Saudi Arabia and Russia Discuss Scaling Back Global Oil Cuts

- Easing output curbs “on the table”; no decision yet: Al-Falih
- OPEC, allies to discuss loosening supply caps in June: Novak

Saudi Arabia and Russia, the oil producers who led the effort to shrink a global glut, said they are discussing easing output curbs for the first time.30

While scaling back the supply caps is “on the table,” no decision has been made, Saudi Arabian Energy Minister Khalid Al-Falih said in an interview early Friday morning in St. Petersburg. The Organization of Petroleum Exporting Countries and its partners will in June discuss loosening the curbs that began in 2017, Russian counterpart Alexander Novak said at the same interview after a meeting between the two officials.

Speculation is swirling over when and by how much the producers will scale back cuts after they eliminated an inventory surplus that had sparked a price crash about four years ago. Market uncertainty has risen following renewed U.S. sanctions on Iran that may curb the Islamic Republic’s exports, and as economic turmoil in Venezuela drives a collapse of the OPEC member’s oil industry. Crude’s rebound is also spurring concern that demand may falter.

Russia and Saudi Arabia share a common view on “consuming countries’ anxiety and concerns over potential supply shortages,” Al-Falih said. “We will ensure that the market remains in its trajectory towards rebalancing, but at the same time we will not overcorrect.” The two nations will meet at least two more times before OPEC and its partners gather in Vienna next month, he said.

While Saudi Arabia has shown a desire for higher prices to bankroll domestic economic reforms and underpin the valuation of its state oil company in a planned initial public offering, the top OPEC member and its allies are facing pressure from consuming nations as well as crude producing companies.

High Enough

Indian Petroleum Minister Dharmendra Pradhan said earlier this month that he expressed concern about rising crude and its impact on consumers to Al-Falih. He added that the Saudi energy minister had assured him that the Middle East nation and other producers would ensure that adequate supplies are available and that prices remain reasonable. In developing countries from Brazil to the Philippines, drivers are complaining about high fuel costs.

In Russia, some of the largest oil producers called for more flexibility after almost 17 months of output curbs. The cuts have achieved their goal and crude prices near $80 a barrel are high enough, according to the bosses of Lukoil PJSC and Gazprom Neft PJSC. Novak said that he will hold talks with the nation’s crude producers next week or the week after to discuss the deal with OPEC.

“Earlier we said that we will monitor the market situation, now we can say that we are looking into the issue” of a smooth recovery in output to meet growing demand, Novak said in the interview on Friday. He added that he and Al-Falih discussed prices and the market situation, including Venezuelan production and risks related to Iran.

The Saudi minister said he’ll meet Novak again in Moscow on June 14, adding that another meeting between the two is possible before that.

U.S. Supply

In Washington, Democrats are using high gasoline prices, approaching $3 a gallon for the first time since 2014, as a political tool, accusing the White House of not doing enough to shield consumers.

Recent price gains have been driven by American actions such as President Donald Trump’s withdrawal from a 2015 deal between Iran and world powers that had eased sanctions on the Persian Gulf state in exchange for curbs on its nuclear program. Earlier this month, Al-Falih and United Arab Emirates Energy Minister Suhail Al Mazrouei said recent moves in oil prices have been driven by geopolitics and that global supply remains ample.

Additionally, record production in the U.S., which is not part of the deal among global producers to cut output, is a key issue that’s complicating strategy for OPEC and its allies.

Brent crude, the benchmark for more than half the world’s oil, was down 0.4 percent at $78.49 a barrel at 7:31 a.m. in London. Earlier this month, prices had traded above $80 a barrel for the first time since November 2014. U.S. West Texas Intermediate futures were at $70.49 a barrel in New York.

“We will be coordinating closely, monitoring the market almost on a daily basis,” Al-Falih said on Friday. “We’ll consult with other countries. Each of them has a voice and their voices matter to us.”

