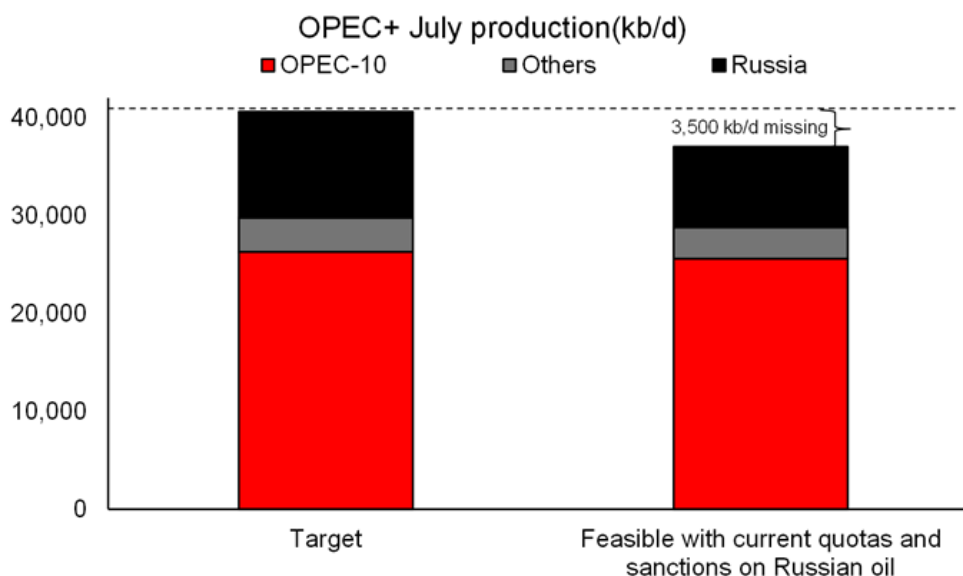


7 June 2022

OPEC+ unlikely to deliver on its promises

Abstract from *Chart of the Week*
UniCredit Research



Source: OPEC, IEA, UniCredit Research

- Last week, during its regular monthly review meeting, OPEC+ committed to increasing its July production quota by 648kb/d instead of the expected 430kb/d. With the oil market being extremely tight, the surprise extra-output was cheered by investors with a temporary drop in Brent and WTI prices that has already been more than reversed. Our Chart of the Week, which reports the gap between the promised OPEC+ output in July and what is likely achievable under current quotas and Western sanctions of Russian oil, shows that the production pledges made by the cartel are not realistic and that the market will continue to be heavily under-supplied at a time of resurging post-pandemic demand for oil.
- OPEC+ lifted its overall production target for July to 43.2mb/d from around 42.5mb/d in June. The increase is split across the members of the cartel according to their quotas in the deal. However, the commitments clash with the reality on the ground. In order to meet the target, countries such as Algeria, Angola, Congo, Nigeria, Azerbaijan and a few others are supposed to produce above their sustainable capacity (production that can be activated within 90 days). Overall, they are expected to pump 900kb/d more than what their fields allow to do. In addition, Russia is expected to increase its production by 600kb/d. Unlike other members, Moscow has substantial spare capacity. But its output is already dropping as a result of Western sanctions, and it is expected to decline by 2mb/d more between now and July, according to estimates by the International Energy Agency (IEA). Overall, the market is likely to be short of 3.5mb/d in July compared to what OPEC+ has promised (equivalent to 3.5% of pre-pandemic global supply). And the shortfall could be even higher if one considers that traditional producers are already producing below their official quotas due to logistical issues related to years of underinvestment.
- Looking at traditional producers only, there are ways to mitigate the lack of supply. While most OPEC+ members are close to their production capacity, countries such as Saudi Arabia or the United Arab Emirates could inject enough barrels of oil into the market to compensate for other producers' shortfalls. For this to happen, the system of national quotas that underpins the current production deal would need to be scrapped. However, such a move would undermine the stability of the cartel itself, as many producers would see their output remaining the same while prices would go down. Alternatively, the West could allow sanctioned Iranian oil (at least 1.5mb/d available) to enter global markets, possibly even without the signing of a new nuclear deal, albeit not easy to implement and not enough to offset the gap in OPEC+ production.