Europe in 2023.

But the common factor is the enormous scale of the price rises in 2021 and 2022, which accelerated and telescoped the adjustment process into a relatively short period.

As a result, after a brutally painful adjustment in 2021 and 2022, production, consumption and inventories have become much more comfortable by the end of 2023 and into 2024, and the crisis phase is over.

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# Regional Energy Expert Roudi Baroudi Earns Award from Washington Think Tank

**Transatlantic Leadership Network Recognizes Author for Contributions to Peaceful Development in Eastern Mediterranean**

WASHINGTON, DC November 9, 2023: Doha-based Lebanese author Roudi Baroudi was one of two people presented with the 2023 Transatlantic Leadership Award at a ceremony in Washington this week.

Although circumstances relating to the conflict in the Gaza Strip prevented Baroudi from attending the event, both he and Joshua Volz – the Deputy Assistant Secretary for Europe, Eurasia, Africa, and the Middle East and the Office of International Affairs at the US Department of Energy – were recognized by the Transatlantic Leadership Network (TLN). Each was cited at a gala dinner on Monday for his “valuable contribution in building a peaceful and prosperous Eastern Mediterranean” as part of the TLN’s 2nd Annual Conference on Freedom of the Media.

“I was deeply honored to be named a recipient of this prestigious award, and I will always be grateful for the many ways in which the TLN has supported my work for several years now,” Baroudi said. “I also look forward to working together in the future so that one day, our descendants can know the benefits of peace and coexistence. It is precisely in difficult and trying times that cooler heads must be able and willing to look at the reasons for current bloodshed and recrimination, then envision pathways to a better future.”

Baroudi, who serves as CEO of independent consultancy Energy and Environment Holding in Doha, is a long-time champion of dialogue, cooperation, and practical solutions to both the global climate crisis and recurrent tensions in the East Med. A regular speaker at regional energy and policy conferences, Baroudi’s insights are also avidly sought by local and international media, as well as governments, major energy companies, and investors.

Having advised both public and private sector actors on a wide variety of energy issues, Baroudi is widely credited with bringing unique perspective to all manner of policy discussions.  He is the author of several books, including “Maritime Disputes in the Eastern Mediterranean: The Way Forward” (2021), and “Climate and Energy in the Mediterranean: What the Blue Economy Means for a Greener Future” (2022). Together with Notre-Dame University – Louaize, Baroudi has also published a study of the US-brokered October 2022 Maritime Boundary Agreement between Lebanon and Israel, and is currently preparing another volume on Lebanon’s prospects for similar deals with Cyprus and Syria.

The TLN describes itself as “a nonpartisan, independent, international network of practitioners, private sector leaders and policy analysts dedicated to strengthening and reorienting transatlantic relations to the rapidly changing dynamics of a globalizing world.”

Monday’s ceremony was attended by a broad cross-section of high-profile figures, including senior officials from the Departments of Energy and State, numerous members of Washington’s extensive diplomatic corps, and representatives of both international organizations and various media outlets.

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# Bumper profits ebb at US oil giants as they tout big fossil deals

NEW YORK, Oct 28: ExxonMobil and Chevron reported lower profits Friday compared with the year-ago blowout quarter as the oil giants touted recent acquisitions they said balance economic and environmental priorities.

The two petroleum heavyweights — which in recent weeks have unveiled large takeovers of midsized fossil fuel players — both reported third-quarter profits that were big, but dwarfed by those in the year-ago period.

ExxonMobil reported third-quarter profits of $9.1 billion, less than half the level in the 2022 period of booming commodity prices, while Chevron scored profits of $6.5 billion, down 42 percent from the year-ago level.

The lower profits reflected an ebbing in commodity prices compared with the year-ago period, when Russia's invasion of Ukraine lifted oil and natural gas prices.

The results were released only days after Chevron announced a $53 billion acquisition of Hess that includes a significant stake in an oil-rich Guyana offshore territory.

That followed on the heels of ExxonMobil's $60 billion takeover of Pioneer Natural Resources, a big player in the Permian Basin, a fast-growing petroleum region in the southwestern US.

The two large transactions have raised hopes among investment bankers of additional merger and acquisition activity involving fossil fuels, while angering progressive lawmakers and others focused on addressing climate change.

“While our homes get destroyed by climate-supercharged storms, Chevron and Exxon are betting the house on a fossil-fueled future,” Democratic Senator Ed Markey said on X, formerly Twitter, earlier this week.

