

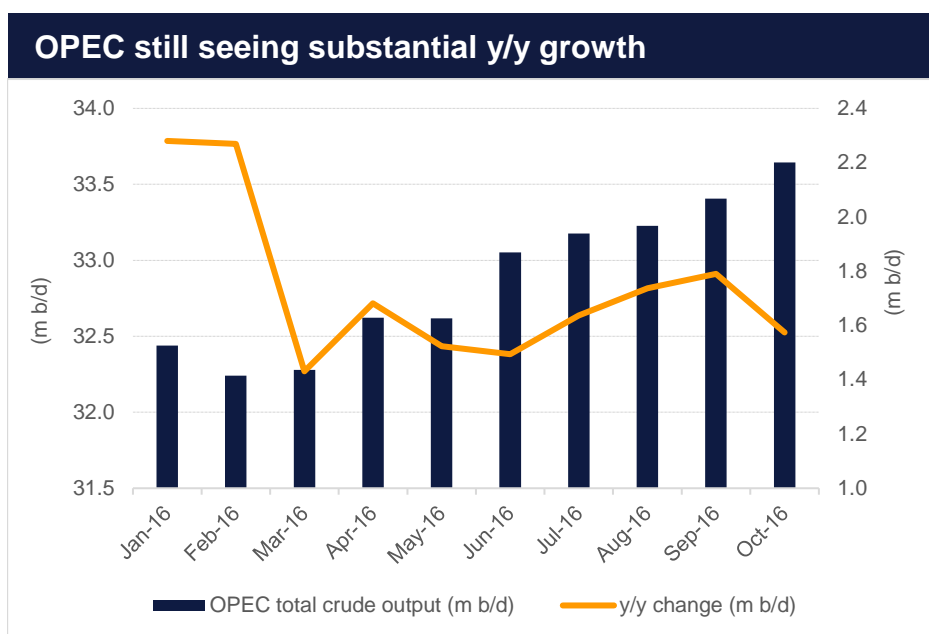


بنك الإمارات دبي الوطني
Emirates NBD

Commodities
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OPEC output update

OPEC production hit 33.6m b/d in October, according to the latest assessment from OPEC's monthly oil market report. Saudi Arabia's production has come down from peak summer levels but at 10.53m b/d, it is still nearly 400k b/d higher than the same month in 2015. Assessed output from the UAE was more than 3m b/d, record high levels. The biggest increases came from Nigeria and Libya, up 170k b/d and 168k b/d respectively as political and security conditions in both countries improve, allowing for more regular output. Iraq too saw a large monthly increase of 89k b/d and has averaged monthly production increases of around 80k b/d for the last four months.



Source: OPEC Monthly Oil Market Report, Emirates NBD Research.

OPEC's next official meeting is at the end of the month and was expected to be a session where the Algiers agreement to cut output was finalised. However, October's production level is putting the ambition of balancing markets from OPEC cutting alone further out of reach. Using October's production estimates, to hit the lower target set at the Algiers meeting (32.5m b/d), OPEC now needs to cut at least 1.1m b/d compared with around 900k b/d last month. There has still been no clarity how any cut would be distributed but based on each member cutting in proportion with their average share of output so far in 2016, we estimate that Saudi Arabia would need to cut by almost 420k b/d and the UAE closer to 120k b/d. These estimates take into account exempting Nigeria, Libya and Iran from any cuts but if Iraq indeed insists on non-participation the burden would fall even heavier on the remaining large producers, mainly in the GCC.

OPEC countries then have their work cut out if they want to sustainably raise prices. Getting oil prices back above USD 50/b would appear to be the first goal, let alone getting prices anywhere near fiscal break-even prices which we estimate at around USD 60/b at the lower end for GCC governments. In order to get prices back above USD 60/b we expect a significant amount of OPEC oil would need to come out of markets, particularly as all the major oil market agencies (EIA, IEA and OPEC itself) expect non-OPEC supply to expand next year.

The pressure is mounting for OPEC to finalise an agreement and implement it if they expect prices to increase substantially in 2017. While we think the odds of a deal occurring have shortened, its impact may be undone by higher oil and gas output from the US, where the industry would be emboldened anew under a Trump presidency, and also from traditional producers like Russia, Canada or Brazil.

If OPEC fails to come to an agreement at its next meeting the trajectory for oil is most likely downward and we wouldn't be surprised to see futures prices test USD 40/b again. However, unlike in January-February when there appeared to be no bottom to the price slump, oil markets are much tighter (US output is down 543k b/d since January), which should help to limit the downside risk this time around.

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