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OPEC+ and Short-Term Oil Market Dynamics

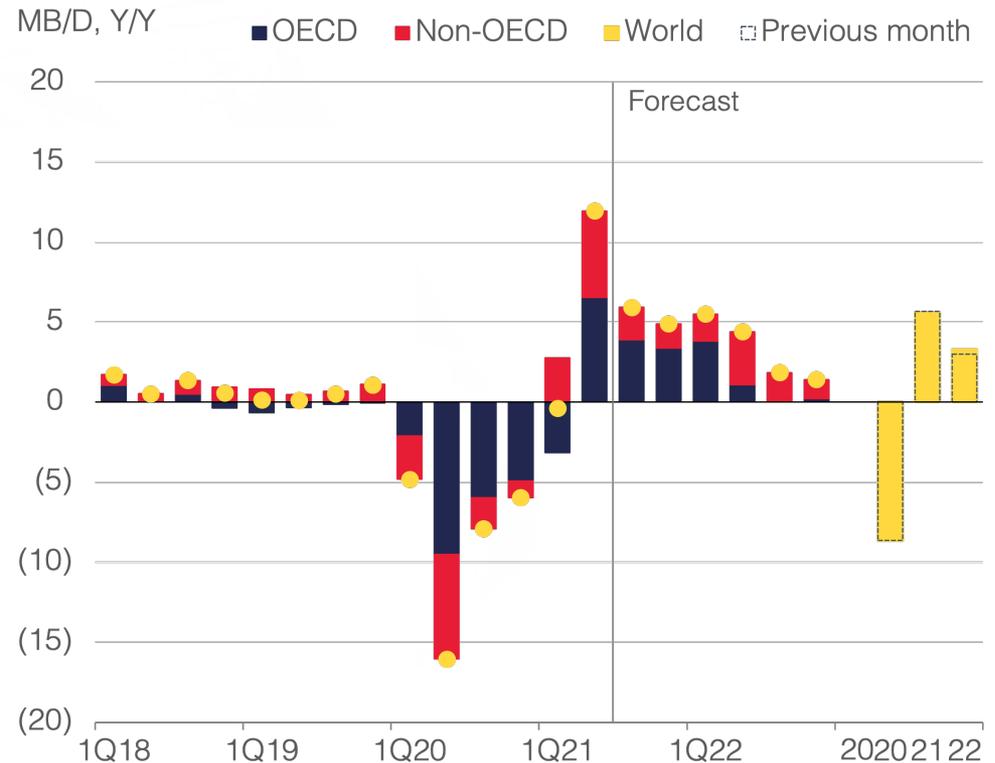
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Global oil demand rebound remains solid

- Global oil demand has lost some momentum recently, but the fundamentals remain solid.
- Global oil demand is still expected to grow by 5.6 mb/d in 2021 and further 3.3 mb/d in 2022.
- We expect global demand to return to its pre-covid levels in H2 2022 and to surpass 2019 levels in Q4 2022.
- The recovery across the fuels and regions however remains highly uneven with the US, China, India, and the EU leading the recovery in oil demand.
- A synchronised recovery across the globe remains highly unlikely as the rolling out of the vaccines is not proceeding smoothly in many parts of the world.

