ABN·AMRO

Energy Monitor

Group Economics

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OPEC delivers as expected

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- **Agreement oil production OPEC+ extended by another nine months**
- **Higher ambition regarding reducing global oil supplies**
- **Extra charter signed with partners to secure long-term cooperation between OPEC and its allies**

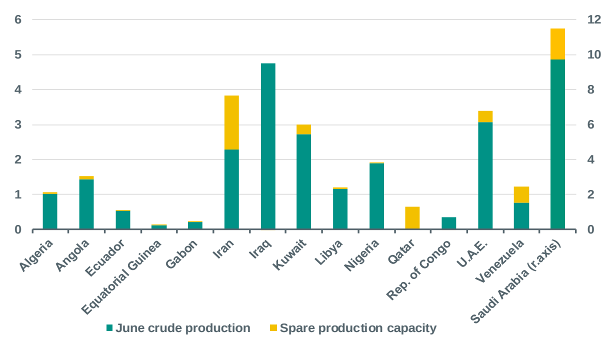
OPEC extends its production cut agreement with another nine months

As expected, OPEC extended its production cut agreement of 1.2 million barrels per day (mb/d) with another nine months. Together with its partners, led by Russia, OPEC will maintain current production levels in order to balance its supply to the global demand of oil. As a result, OPEC will lose even more market share to US oil producers. OPEC indicated in its Monthly Oil Market Report that it expects the global demand for oil to rise by 1.1 mb/d in 2019. Since US crude production is expected to rise by 2.1 mb/d in the same period, OPEC will thus lose market share.

This decision was not a big surprise as President Putin of Russia already indicated over the weekend that he was supportive of a possible extension of the deal. Putin met with Mohammed bin Salman, Crown Prince of Saudi Arabia, during the G20 meeting. As a result, the actual news only gave limited support to oil prices. The upside was capped by disappointing manufacturing data from the US, China and Europe.

OPEC crude production and spare capacity / member

x million barrels per day



Source: Bloomberg

Although the production cut agreement on paper 'only' comprises 1.2 mb/d, the actual production has been reduced by considerably more. According to the Joint Ministerial Monitoring Committee (JMMC), the OPEC production was 1.95 mb/d lower in May than at the start of the agreement. Partly, this can be explained by the lower production by both

Important data:

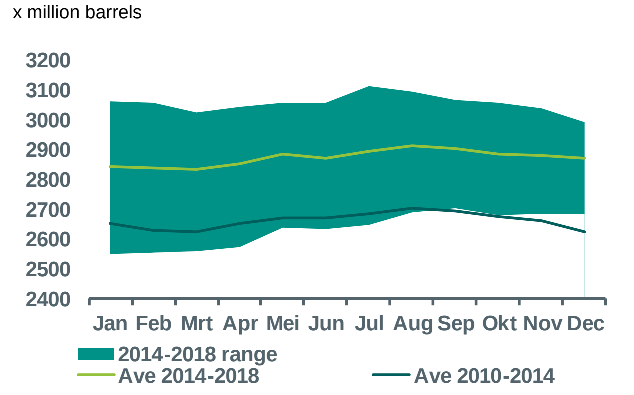
9 July	EIA Short-term energy outlook
11 July	OPEC Monthly Oil Market Report
12 July	IEA Oil Market Report
29 July	EIA Monthly Energy Review
5-6 Dec	OPEC/non-OPEC meeting

Iran and Venezuela. Both countries are under US sanctions and as a result, crude production and exports have fallen under pressure. On top of that, Saudi Arabia lowered its production by an extra 660 kb/d to support oil prices.

Focus on inventories

The biggest surprise was that OPEC will strive for a more ambitious reduction in global oil inventories. According to Mr. Khalid Al-Falih, the energy minister of Saudi Arabia, OPEC will compare current OECD inventories to the average of the 2010-2014 period instead of the average of the past five years. In the picture below, it clearly shows that the 2010-2014 average is significantly lower. This means that with the extension of the production cut agreement, OPEC aims at an extra drop of global crude inventories of +/- 150 million barrels. If so, such a policy could push prices up towards the upper-end of our expected trading range (USD 80/bbl). Nevertheless, during the press conference, the Saudi claim was denied by the Russian energy minister Novak and OPEC secretary-general Barkindo, indicating that the current 5-year averages remains in use. This suggest a disagreement between the two major oil producers regarding how big the tightening of the oil market should actually be.

