

# Opec+ cuts set to tighten Mideast crude supply to Asia and Europe



Middle East crude oil supplies are set to tighten further from May after Opec+ announced plans to cut output again, raising costs for refiners from Asia to Europe and pushing them to seek more supply from Russia, Africa and the Americas.

Oil prices jumped more than \$4 a barrel on Monday after the Organisation of the Petroleum Exporting Countries and their allies including Russia surprised markets by announcing production cuts of about 1.16mn barrels per day (bpd) from May through the rest of the year.

The pledges will bring the total volume of cuts by the group known as Opec+ since November to 3.66mn bpd according to Reuters calculations, equal to 3.7% of global demand.

Opec+ had been expected to hold output steady through the end of this year, having cut output by 2mn bpd in November last

year.

An official at a South Korean refiner said the cut was “bad news” for oil buyers and Opec was seeking to “protect their profit” against concerns of a global economic slowdown.

The supply cut would drive up crude prices just as weakening economies depress fuel demand and prices, squeezing refiners’ profits, the South Korean refining official and a Chinese trader said.

Both declined to be identified as they were not authorised to speak to media.

Tighter Opec+ crude supply will be negative for Japan as it may further boost inflation and weaken its economy, Takayuki Honma, chief economist at Sumitomo Corp Global Research, said.

“Producing countries apparently want to see oil prices rise to \$90-\$100/bbl, but higher oil prices also mean higher risk of economic downturn and sluggish demand,” he added.

The Opec+ production cuts come as purchases by China, the world’s top crude importer, are expected to hit a record in 2023 as it recovers from the Covid-19 pandemic, while consumption from No 3 importer India remains robust, traders said.

At the same time, European refiners’ demand for Middle East crude has risen – especially for Basrah Heavy and Oman crudes – to replace Russian oil banned by the European Union since December, traders and an Indian refining official said.

“Now they’ll face the heat,” he said, predicting the market will become “very tight”.

Kuwait has already notified buyers it will cut exports to keep more crude for its Al Zour refinery, and Saudi Aramco is ramping up operations at its Jizan refinery.

Top exporter Saudi Aramco, which had been expected to cut official selling prices for term oil sales to Asia in May, may now decide to raise prices instead, traders said.

With higher prices and less supply of Middle East sour crude, China and India may be pushed to buy more Russian oil, boosting revenue for Moscow, said the Indian refining official, who declined to be named as he was not authorised to

speak to media.

The rise in Brent prices could push Urals and other Russian oil products to prices above the caps set by the Group of Seven Nations (G7) aimed at curbing Moscow's oil revenues, he said.

While traders and analysts had expected crude to be in surplus in the second quarter with Asian refineries down for maintenance and French refineries shut due to strikes, they now expect the Opec+ cuts to tighten markets ahead of summer, the high-demand season.

The Opec cuts would help soak up the excess volumes in the west, said a Chinese refining source. Refiners in Japan and South Korea said they are not considering taking Russian barrels due to geopolitical concerns and may look for alternative supply from Africa and Latin America.

"Japan could seek more supply from the United States, but bringing the US oil through the Panama Canal is expensive," Sumitomo's Honma said.

Traders are also watching for responses from the United States, which called Opec+'s move inadvisable.

"In essence, the purpose of this massive surprise production cut is mainly to regain market pricing power," the Chinese trader said.