



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

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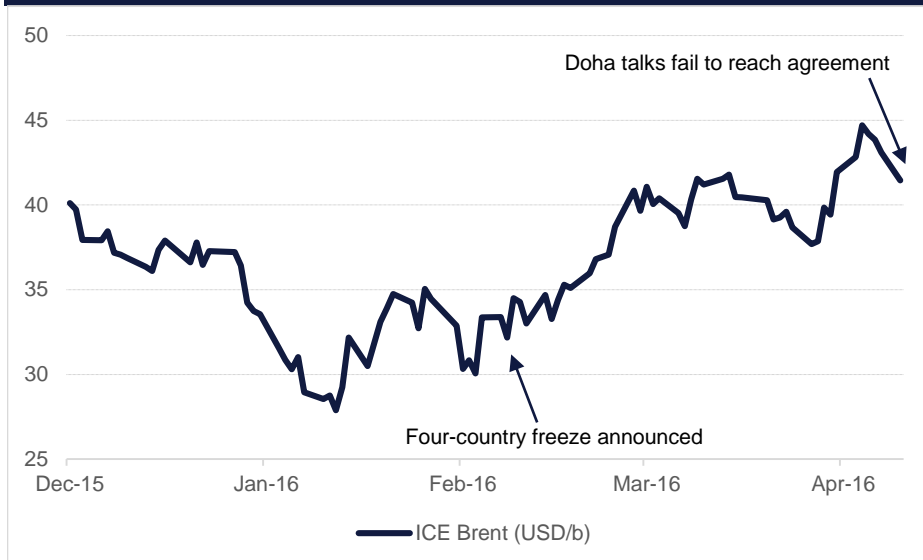
Crude oil update

Disappointment at Doha

Talks among oil producing nations in Doha yesterday failed to achieve an agreement to freeze production in an effort to rebalance markets. Oil markets had been bid up strongly in the weeks ahead of the meeting in anticipation that a wider ranging agreement than that reached between Russia, Saudi Arabia, Venezuela and Qatar in February could be reached. However, Saudi Arabia's insistence that any freeze include Iran ended hopes that a deal could be made as Iran has maintained its position of refusing to limit output growth and it didn't send representatives to the Doha meeting.

Oil markets have sold off in response to the lack of agreement, deflating some of what we feel had been an excessive rise in recent weeks. Prices have been talked up several times so far this year only to be brought back down as the market grapples with the still bearish fundamentals. Indeed, if an agreement had been reached at all it would have only frozen production and pushed the burden of balancing onto demand and higher cost producers, two uncertain variables in the current calculus of the oil market. Since hitting a low of USD 27.10/b in mid-January, Brent prices have gained nearly 50%.

Oil market rises on back of talk



Sources: Bloomberg, Emirates NBD Research.

Is there a chance that a production freeze could be refloated over the next several months? Possibly but the market will now have cottoned on to the fact that talk is a cheap way for major producers to get a bump in prices, without having to take the more difficult step of actually addressing the problems affecting the oil market, namely cutting excess supply. We would expect that OPEC's next biannual meeting to be highly fractured, particularly as Iran and Saudi Arabia are so far apart in their positions on the market, and for it to end without a clear position. Achieving a deal within OPEC, let alone with members outside of it, appears completely off the cards in the current market.

What can we expect in the wake of the failure to reach an agreement? Over the next few months, Iran will make every effort to keep raising output after having added 400k b/d up to the end of March, according to the latest estimates, and we doubt that it will be prepared at any point this year to limit supply growth. Among other producers in OPEC, we could see gains coming out of Nigeria where supply has dropped off sharply over the last few months. At the same time, the market will need to assess a major drop in production from Kuwait where an oil workers' strike has resulted in a 60% decline in production. How long the strike will persist is uncertain at this time but the drop in output does not yet appear to have filtered into prices.

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