
SAUDI ARABIA, RUSSIA PLAY OIL MARKETS GAME, BUT NOBODY'S LAUGHING

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13.10.2016

Forbes, 13 October 2016

OPECs on again and off again affair with media and global headlines is becoming common place as the 14-national oil exporting cartel, led by de facto leader Saudi Arabia, issues various potential oil production freeze or cut announcements with the obvious attempt to sway oil prices.

Even the groups September 28 announcement on the sidelines of an energy forum in Algiers that it would tentatively agree on a production cut in November of up to 740,000 barrels per day (bpd) to a range of 32.5 million to 33.0 million bpd, drove oil prices (both global benchmark Brent and U.S.-benchmark West Texas Intermediate (WTI) to one year highs.

Two days ago, Russia joined in with Vladimir Putin agreeing that a production cut was in order soon. Russia is currently the worlds top oil producer, with output of 11 million bpd, a post-Soviet high.

Of course, weve been here before, temporary oil price spikes on shaky disclosures that would do little to change market fundamentals and would do little to alleviate the monster in the room, historically high oil inventory levels. The Paris-based International Energy Agency (IEA) said recently that massive oil inventory overhang is whats keeping the market under pressure.

It also remains to be seen if OPEC can agree to do much of anything other than agreeing to agree. In other words, whats the likelihood that the cartel will ever reach the much-hyped, but marginal, production cut?

On Tuesday, in a move that surprised many, commodity research heavyweight Citigroup said that there was a real chance that the OPEC cut be put in place, and that it would move markets well into next year.

In a note to clients, Citis New York-based head of global commodity research Edward Morse said theres better than a 50% chance that meaningful cuts will be delivered, with Gulf producers curtailing output by 600,000 bpd and the Russians chipping in between 100,000 to 200,000 bpd.

According to Morse, the target output production level of 33 million bpd would cause supply shortages, stabilize oil prices well above \$50, with prices then reaching the mid \$60 □□ by the end of 2017.

The market also seems to be rebalancing faster than many think, he said.

Goldman Sachs, another commodity research heavyweight, disagrees, stating that chances of a cut have increased but still remain low, while any cuts that do occur would lead only to a short-lived recovery that would likely prove self-defeating.

More news came yesterday to add yet another layer in an already complicated tapestry of who said what, who will do what and how it will impact prices. On Wednesday, OPEC said in a report that the cartel had increased its production in September. Output increased by 220,000 bpd to 33.39 million bpd for the month.

However, the data for how much production actually increased conflicts with information provided by individual member countries, The Wall Street Journal said, adding that disagreements could complicate talks on implementing a production cut because such a measure will require individual countries to agree to specific limits.

For the time being, markets will remain confused, while its major players play the oil markets game, without doing whats needed most: A real, substantive cut in oil production to restore market equilibrium

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