OPEC reaches output deal to hasten market rebalancing

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* Producer group to cut 1.2 million b/d from January
* Saudi Arabia takes 486,000 b/d hit, Iran can raise output
* OPEC seeks 600,000 b/d reduction from non-OPEC producers

Setting aside geopolitical rivalries, OPEC members emerged from their formal meeting Wednesday with a deal that would freeze the group's collective output at 32.5 million b/d to speed the market's rebalancing and boost producer coffers.

The agreement -- OPEC's first coordinated cut since the depths of the financial crisis in 2008 -- amounts to an approximate 1.2 million b/d cut from the producer group's current output levels, and is contingent on key non-OPEC producers also agreeing to cut 600,000 b/d.

Russia has agreed to absorb 300,000 b/d of that non-OPEC cut, albeit "gradually," its energy ministry said.

"A fair price will benefit all," Qatar oil minister Mohammed al-Sada said in a press briefing after the meeting. "It will definitely move the economy to a healthier situation."

Under the deal, Saudi Arabia agreed to cut its production by 486,000 b/d from its October levels, as estimated by OPEC's secondary sources, to 10.046 million b/d. That would be in line with its typical season decline in production, as its domestic consumption typically shrinks in the winter.

Iraq, which had agitated in the weeks leading up to the meeting for an exemption, agreed to cut 209,000 b/d from its October levels to 4.351 million b/d.

Iran, meanwhile, will be allowed to produce 3.797 million b/d, an increase from its October production level of 3.69 million b/d, according to OPEC's secondary source estimates. Iran had long insisted on regaining its pre-sanctions output level of some 4 million b/d before agreeing to any output restraints.

Analysts said the overall cuts, especially if combined by a non-OPEC cut of 600,000 b/d, are significant and would go a long way towards mopping up the global supply overhang that has plagued producers for more than two years.

The cuts match up with OPEC's own forecast from earlier this month, where it projected that the world would be oversupplied by nearly 1.8 million b/d in the first half of 2017, if the group's production stayed at current levels, noted Tony Starkey, managing director of analysis for S&P Global Platts Bentek.

"With the agreement comes the sense, now, that 2017 should experience a rebound in oil prices, as what would have been yet another year of oversupply theoretically becomes one of rebalance and deficit," Starkey said.

Iranian oil minister Bijan Zanganeh said he expects oil prices to reach $55-$60/b as the result of the agreement.

"Hopefully, if it goes above $55, $60/b, it's good," Zanganeh told reporters after the meeting.

Oil prices had zoomed up Wednesday on expectations of a deal, which many cash-strapped members of OPEC had long advocated. ICE Brent futures were up more than 8% on the day to surpass the psychological $50/b level.

The deal will go into force January 1, ministers said, and Libya and Nigeria are exempt from the agreement.

Production levels, which will be based on secondary source estimates, will be monitored by a committee of representatives from Kuwait, Venezuela and Algeria, plus two non-OPEC participants. The cuts will last for six months, after which OPEC will assess the market and decide whether to extend the policy.

OPEC plans to schedule a meeting with non-OPEC representatives for December 9 in Doha, and the organization's next formal ministerial meeting will be May 25.

Indonesia, a net importer with about 722,000 b/d of production, suspended its membership in the producer group, due to its disagreement over the cuts. Any cut it would have to make has been absorbed and distributed by OPEC's other 13 members.

POLITICAL RIVALRIES

After two years of price malaise, OPEC ministers in late September in Algiers announced the parameters of a deal to freeze the organization's output between 32.5 million to 33 million b/d, but left unresolved the particulars, including individual country quotas.

Two months of unproductive negotiations caused oil prices to whipsaw as expectations for a final deal waxed and waned, and even Tuesday, on the eve of the meeting in Vienna, sentiment among analysts was largely pessimistic.

Sources said that geopolitics, especially between rivals Saudi Arabia and Iran, and to a somewhat lesser extent Iraq, had OPEC far from consensus.

Iran, which told OPEC that it produced 3.92 million b/d in October, was maintaining its right to reestablish production levels of some 4 million b/d as it recovers from western sanctions on its oil sector that were lifted early this year, even as experts doubted that the country would be able to raise output much further without significant investment.

Iraq, which said it produced 4.78 million b/d in October, said it was entitled to an exemption from any OPEC deal as it battles the Islamic State.

It also disputed secondary source estimates that had pegged its output much lower. S&P Global Platts, for example, estimated Iraq's October output at 4.56 million b/d, as the country appears to be double-counting production from some fields operated by the Kurdistan Regional Government.

Saudi Arabia, meanwhile, has insisted that any OPEC cuts would have to be shared equitably and transparently, as it withdraws from its historical role as the oil market's primary swing supplier. It has also insisted on using secondary sources as the baseline for any deal, instead of self-reported production figures, which are often manipulated for political reasons.

But negotiations through the night appeared to achieve a breakthrough, with ministers from all three countries displaying comity at a pre-meeting press briefing.

"Iraq is in line with OPEC policy providing our interests are safeguarded," Iraqi oil minister Jabbar al-Luaibi said, while Zanganeh said that Iran was "ready to compromise" and Saudi minister Khalid al-Falih said an agreement was "close." He added however, that he would be comfortable without a deal.

US SHALE RESPONSE

Given OPEC's history of cheating on its quotas, experts said compliance and verification of production levels among the group -- let alone non-OPEC members -- would be key to the deal's effectiveness.

"Actual commitments may be subject to reinterpretation," analysts with FBR & Co. said in a note. "However, even taking this into account, directionally and on a net basis, a deal with these parameters should accelerate oil market balance. The primary question marks will be the unpredictability of significant unplanned outages in Nigeria and Libya, and the next major focus is likely to be the US supply response."

Analysts say OPEC will gain significant fiscal relief from the deal, at least initially, but US shale production may roar back in the coming months as higher prices encourage sidelined drillers to get back into the action.

Jodie Gunzberg, global head of commodities and real assets with S&P Dow Jones Indices, said US shale production could come back online in full force in about 9 months, putting a ceiling on any price gains.

"If a deal is agreed and has the intended effect, investors should expect US crude producers to move quickly to fill the gap and boost production," she said before the OPEC meeting. "The low oil price forced consolidation to improve efficiencies bringing down the cost of production. The race has changed from a race for land to a race for efficiency."

OPEC PRODUCTION LEVELS ('000 b/d)

Country	January	October	Change
Algeria	1,039	1,088	-49
Angola	1,673	1,751	-8
Ecuador	522	549	-27
Gabon	193	202	-9
Iran	3,797	3,690	107
Iraq	4,351	4,561	-210

Country	January	October	Change
Kuwait	2,707	2,838	-131
Qatar	618	646	-28
Saudi Arabia	10,058	10,532	-474
UAE	2,874	3,007	-133
Venezuela	1,972	2,067	-95
Total	29,804	30,931	-1,127