“We have to make Big Oil fold their hand before our future goes bust.”

In the latest quarter, ExxonMobil scored higher oil and natural gas volumes compared with the second quarter and said that 2023 capital and exploration spending would be “at the top end” of its forecast “as the company pursues value accretive opportunities,” according to its earnings press release.

“We delivered another quarter of strong operational performance, earnings and cash flows, adding nearly 80,000 net oil-equivalent barrels per day to support global supply,” said Chief Executive Darren Woods.

ExxonMobil has said it plans significant investment in Pioneer’s Permian Basin fields that would enable Exxon to more than double its current volumes from the region to two million barrels of oil equivalent per day in 2027.

In its press release, ExxonMobil characterized its approach as a balanced strategy, noting the company has also announced a $4.9 billion takeover of Denbury Inc. as a bet on carbon capture and sequestration, which the company has touted as a climate solution. ExxonMobil said its would boost petroleum output and “accelerate Pioneer’s path to net zero” emissions.

“The two transactions we’ve announced further underscore our ongoing commitment to the ‘and’ equation by continuing to meet the world’s needs for energy and essential products while reducing emissions,” Woods said.

“Pioneer will help us grow supply to meet the world’s energy needs with lower carbon intensity while Denbury improves our competitive position to economically reduce emissions in hard-to-decarbonize industries.”

Chevron’s results also showed an uptick in third-quarter production, with the company citing the boost from it earlier purchase of PDC Energy, smaller Permian operator.

Chevron as well highlighted its comparatively small efforts in its “New Energies” division, which last month closed a transaction to acquire a majority stake in Aces Delta. The first projet in that venture will convert and store hydrogen made from renewable energy, is expected to enter commercial service in 2025.

“Chevron is delivering strong financial results while also investing to profitably grow our traditional and new energy businesses to drive superior value for shareholders,” said Chevron Chief Executive Mike Wirth.

But critics such as clean energy podcaster David Roberts ripped both deals, saying on X, “Oil companies are quite flagrantly telling the world that they don’t take decarbonization goals seriously. They are betting on climate failure, to the tun of billions.”

Shares of ExxonMobil rose 0.3 percent in pre-market trading, while Chevron fell 2.1 percent. �AFP

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# Saudi Aramco considers selling $50bn in shares


**Saudi Aramco is considering selling a 2.5% stake in the company worth $50 billion, the Wall Street Journal is reporting.**

Mohammed Bin Salman, crown prince of Saudi Arabia, is said to be pushing the secondary share sale of the company and aiming to complete the deal by year-end.

The WSJ said Aramco has been "sounding out" potential investors, such as other multinational oil companies and sovereign wealth funds, about participating in the deal.

The kingdom is said to have decided to host the offering on the Riyadh Stock Exchange to avoid legal risks associated with an international listing, the report said, citing Saudi officials and other people familiar with the plan.

The WSJ said Saudi Arabia had planned to sell Aramco shares worth up to $50 billion last year, but decided that market conditions were unfavourable.

Saudi Aramco is **said to be** the world's biggest oil company, with a market value of $2.25 trillion.

In 2019, the company **executed the largest initial public**

**offering (IPO) in history**, raising $25.6 billion, and then sold additional shares to increase the total to $29.4 billion.

In 2022, Saudi Aramco reported a record net profit of $161.1 billion — its highest annual profit as a listed company.

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# IEA Raises World Oil Demand Forecast In 2023 Towards All-time High

The International Energy Agency said Friday it had revised upwards its forecast for global oil demand growth in 2023 as demand is “scaling record highs”.

World oil demand already hit a record 103 million barrels per day in June and August and “could see yet another peak”, the Paris-based IEA said in its monthly report.

“For 2023 as a whole, global oil demand is set to expand by 2.2 million barrels per day to 102.2 million barrels per day,” it said.

China accounted for 70 percent of growth, the IEA said, adding that demand in the Asian giant was “also stronger than expected, reaching fresh highs despite persistent concerns over the health of the economy”.

“World oil demand is scaling record highs, boosted by strong summer air travel, increased oil use in power generation and surging Chinese petrochemical activity,” the IEA said.

The forecasted expansion in global demand in 2023 would mark its “highest ever annual level”, according to the agency, which in February had already forecast an annual record for the year of 101.9 million barrels per day.