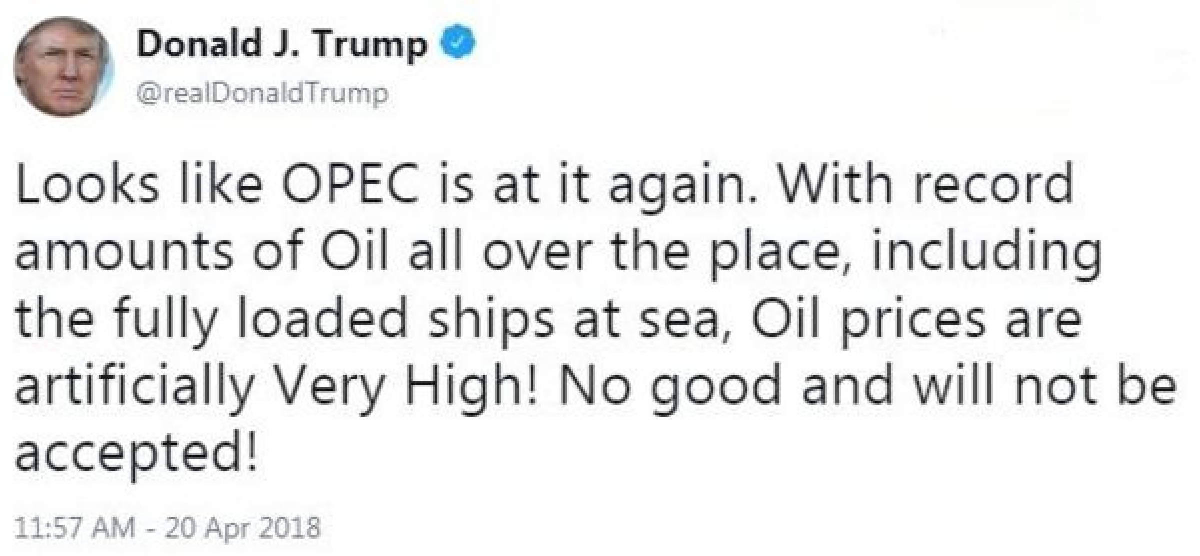
Under Pressure From Trump, Saudis Put Brakes on Oil’s Rally

- Riyadh supports a gradual increase in oil output over summer
- Middle East oil producers worried about U.S. anti-trust laws

The world’s largest oil exporter just made quite a policy swerve. Within six weeks, Saudi Arabia has gone from advocating higher prices to trying to stop the rally at $80 a barrel.

The U-turn scrambled the outlook for oil markets, hit the share prices of oil majors and shale producers and set up a diplomatic wrangle with other members of the Organization of Petroleum Exporting Countries.

What changed? The supply threats posed by the re-imposition of U.S. sanctions on Iran oil exports earlier this month and the quickening collapse of Venezuela's energy industry are both part of the answer, but they're secondary to Donald Trump. On April 20, the president took to Twitter to lambaste the cartel's push for higher prices. "Looks like OPEC is at it again," he tweeted. "Oil prices are artificially Very High!"



Trump's intervention gave typically strident voice to a concern held more widely in the U.S. and other consuming countries: oil's rally from less than $30 in early 2016 to more than $80 this month risked becoming a threat to global economic growth.

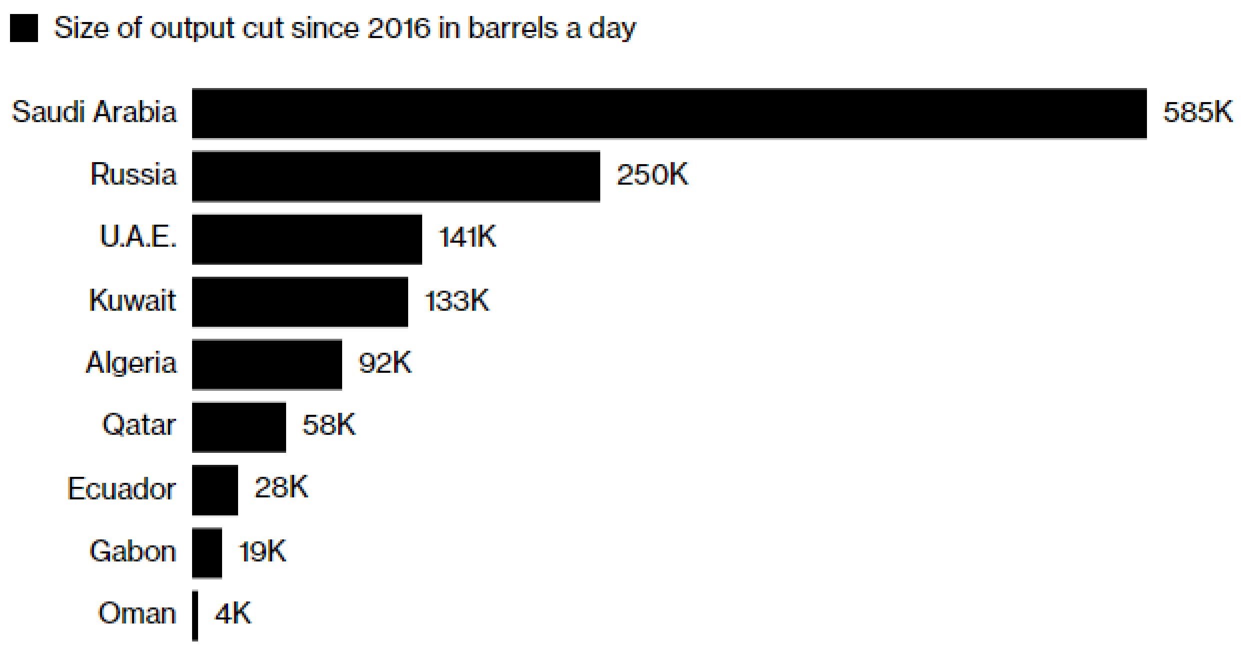
On Friday, Saudi Oil Minister Khalid Al-Falih responded, saying his country shared the "anxiety" of his customers. He then announced a shift in policy that all but gave a green light for a market sell-off, saying OPEC and its allies were “likely” to boost output in the second half of the year.