Brent and WTI under pressure



Source: Bloomberg

OPEC+ Charter signed

The meeting on Monday took much longer than expected. This had nothing to do with the production cut agreement itself or the duration. However, there was an extensive debate on the right wording of a draft OPEC+ charter. This charter aims at a longer structural cooperation between OPEC and several other oil producing countries like Russia, Mexico, Kazakhstan and Bahrain. The initial cooperation started in 2016. With this charter the cooperation should be more formalized.

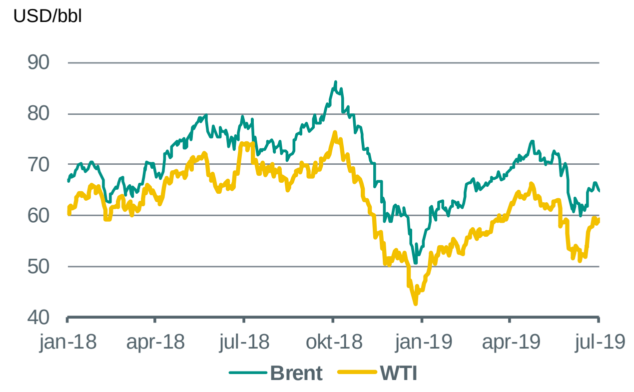
Iran in particular was critical in compiling the precise text. Earlier, the Iran energy minister already indicated that he strongly values the current process of OPEC's decision making. He said that the old principle, in which all OPEC members indicate their view on the market after which a common stance is taken, must be maintained. Iran is in favor of creating an own OPEC sound, and disapproves any pre-commitment decision making between Saudi Arabia and Russia.

During the weeks ahead of the OPEC meeting, Iran already resisted against postponing the meeting from June until early July, after the G20 meeting. Especially now the sanctions of the US against Iran hurt Iranian crude exports, Iran is trying to protect its remaining interests in the oil market. Eventually the charter was signed by all participants during the OPEC+ meeting on Tuesday. As a result, a longer cooperation amongst many important oil producing countries seem to be secured.

Oil price forecasts unchanged, but volatility could rise

OPEC basically met market expectations by the extension of the production cut agreement. Although the confirmation gave some support to oil prices, the move was limited to just a few percentage points. Market focus will shift back again to the other main driver: the US/China trade war. Last weekend a temporary trade truce was announced by president Trump and market sentiment has improved on the back of this. However, our economists believe much of the damage from the trade war has been done.. With oil price trading within our expected trading ranges there is no reason to revise our oil price forecasts at this stage. Fact is though that both geopolitics and market speculation regarding demand for and supply of oil could change the overall sentiment in a minute. With market liquidity about to drop significantly during the summer period, the risks of higher volatility are on the rise.

Brent and WTI oil prices range bound



Source: Bloomberg

Table 1: Oil and gas price forecasts ABN AMRO

End of period		2-jul	sep-19	dec-19	mrt-20	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21	
Brent	USD/bbl	*66,50*	70	70	75	75	75	80	80	80	85	85	
WTI	USD/bbl	*60,05*	60	60	65	65	65	65	70	70	70	75	
Natural Gas (HH)	USD/mmBtu	*2,31*	2,75	3,25	3,25	3,00	3,25	3,75	3,25	3,00	3,00	3,50	
TTF	EUR/MWh	*10,58*	20	20	21	21	23	26	28	23	24	26	
Average		**Q3 19**	**Q4 19**	**2019**	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**	**Q1 21**	**Q2 21**	**Q3 21**	**2021**
Brent	USD/bbl	70	70	70	73	75	75	78	76	80	80	80	83
WTI	USD/bbl	60	60	60	63	65	65	65	65	68	70	70	71
Natural Gas (HH)	USD/mmBtu	2,75	3,00	3,25	3,25	3,25	3,25	3,50	3,25	3,50	3,00	3,25	3,25
TTF	EUR/MWh	19	20	18	21	21	22	25	23	27	26	24	25