U.S. Oil Surge Makes Bank of Russia Skeptical on OPEC+ Success

Russia's central bank is not convinced that OPEC and its allies' supply cuts can revive the oil market as it's being countered by surging U.S. production.

The Bank of Russia cut its crude price outlook for next year to $55 a barrel from $63 on higher supply risks, mainly related to "fast output increase" in America, according to Governor Elvira Nabiullina. Just a week ago the country's Energy Minister Alexander Novak brokered a deal that led to the so-called OPEC+ group agreeing to cut production by 1.2 million barrels a day in an effort to boost prices.

Crude remains stuck in a bear market, trading around $60 a barrel in London, despite the larger-than-expected output reduction. While most, including the International Energy

Agency, expect the curbs to reduce global stockpiles in the first half of 2019, resultant higher prices could help American drillers boost production. Legendary oil trader Andy Hall said the U.S. shale boom has made it far harder to predict global supplies.

OPEC kept 2019 forecasts for global oil supply and demand mostly unchanged in its most recent monthly report this week. However, it said production from outside the group, powered by U.S. shale drillers, is poised to expand 2.16 million barrels a day next year, faster than the 1.29 million a day increase in demand, the report showed.

U.S. oil production is expected to top 12 million barrels a day next year, up from 10.88 million in 2018, according to the Energy Information Administration.

Though the Bank of Russia is traditionally cautious in its outlook, it cited crude market risks as a key factor in raising the benchmark interest rate for the second time this year on Friday. Besides shale output exceeding "expectations of many," softening global demand is also a concern, Nabiullina said.

"We see risks of oil-price reduction related to demand and supply factors," she said. "We see how outlooks for global economic growth are gradually being revised down."