Global oil demand



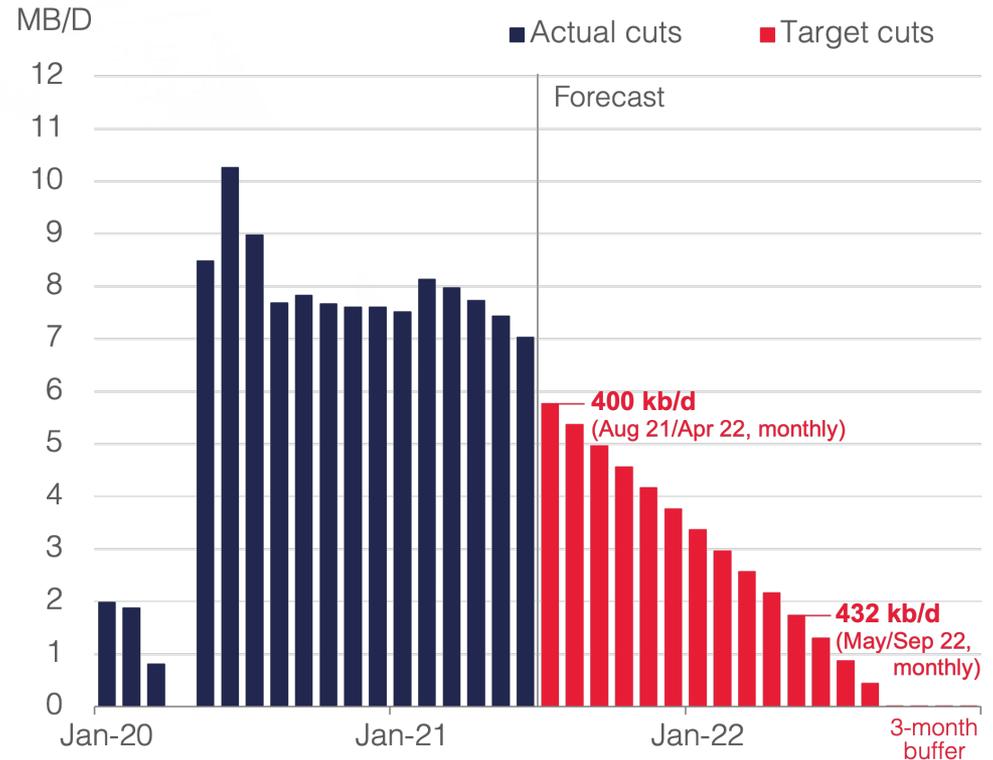
Source: OIES.



OPEC+ extends the current deal till the end of 2022

- OPEC+ reached an agreement to extend its output cut agreement to end of 2022 with revisions of baselines for few member countries (Saudi Arabia, Russia, UAE, Kuwait and Iraq).
- OPEC+ endeavours to unwind the 5.76 mb/d cut by **September 2022**.
- OPEC+ producers agreed to ease output cuts by 2 mb/d between August and December 2021, adding 400 kb/d each month over this period.
- A review is planned during the OPEC+ Conference in December 2021.
- Extension of agreement until end of 2022 implies there is a buffer of up to 3 months until December 2022 in which OPEC+ may decide not to release the full 400 kb/d increment or increase the cut by up to 400 kb/d.
- If the 400 kb/d reductions per month will carry on till April 2022, OPEC+ will release 3.6 mb/d to the market.
- The remaining 2.16 mb/d to be released in monthly increments of 432 kb/d between May 2022 and September 2022.

OPEC+ production cuts



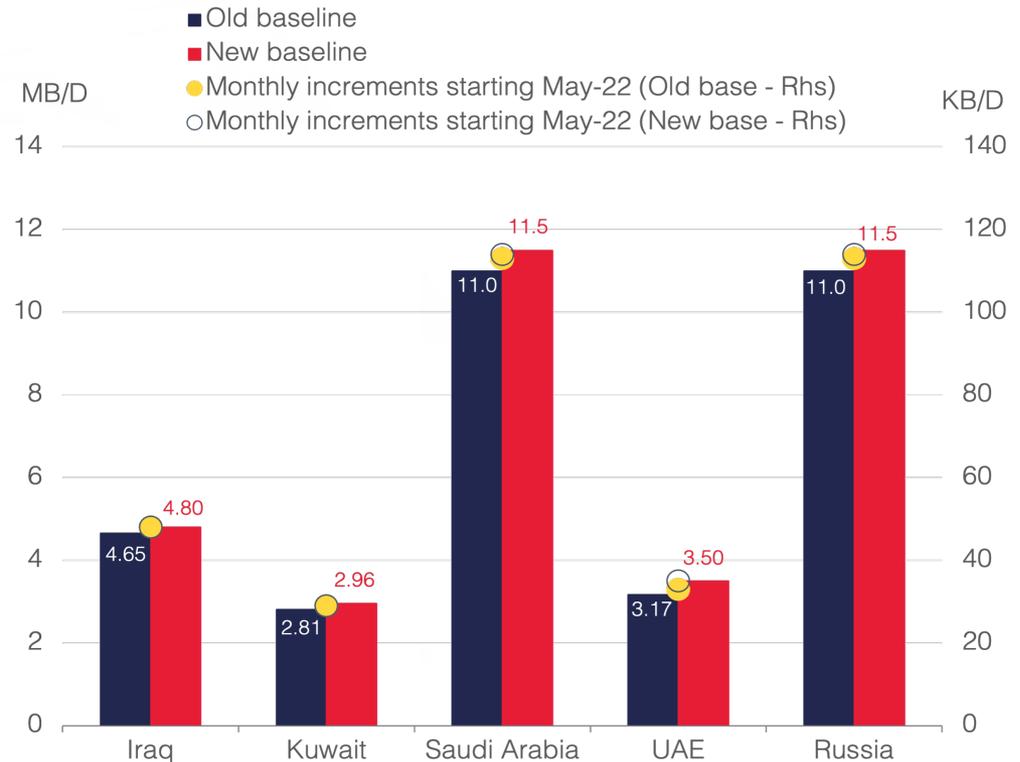
Assumes no 3-month pause. Source: OIES.



