

Opec's flaring crises add new risk for oil supply



Bloomberg/London

Opec may have no appetite to cut oil production deeper when it meets next month, but flaring political crises across the group are once again threatening supply.

Unrest erupted in Iraq and Iran this month – two of the Middle East's biggest producers – as people took to the streets protesting financial hardship and bad governance. That's adding to the range of supply threats already afflicting the Organization of Petroleum Exporting Countries, from economic collapse in Venezuela to simmering discontent in Algeria.

"We kind of had a second Arab Spring, but it's been under the radar," said Helima Croft, chief commodities strategist at RBC Capital Markets. "The real question is what is going to happen in Iraq."

Iraq, Opec's second-biggest producer, has cracked down on demonstrations against corruption in recent weeks that have spread to the southern oil hub of Basra. Iran has seen its oil exports slashed by US sanctions and is suppressing protests

spurred by the resulting economic stagnation.

Opec and its allies – who together pump about half the world's oil – will meet in Vienna in early December to consider production levels for 2020, having cut output this year to prevent a global surplus. Despite signs that fragile demand and surging US shale supply will unleash a new glut, they've signalled no desire to reduce output further.

They may not have a choice.

In recent years, unplanned supply disruptions within Opec nations have done as much to keep markets balanced as the group's deliberate cutbacks. Iran and Venezuela have lost a combined 1.7mn barrels a day since last October, more than all 24 nations in the Opec+ coalition agreed to cut this year.

As turmoil intensifies across the group, next year could see more accidental losses: oil prices of about \$60 a barrel are already below levels most Opec nations need to cover government spending, and a further slump would only deepen the strain.

"There is no better way to put it: the geopolitical risk is rising in the Middle East again," said Tamas Varga, an analyst at PVM Oil Associates Ltd in London.

Algeria is struggling to placate a mass youth-led movement seeking change after ousting long-term President Abdelaziz Bouteflika earlier this year, and Libya remains split by armed factions. Ecuador, which will leave Opec in January, suffered a 20% slump in oil production last month amid riots and looting.

In Iran protests were triggered by an increase in gasoline prices.

The biggest risk is posed by Iraq, according to RBC's Croft. While the country's oil sector has proven robust during recent turbulence, even boosting output when Islamic State militants captured swathes of territory five years ago, the latest demonstrations reflect a new level of popular discontent.

"If you had attacks on infrastructure, oil workers going on strike – Iraq is the place that could surprise the market," she said.