The increasing demand for oil comes amid tensions on world markets after significant output cuts by several members of the OPEC+ alliance — made up of 13 members of the Organization of the Petroleum Exporting Countries (OPEC) headed by Saudi Arabia and their 10 allies led by Russia — to prop up prices.

As a result, global oil supply plunged by 910,000 barrels per day in July, to 100.9 mbd, the IEA said in its report.

A sharp reduction in production by Saudi Arabia last month saw output from the 23-nation OPEC+ alliance fall 1.2 million barrels per day, to 50.7 mbd “a near two-year low”.

Volumes by non-OPEC+ members rose to 50.2 mbd, the report added.

In April, several OPEC+ members decided to slash production voluntarily by more than one million bpd — a surprise move that briefly buttressed prices but failed to bring about lasting recovery.

Oil producers are grappling with falling prices and high market volatility, reflecting continued fallout from the Russian invasion of Ukraine and China's faltering economic recovery.

Saudi Arabia also announced last week that it was extending its voluntary oil production cut of one million barrels per day for another month to include September.

Moscow has pledged, too, to cut production by 500,000 bpd in August, and a further cut of 300,000 bpd for September.

"Market balances are set to tighten further into the autumn as Saudi Arabia and Russia extend supply cuts at least through September," the IEA said.

If the bloc's current targets are maintained,oil inventories could fall in the second half of the year "with a risk of driving prices still higher".

Looking ahead to 2024 as the world races to combat climate change and reduce the use of fossil fuels, the IEA said it anticipated demand growth to slow.

"With the post-pandemic rebound running out of steam, and as lacklustre economic conditions, tighter efficiency standards and new electric vehicles weigh on use, growth is forecast to slow to 1 mbd in 2024," it said.

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# Saudi Arabia's Oil Cut Risks

# Leaving Bitter Taste for Budget

Saudi Arabia’s plan to slash oil production by around 10% may hit its finances hard.

Sunday’s decision, which will see the kingdom lower crude output to 9 million barrels a day next month and perhaps beyond, has failed to boost prices much. Oil futures have risen less than 1% since Energy Minister Prince Abdulaziz bin Salman announced the unilateral cut after an OPEC+ meeting.

The prince, speaking in Vienna, described it as a “lollipop” for other members of the producers’ cartel.

The kingdom’s fiscal outlook was worsening even before this weekend. The budget was in deficit for the past two quarters as oil dipped, while spending on salaries and massive tourism and infrastructure projects soared.

The International Monetary Fund estimates Riyadh will need an oil price of almost $81 a barrel to balance its books this year, which is above Brent’s current level of around $77.

The situation is starker when Crown Prince Mohammed bin Salman’s giga-projects such as the new city of Neom are taken into account. The IMF mostly excludes those because they’re largely funded by the sovereign wealth fund and other state entities, rather than directly from the government’s budget.

If those are included, Saudi Arabia’s breakeven oil price rises to $95 a barrel, according to Bloomberg Economics.

The Saudi government is more optimistic and expects to post an annual fiscal surplus of $4.3 billion for this year.

The kingdom was the fastest-growing economy in the Group of 20 last year, as Russia’s invasion of Ukraine roiled energy markets and pushed oil above $125 a barrel. It also pumped an average of 10.5 million barrels a day, an annual record.

Saudi Arabia’s Solo Oil Cut Is a Risky Strategy: Javier Blas

The latest production cut means the economy will probably grow 0.7% in 2023 instead of 1%, according to Monica Malik, chief economist at Abu Dhabi Commercial Bank PJSC.

It “will also increase Saudi Arabia’s budget breakeven oil price if all other things remain equal,” said Malik.

Many energy analysts, as well as the Organization of the Petroleum Exporting Countries, expect the oil market to tighten in the second half of the year as demand in China and India picks up further. That could bolster prices, outweighing the financial impact on Saudi Arabia of its lost production.

But plenty of traders are bearish, saying high interest rates and economic weakness in the US and Europe will weigh on oil prices for at least the rest of the year.

Riyadh’s move to lower output is “unlikely to underpin a sustainable price increase,” said Citigroup Inc. analysts including Ed Morse. “Demand is looking weaker and non-OPEC supply stronger by year-end than many analysts had forecast.”

If oil doesn’t jump, “we expect that additional production cuts will be more prolonged and the impact on the fiscal balance will be more negative” for Saudi Arabia, said Amy McAlister, lead economist for Europe, Middle East and Africa at Oxford Economics.

— *With assistance by Paul Abelsky*