OPEC+ baselines tweak

- The new baselines take effect from May 2022 onwards.
- The monthly increments and OPEC+ total production are not affected by the baseline adjustment.
- The baseline only affects how the monthly increment is distributed among member countries.
- The monthly increments before and after the change in baselines for the five countries are minimal, from 336 kb/d to 340 kb/d.

New baselines and changes in monthly increments



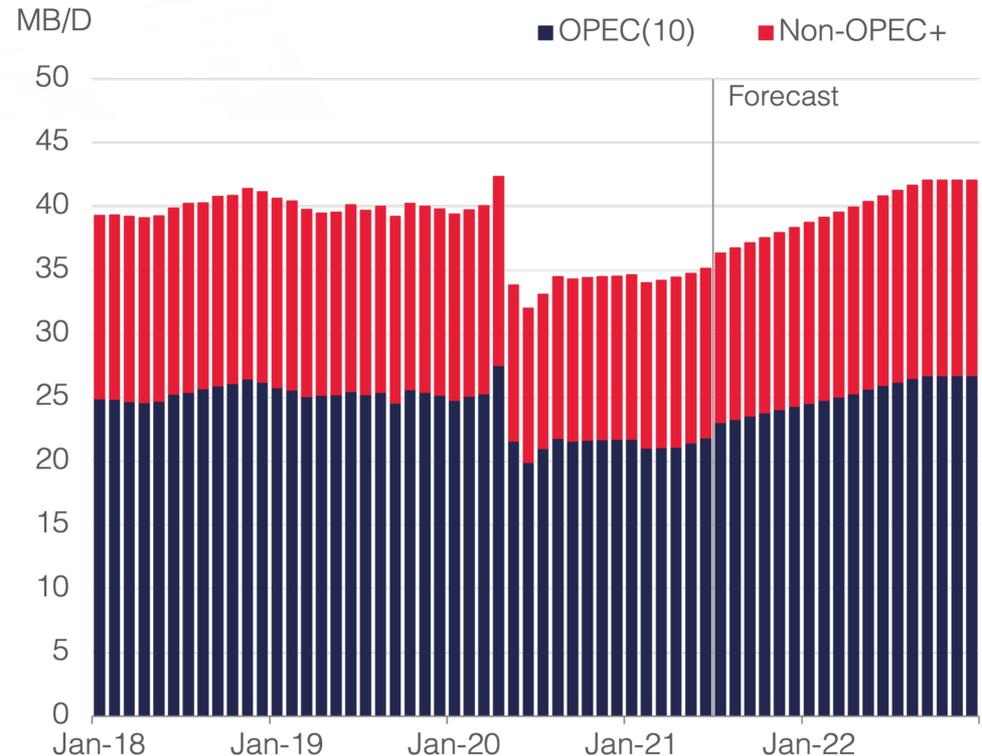
Source: OIES.



OPEC+ original target remains unchanged

- OPEC+ production is expected to reach 38.3 mb/d by end of 2021.
- Assuming all the remaining barrels are released back to the market by September 2022, OPEC+ production can exceed the (hypothetical) level of 42 mb/d.
- OPEC(10) production will reach 26.7 mb/d from 21.8 mb/d in June 2021 and non-OPEC+ production 15.3 mb/d from 13.3 mb/d.

