Energy monitor

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OPEC+ keeps production flat

- **OPEC+ will keep its oil production unchanged in April; Russia is allowed to increase production a bit**
- **Oil price continues to rally and nears USD 70/bbl**
- **The forward curve suggests supply related stress which does not exist**
- **Oil price forecasts lifted after the OPEC+ meeting**

Optimism prevails?

The oil price has been on the rise in recent months. A recovery in the (expected) demand for oil, combined with the production cuts by OPEC+, have resulted in a strong rebound. In fact, the rebound is so strong that the long-term downward trend line is coming back into the picture. The short-term sentiment may be positive, but a break of the long-term trend would be a real technical game-changer. The crucial level to keep in mind is around USD 75-80/barrel in 2021, but it is getting lower as time goes on. A first important resistance level lies at USD 70-72/barrel. Nevertheless, in the short term, we still see downward price risks from a fundamental perspective, which should keep this long-term trend intact for a while.

Oil price rally continues

Source: Bloomberg

OPEC+ leaves oil production unchanged in April

On 4 March, OPEC+ decided not to increase oil production in the month of April. Saudi Arabia will also maintain its voluntary additional production cut of 1 million barrels per day (mb/d). Prior to the meeting, expectations varied between an increase in production of 1.5 mb/d from 1 April to an extension of the current production level. Most analysts were betting on an increase by OPEC+ of 500,000 barrels per day (500 kb/d) and an increase in Saudi oil production of 500 kb/d. The latter would mean that Saudi Arabia would halve its voluntary production cuts of February and March. Opening the meeting, Saudi Energy Minister Prince Abdulaziz bin Salman Al-Saud urged caution and vigilance – words that were then repeated by Russian Deputy Prime Minister Alexander Novak. Several OPEC+ ministers argued for an extension of the current production level in April and May. The Russians, as expected, first aimed to increase production to take the wind out of the sails of US shale oil producers.

The press release showed great unity. OPEC+ oil production in April will remain virtually unchanged, with only another small increase allowed for Russia and Kazakhstan (+130 kb/d and +20 kb/d respectively). Indeed, as mentioned, Saudi Arabia will maintain its voluntary production cut of an additional 1 mb/d in April. In response to the OPEC+ meeting, oil prices rose over 5%. In the press conference, the Saudi energy minister emphasised the need to fight market speculation and was pleased that the outcome of the meeting had not been leaked prematurely. He also did not want to comment on when the 1 mb/d of Saudi production will be ramped up again and did not hint at future OPEC+ production levels.

Stocks are still high

Looking at total stocks, we can see why the Saudi energy minister may be somewhat reluctant to increase production. These total oil inventories, according to the International Energy Agency (IEA), are declining slightly, but are still at historically high levels. Nevertheless, the main focus of OPEC and OPEC+ is on US oil stocks. And those are around the five-year average.

Global inventories are still high…

x million barrels

Source: IEA

… but US stocks are less excessive

x million barrels

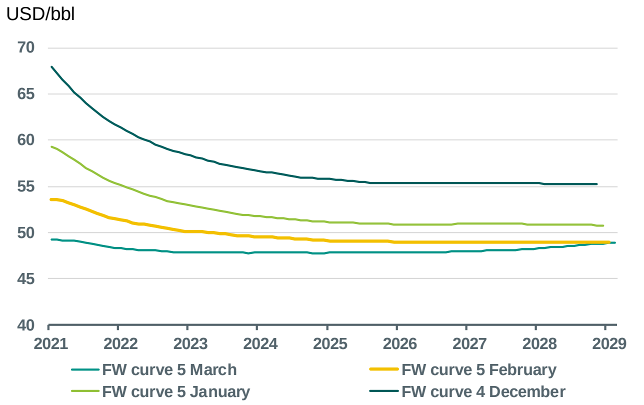
Source: US Department of Energy

The forward curve is getting steeper and steeper

The backwardation (spot price higher than price for future delivery) in the forward curve (series of oil prices with delivery on different terms) is getting steeper. It is a signal that the optimism in the market may overshoot in the short term. A backwardation usually indicates stress in the short term. Often this is caused by short-term supply shortfalls. This time, the backwardation is mainly fuelled by the expected recovery of demand, combined with OPEC+ keeping supply off the market. It is sometimes forgotten that OPEC+'s spare capacity has increased just as much as the production cut. In other words, if necessary OPEC+ can quickly increase oil production – an argument that, in the past, was often seen as a negative for the oil price. So, market optimism is now mainly fuelled by an artificially generated balance between supply and demand.

We believe that there is a high risk that OPEC+ will increase production at some point if a) the oil price - especially WTI - remains structurally above USD 50/barrel (as is currently the case for all futures prices in the forward curve), and b) as a result of the high oil price, oil production in the US starts recovering faster. A major reason why US oil production did not accelerate last month was the extreme winter weather in the Gulf of Mexico area. This is in addition to the well-known reasons why a recovery of oil production in the US would take longer anyway. These are the more difficult access to financing and the measures announced by President Joe Biden: stricter regulations and fewer licences for drilling on federal land. Although Prince Abdulaziz bin Salman Al-Saud indicated in the press conference that he has no problems with shale oil in general, we know that Russia in particular will be keen to maintain market share against the Americans.

Forward curve Brent is in backwardation



Source: Bloomberg

The market suggests a tightness that does not exist. Therefore, we continue to believe that the price risk is mainly downward and that the current price is overshooting. However, we have revised our forecast upwards due to the recent OPEC+ decision. Our 2021 year-end forecast for Brent was raised to 60/bbl from 53/bbl, and the average price for 2021 was lifted to USD 63/bbl from 55/bbl.

Oil and gas price estimates

End of period		05-Mar	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Brent *	USD/bbl	*67.85*	65	64	63	60	58	60	63	65	64	63	62
WTI *	USD/bbl	*64.80*	62	61	58	57	55	56	59	61	60	58	57
Natural Gas (HH) *	USD/mmBtu	*2.72*	2.50	2.25	2.50	2.75	2.50	2.20	2.30	2.50	2.50	2.20	2.30
TTF *	EUR/MWh	*16.70*	15	14	15	17	18	17	18	19	18	17	19
Average		**2020**	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**	**Q1 22**	**Q2 22**	**Q3 22**	**Q4 22**	**2022**	**2023**
Brent	USD/bbl	43.21	62	65	63	61	63	59	59	62	64	61	64
WTI	USD/bbl	39.34	59	62	60	58	60	56	56	58	60	58	59
Natural Gas (HH)	USD/mmBtu	2.13	2.30	2.40	2.40	2.60	2.40	2.60	2.40	2.30	2.40	2.40	2.40
TTF	EUR/MWh	13.48	14	15	15	16	15	18	18	18	19	18	19

* Brent, WTI and Henry Hub: active month contract; TTF: next calendar year