“The tweet moved the Saudis,” said Bob McNally, founder of consultant Rapidan Energy Group LLC in Washington and a former White House oil official. “The message was delivered loud and clear to Saudi Arabia.”

After Al-Falih’s comments, made following a meeting with his Russian counterpart in St. Petersburg, saw crude drop more than $3 to below $67 a barrel in New York on Friday. The bullish tone of recent market chatter, increasingly punctuated with talk about oil prices climbing past $100, $150 and even $300, suddenly looks overdone.

Who’s Got the Juice?

Saudi Arabia and Russia could potentially return the most oil to the market.



It wasn’t just the U.S. Other major buyers of Saudi crude also put pressure on Riyadh to change course, albeit a little more diplomatically than Trump. Dharmendra Pradhan, the Indian petroleum minister, said he rang Al-Falih and “expressed my concern about rising prices of crude oil."

OPEC officials were in a meeting at the opulent Ritz-Carlton hotel in Jeddah on Saudi Arabia's Red Sea coast when Trump tweeted his views and they immediately saw it as a significant intervention.

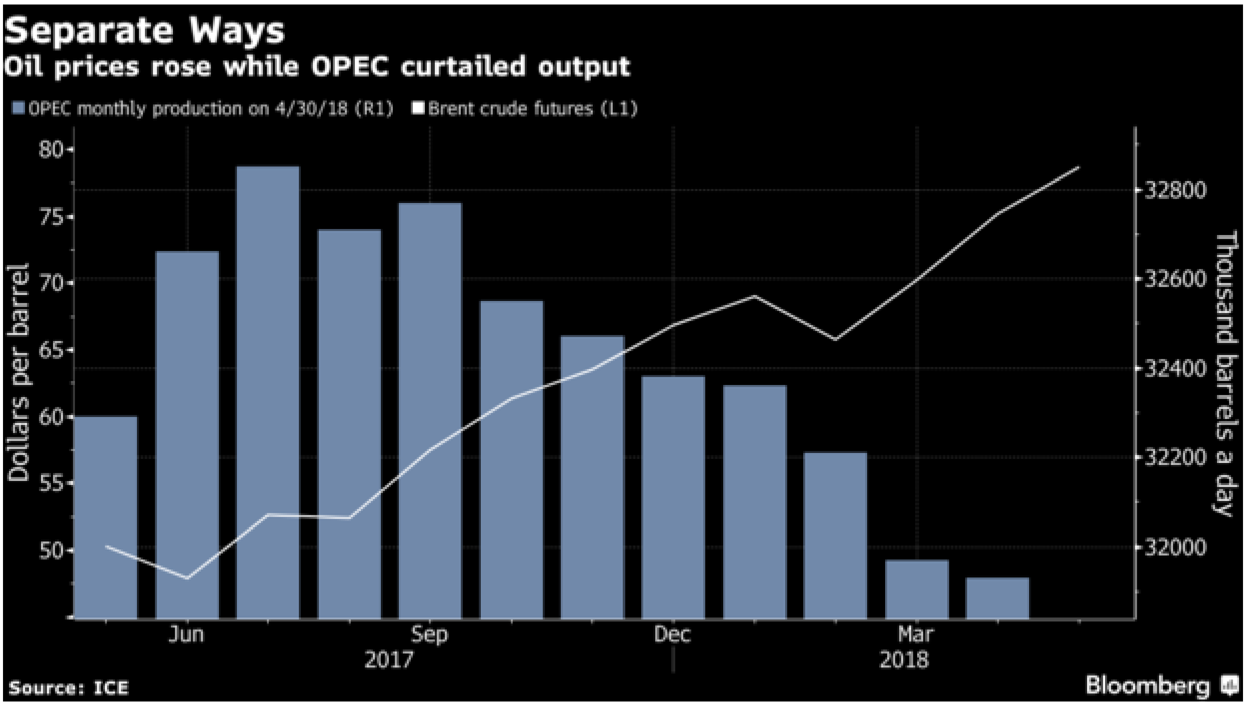
"We were in the meeting in Jeddah, when we read the tweet," OPEC Secretary General Mohammad Barkindo said on Friday. "I think I was prodded by his excellency Khalid Al-Falih that probably there was a need for us to respond," he said. "We in OPEC always pride ourselves as friends of the United States."

