

New Opec cuts to tighten markets, widen oil market deficit in H2: Emirates NBD



New Opec cuts may tighten markets considerably and widen the oil market deficit in the second half of this year, Emirates NBD said Monday.

The regional banking group forecasts Brent to average \$92.50/barrel in H2, 2023.

Some members of Opec+ have announced a “surprise” production cut to take effect from May and be held until the end of the year. Saudi Arabia will cut output by 500,000 barrels per day (bpd) while several other members will also cut output substantially.

The UAE will cut by 144,000 bpd, Iraq by 211,000 bpd and Kuwait will cut output by 128,000 bpd.

The production changes will mirror “voluntary” cuts of 500,000 bpd that Russia is making in response to sanctions that have been placed on its oil exports.

“Including Russia’s cuts, the total reduction from Opec+ will

be about 1.6mn bpd though as several members of Opec are already failing to hit their output targets, the scale of the cut is likely to be smaller," Emirates NBD said in a report.

"The move surprised markets and analyst consensus. Our own expectation was that Opec+ would keep production unchanged from the levels it set in October last year when it also implemented a supply cut," Emirates NBD noted.

As recently as February this year, Prince Abdulaziz bin Salman, Saudi Arabia's energy minister, said that the "agreement that we struck in October is here to stay for the rest of the year," referring to planned cuts of 2mn bpd announced in October last year.

Since then, financial markets have endured considerable stress due to the collapse of several institutions in the US along with the descent of Credit Suisse.

That strain in financial markets did spill over into oil prices – West Texas Intermediate (WTI) futures recently hit a bottom of \$64/b on March 20 – though prices were already on their way higher with WTI ending last week at \$75.67/b.

The announced cuts from several Opec members will widen the oil market deficit in the second half of 2023, provided they are held for the full tenure of the agreement.

"Our prior oil market balance assumptions had a deficit emerging in H2 this year as demand was set to recover strongly from Q2 onward as China's oil demand normalised. With the new cuts from Opec+ taken into the baseline, the deficit will near on 3m b/d by Q4 this year and drain inventories down to 53 days of OECD demand. The pre-pandemic average for inventory days of demand had been about 62 days so the cuts will have a meaningful tightening effect on balances," noted Edward Bell, senior director, Market Economics at Emirates NBD.

The cuts from Opec+ ministers reinforce Emirates NBD's view that oil prices will recover from recent lows, particularly in H2.

"For now, we hold our recently revised oil forecasts unchanged – targeting Brent at an average of \$92.50/b in H2 – though the cuts do provide some upside risks to that view," he said.