OPEC+ production target



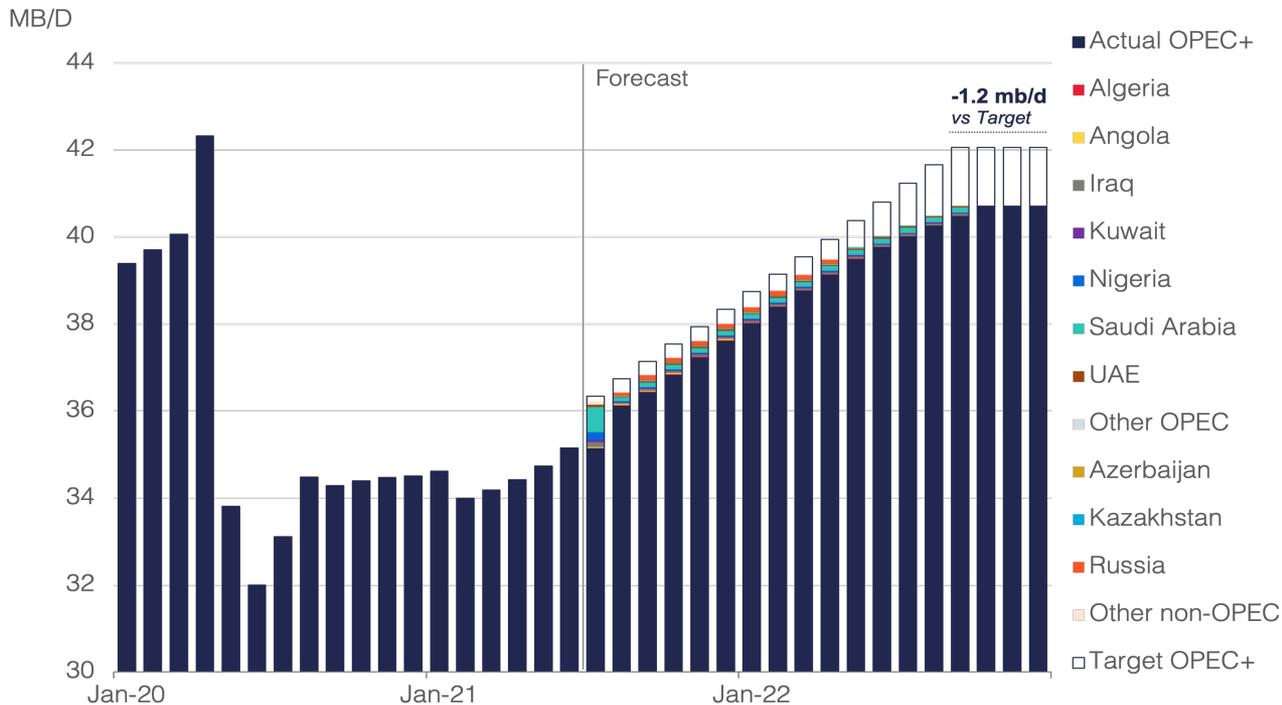
Crude only. Source: OIES.



Few countries are in a position to meet their quotas (1/2)

- The additional barrels released from OPEC+ back to the market in 2022 are likely to be less than the headline 5.76 mb/d figure.
- Considering implied production capacity and maximum historical production levels sustained over a period of 3-6 months, we estimate that OPEC+ can return only 4.5 mb/d of restrained supplies, 1.2 mb/d below target.

