



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

5 June 2016

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Crude oil update

OPEC defers decision today to benefit in longer term

As we expected there was no change in policy from OPEC's semi-annual meeting on June 2nd. Despite some market rumours that a production target would be reintroduced, the producers' bloc did not come to any agreement on output levels but in general the sentiment surrounding the meeting seems to have been much more constructive than the failure to agree on a freeze at Doha in April.

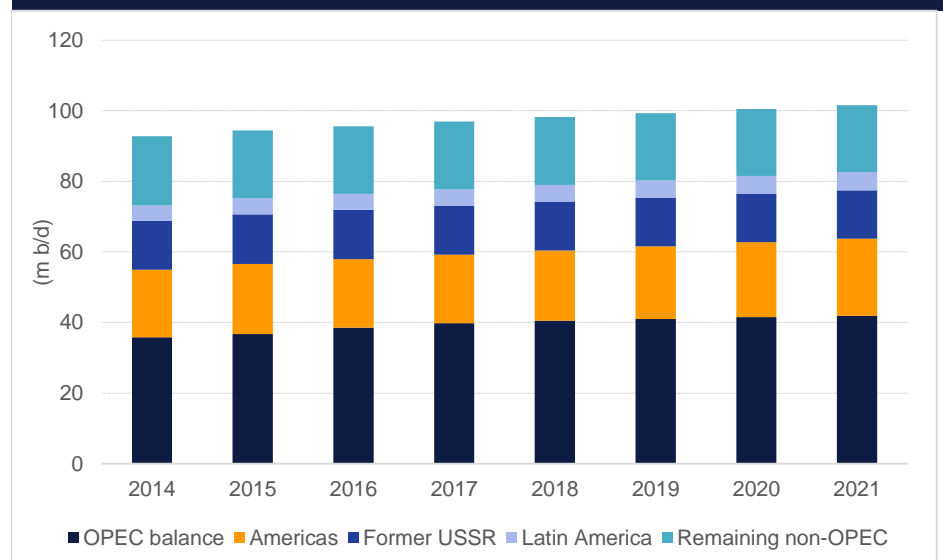
Among the more concrete results from the meeting, OPEC appointed a new secretary general, Mohammed Sanusi Barkindo, a former managing director of the Nigerian National Petroleum Corporation. Mr Barkindo replaces Abdallah al Badri, from Libya, who has been in the post since 2007 and whose term has been extended several times due to a lack of consensus among members over who should take on the role. The secretary general has no direct ability to influence OPEC policy, which is the domain of individual country oil ministries, but their dialogue with market participants can have an influence on how markets perceive the unity and perspective of OPEC.

OPEC also agreed to readmit Gabon after the country left in 1995. Gabon's oil production is small—around 200k b/d of output—so it will not have major impact on overall balances. However, this is the second country to join OPEC this year—Indonesia rejoined in January—showing that the bloc still holds some appeal, particularly during times of volatile oil prices.

However, the biggest impact from this OPEC meeting is what they didn't do. By continuing to avoid limits to production, OPEC members are still subject to the whims and vagaries of international oil markets. Oil prices have rallied hard since the start of the year—Brent futures have added over 80% since January's lows—as the market shows signs of rebalancing. But as we have noted in the past there are many downside risks that could see the market, not least that some production that has been shut-in in the US may return on the back of the price rally and the fact that crude and product stockpiles remain at extremely elevated levels.

What we would stress, though, is the long-term game. Oil prices, even with the rally, are still far below the fiscal break-even price for all producers in the GCC. In the medium-term (over the next 12-18 months), the pain of low prices will continue to be felt across the region, as well as all OPEC members. But securing long-term market share is a vital strategic project for OPEC nations. Even with the IEA's relatively bullish assessment of the return of non-OPEC supplies, an extra 3.4m b/d of supplies will be needed between now and 2021, which will come most easily from OPEC producers. OPEC's control over the physical market is set to increase to over 41% by 2021 and may be even higher as the industry reels from the major cuts to capital expenditure from IOCs.

OPEC poised to capture more market share long term



Source: IEA Medium Term Oil Market Report 2016, Emirates NBD Research. Note: Americas = OECD Americas

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