

Opec signals intention to keep limits on oil supply all year amid Russia doubts



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Key producers in Opec signalled their intention to keep oil supplies constrained for the rest of the year, while pledging to prevent any genuine shortages.

It was less clear how far Russia, their main partner in the wider Opec+ producers' coalition, shared that view. While most nations at a meeting in Saudi Arabia on Sunday supported extending production cuts to the end of 2019, Russian Energy Minister Alexander Novak talked about potentially relaxing the curbs and wanted to wait and see what happens in the next month.

"We need to stay the course, and do that for the weeks and months to come," Saudi Energy Minister Khalid al-Falih told reporters after the meeting in Jeddah.

The contrasting messages underscore the uncertainty in the global market. If ministers don't agree to an extension next

month, the production cuts that ended the worst oil-industry downturn in a generation will expire. Yet their decision is clouded by the impact of US sanctions on Iran and the risk to demand from President Donald Trump's trade war with China.

In a market where the preponderance of risks are on the supply side – with Venezuela and Libya also facing disruptions – what Saudi Arabia chooses to do with its ample spare production capacity may be a crucial factor in the coming months.

On Sunday, al-Falih gave a strong indication that prices were the priority and he wasn't about to open the taps.

Benchmark Brent crude rose as much as 1.7% yesterday, and traded up 0.5% at \$72.58 a barrel as of 10.40am in London.

Continuing the Opec+ accord into the second half wouldn't rule out a production increase. Saudi Arabia has been cutting far deeper than required under the deal and could boost output by about 500,000 barrels a day – equivalent to almost half Iran's exports – without breaching its limit.

Yet al-Falih said production in May and June will be held at the current level of 9.8mn barrels a day. Regardless of what Opec+ decides next month, output in July won't exceed the kingdom's limit in the deal of 10.3mn barrels a day, he said.

The meeting of the Joint Ministerial Monitoring Committee, which oversees the deal between the Organization of Petroleum Exporting Countries and its allies, was generally supportive of an extension, and nobody rejected the idea, Nigerian Oil Minister Emmanuel Ibe Kachikwu said in an interview.

Even so, the committee didn't make a formal recommendation to prolong the supply curbs, concluding instead that further monitoring of the market was necessary, with a focus on managing inventories and keeping supply and demand in balance.

The fate of the group's production cuts, which amounted to about 2% of global supply last month, will be decided on June 25 to 26 in Vienna, just days before they expire. That's a volatile situation for the oil market, giving traders very little time to adjust if there's an unexpected shift in policy.

Russia's Novak affirmed his commitment to the historic

alliance, saying the production cuts have “proved very efficient.” But before and after the meeting he also spoke of the possibility of relaxing the cuts. “We need to promptly react to the situation now and potential developments in the second half,” Novak said before the meeting. “If the demand grows, if a deficit is there, we are ready to consider a relaxation of the current parameters, partial output recovery.”

Extending the deal is also on the table, and Russia would comply with any agreed output limit in the second half of 2019, Novak said.