Target vs projected OPEC+ production



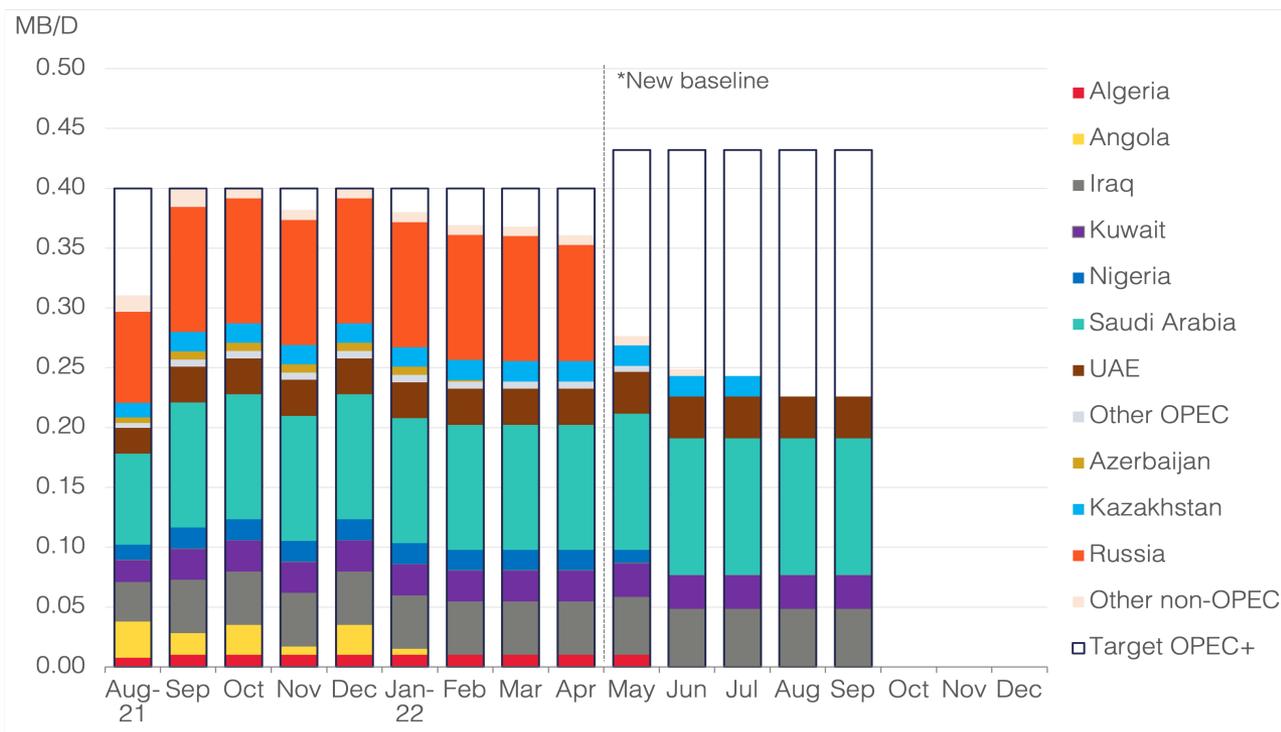
Assumes no 3-month pause. Source: OIES.



Few countries are in a position to meet their quotas (2/2)

- Some countries are already over complying with the quotas as they reach their maximum capacity, while most producers and in particular non-OPEC will not be able to return to pre-COVID levels (see, for example, Angola, Nigeria, Azerbaijan, Kazakhstan and Russia).

Target vs reference OPEC+ production increases by country



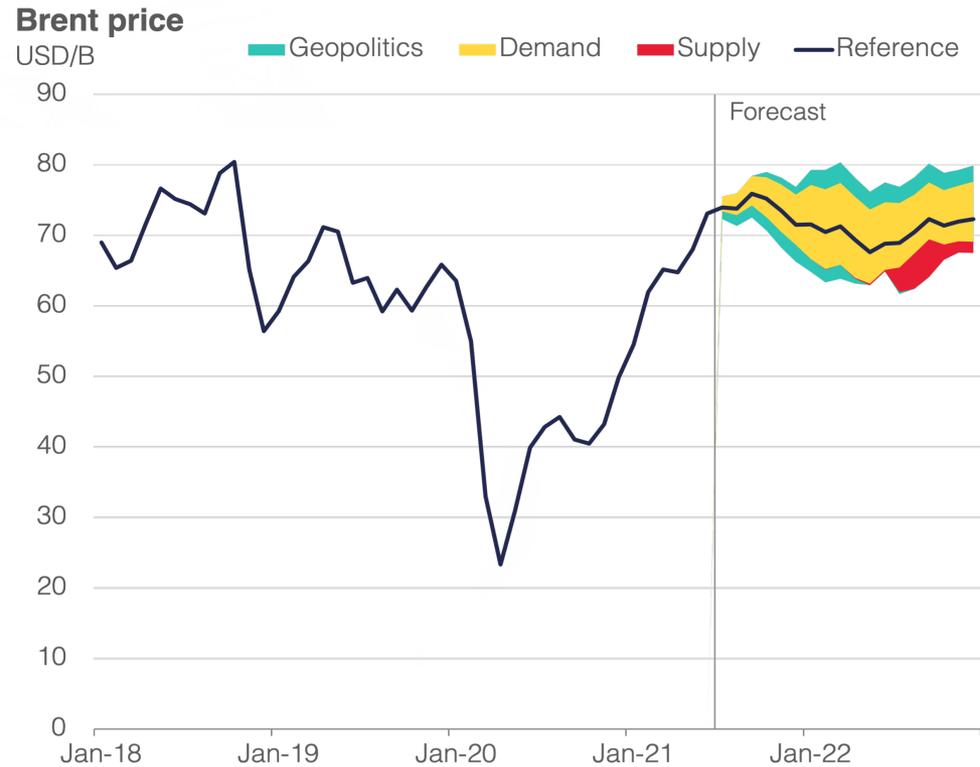
Assumes no 3-month pause. Source: OIES.