To read a story on how consumers are responding higher prices, click here.

Diplomats and oil officials in OPEC countries were also worried about the potential revival in Washington of the so-called "No Oil Producing and Exporting Cartels Act," which proposes making OPEC subject to the Sherman antitrust law, used more than a century ago to break up the oil empire of John Rockefeller.

The bill first gained prominence in 2007 when George W. Bush was president and oil prices were flirting with $100 a barrel and made a comeback several years later under Barack Obama. While it was opposed by those presidents, the risk for OPEC was that Trump "could break with his predecessors and support its passage," said McNally.

In a sign that oil prices were climbing Washington's agenda as gasoline prices approached the $3 a gallon mark, last week a sub-committee in the U.S. House of Representatives held a rare hearing on the NOPEC act.



There are also indications that Russia, whose decision to participate in OPEC's cuts helped turnaround the oil market, has decided the rally has run far enough.

"We're not interested in an endless rise in the price of energy and oil," Putin told reporters in St. Petersburg on Friday. "I would say we're perfectly happy with $60 a barrel. Whatever is above that can lead to certain problems for consumers, which also isn't good for producers."

OPEC and its allies will gather in Vienna for a policy meeting on June 22 to hammer out a deal. While Al-Falih and Russia's Novak have indicated that output will most likely increase, the details — how many barrels from which countries — are still a question mark.

"In an environment of low inventories and rising geopolitical outages, raising some supply is prudent," said Amrita Sen, oil analyst at Energy Aspects Ltd.

Oil producers are debating an increase ranging from 300,000 barrels a day at the low end, backed by Gulf producers including Saudi Arabia, and a larger increase of about 800,000 barrels a day favored by Russia, a person familiar with matter said on Friday.

“It’s too early now to talk about some specific figure, we need to calculate it thoroughly,” Novak said.

Even though Al-Falih’s comments brought about an immediate price reaction, there are still reasons for people to be bullish as traders await the impact of U.S. sanctions against Iran and wider political tensions in the Middle East.

And with global oil demand growing strongly, hedge funds will shift their focus on diminishing global spare capacity as OPEC returns barrels to the market. The U.S. government estimates the cushion at just 1.34 million barrels a day next year, below the 1.4 million reached in 2008 when oil prices surged to nearly $150 a barrel.

In a letter to investors earlier this month, Pierre Andurand, the bullish oil hedge fund manager, warned that if Saudi Arabia needs to “offset production declines from Iran and Venezuela” global spare capacity would decline to perilous levels.

“Oil prices could potentially surge to record high levels to force demand destruction very quickly,” he wrote.

Looks like OPEC is at it again.


Donald J. Trump
@realDonaldTrump

Looks like OPEC is at it again. With record amounts of Oil all over the place, including the fully loaded ships at sea, Oil prices are artificially Very High! No good and will not be accepted!

11:57 AM - 20 Apr 2018

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A Trump Darling, Gas Exports, Set to Gain as Iran Deal Dies

Another darling of the Trump administration is poised to gain from the Iran deal breakup as oil surges: Natural gas exports.

With the move to curb Iran’s oil output encouraging more shale drilling, prices for natural gas produced alongside crude in West Texas could crater, falling to zero some days, according to Tudor Pickering Holt & Co. Already, the gas sold at West Texas’ Waha hub is down 51 percent for the year.

That’s bad for producers selling the fuel in the U.S., but good for companies that export it in tankers. As the market for liquefied natural gas grows in Asia, being able to source gas at its cheapest should give U.S. exports a leg up.

From Secretary of Commerce Wilbur Ross to the President himself, the White House has long sung the praises of increasing American LNG exports to help trim the trade deficit with Asian countries. Meanwhile, the Permian boom has filled pipelines to capacity, trapping gas in the region and making prices there the cheapest of any major U.S. shale play.