

OPEC homes in on oil cut extension, but doubts remain

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OPEC and Russia will apparently keep the oil market guessing until the last minute before deciding whether to implement an increasingly favored nine-month extension of its existing production cut deal.

Ministers emerged in the early evening Wednesday from a meeting of the monitoring committee overseeing the deal, telling reporters nothing had been decided and they would try to forge a consensus Thursday morning.

The default option appears to be a nine-month rollover beyond the March expiry -- through the end of 2018 -- but with a promise to review the deal at OPEC's next meeting in June to see if market conditions still warrant the output cuts, sources told S&P Global Platts.

But a six-month rollover option is still very much in play, they said.

"We want to keep the suspense," one delegate joked.

OPEC ministers are scheduled to meet at 10 am Vienna time Thursday, with non-OPEC ministers joining them at 3 pm and a press briefing at 5 pm, according to a tentative schedule posted on OPEC's website.

Analysts said that any deal, regardless of declared length, is in all practicality a three-month extension, with an option to review and renew -- or cancel, as the case may be -- at the June meeting.

But ministers will likely be debating how much -- if any -- of a market selloff they would be willing to tolerate, should they not deliver on the nine-month extension the market appears to have priced in.

The wording of the final communique and ministers' comments as they exit the meeting are sure to be closely parsed.

"I expect language about [reviewing the deal] in June and continual monitoring and exit strategy," said Helima Croft, an analyst with RBC Capital.

Many members of the coalition are wary of overshooting on prices, given the firming fundamentals that have already encouraged US shale producers to hedge and lock in future production. Consultancy Rystad Energy on Wednesday likely gave OPEC ministers some food for thought in projecting that US oil production could surpass a record 9.9 million b/d in December.

ICE Brent futures were trading at \$62.84/b Wednesday evening, having risen from a 2017 low of \$44.82/b in June, as global demand has surprised to the upside in recent months, while the OPEC/non-OPEC cuts have helped keep supply lower amid heightening geopolitical tensions.

"OPEC needs to manage this fine balance but is likely to extend current production quotas in the expectation of maintaining prices at current levels," said Chris Midgley, Platts' head of analytics.

Also left for the OPEC/non-OPEC coalition to discuss at its meeting Thursday are the exemptions of Libya and Nigeria from the production cuts. Some members, citing the recoveries in both countries, have agitated for the two African countries to be subject to a quota.

Some countries may also push for deeper cuts, sources told Platts, though these are unlikely to be agreed.

"Price is improving, stocks are reducing, so I don't think we will be discussing deeper cuts," Omani minister Mohammed al-Rumhy said.

A five-country monitoring committee composed of ministers from Kuwait, Russia, Algeria, Venezuela and Oman met Wednesday afternoon to review market conditions, assess compliance with quotas, and discuss extension proposals.

Kuwaiti interim oil minister Essam al-Marzouq, who chairs the committee, said the committee would ask the full 24-country coalition to consider either a six- or nine-month extension.

Saudi Arabia has pushed for the nine-month extension to keep oil markets stable as it embarks on ambitious economic reforms that include a potential public listing of its state-owned oil company, Aramco.

"We cannot afford to be complacent," Saudi energy minister Khalid al-Falih said in a speech to the committee. "In order to continue meeting our shared goals, a good deal more hard work and commitment is essential."

Russian energy minister Alexander Novak, who has suggested that the 24-country coalition should wait until closer to March to decide on any extension, refused to tip his hand Wednesday, telling reporters after the committee meeting: "We all recommended the agreement may be extended, and tomorrow details will be discussed during the meeting and only after this can we tell you concrete results."

Many Russian companies are not keen on locking in another full year of cuts, while officials are also concerned that causing oil prices to rise too high could strengthen the ruble and negatively impact the country's export economy.

Iraqi oil minister Jabbar al-Luaibi said he would back a nine-month extension of the oil production cuts at the same levels, adding there was "solid" consensus for such a deal.

"The cut will be based on the level of reduction that was decided last November. The cut will remain the same level," Luaibi told reporters in a briefing. "We support a nine-month extension."

Luaibi's comments give Saudi Arabia crucial support, as the Iraqi minister had said in September that he personally did not see a need for further cuts beyond the deal's March expiry but would support any OPEC consensus on the issue.

Iraq had only reluctantly agreed to the production cut deal as it was negotiated late last year, seeking an exemption that was not granted.

Rumhy told reporters he also would like to see the deal extended through the end of 2018.

"I think they should hold this agreement [and] that is what they are going to discuss tomorrow," he said. "Many of us -- me included -- we want to extend it until the end of 2018.