



بنك الإمارات دبي الوطني
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Crude oil update

Verbal intervention from OPEC ministers has helped to buoy oil markets in recent weeks as futures markets spurned a move up to USD 60/b. Earlier this week OPEC's secretary general, Mohammad Barkindo, said the producers' bloc may need to take 'extraordinary measures' to keep the oil market balanced in 2018 but did not outline any specifics on what those steps could be. The secretary general's comments came only a few days after Russia's president, Vladimir Putin, said OPEC's current production cut agreement with its partners outside the bloc could be extended until the end of 2018 and Saudi Arabia's energy minister, Khalid al Falih, said the country was 'flexible' over drawing the deal out until the end of next year.

Controlling the narrative around crude markets can certainly be helpful in changing sentiment towards oil. A four-party agreement announced in Q1 2016, backed by Saudi Arabia and Russia, to freeze production helped bring oil futures up from plunging further in the USD 20/b range while hope that a wider agreement could have been announced in April 2016 further aided the recovery in spot prices. Following those failures to control production, the market responded to the decline in US output but failed to move higher as OPEC itself raised production. Words clearly needed to be backed up by action and it was only after OPEC announced its production cut deal with outside members and began to enforce it in January that prices held at sustainable level around USD 55/b.

Brent responds to verbal intervention



Source: EIKON, Emirates NBD Research. Note: Brent front-month futures, USD/b.

The futures market has likely priced in an extension of the current production cut deal along its existing terms for all of 2018, leaving OPEC exposed to disappointing the market at its next meeting in November. Anything less than a deeper or broader deal could end up sending prices crashing back down as the current cuts will leave the market in a delicate balance at best in 2018. Deeper cuts would need compliance to improve, either on aggregate or at country level. Improving the aggregate number would probably fall to Saudi Arabia to keep up its 'over-compliance' but the country would face serious challenges from further cuts as the economy is already languishing. In countries where compliance has underperformed, improvement would lead to production declining two years running, with consequent negative impacts on domestic economies.

OPEC could broaden the deal by getting more countries on board but we doubt that either Nigeria or Libya would be prepared at this stage to be included in the deal or that Iran would be prepared to stop efforts to raise production (although heightened geopolitical risks around its nuclear deal may curb output involuntarily if US sanctions are reimposed).

At the November meeting OPEC energy ministers will need to tread carefully to avoid letting down the market that is hoping for bolder action. Speculative positions have again built to an elevated level, particularly in Brent where the long-short ratio is nearly nine to one. Any doubts over production cuts being enforced fully in 2018 could see speculators dump these positions back onto the market and further halt the widening backwardation at the front of the Brent curve.

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