Risks remain relatively balanced

- With the supply path for OPEC+ clear, the balance of risks to our price outlook is now limited to demand and geopolitical risks, such as the spread of new variants of the virus and the ramping up of Iranian production or US shale surprising on the upside.
- Oil prices are expected to remain confined in the \$60/b and \$80/b price range.
- As OPEC+ release their barrels, the spare capacity in the system becomes thin providing support for oil prices.
- Upside risks are building in 2022, but for the year as a whole we now see the balance of risks around our price outlook shifting on the upside.

Balance of risks



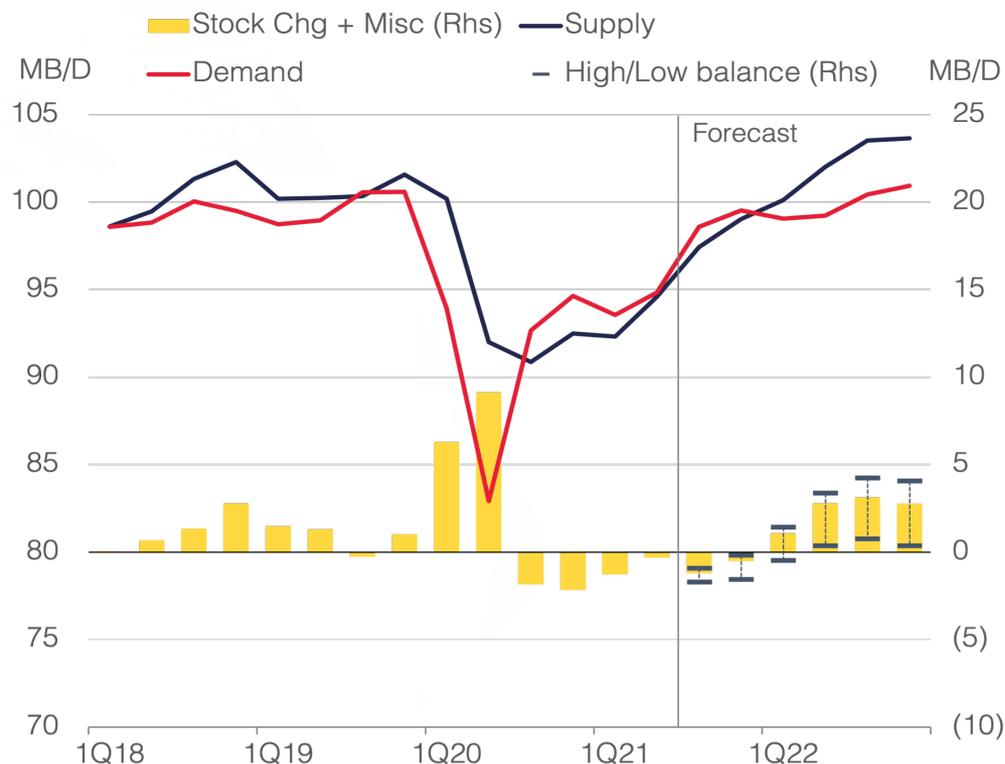
Source: OIES.



Another challenging year ahead for market balances

- Despite the increase in production between August and December 2021, the market is projected to remain in deficit in Q3 and Q4 2021 and for the year as a whole.
- Deficit is estimated at -1.2 mb/d in Q3 and -0.5 mb/d in Q4 2021.
- Depending on global oil demand outcomes and the pace and extend of the recovery of Iranian production, the market could switch into surplus in 2022 if OPEC+ stick to their deal.
- But balances could find support from either the supply or demand side of the market, or both, narrowing the surpluses and leading to a more balanced market.
- This shows the importance of OPEC+ balancing role in a uncertain environment.

Global balance and risks



Notes: Scenarios include OPEC+ maximum return of 5.76 mb/d, no Iranian deal and a high demand recovery case where global demand grows by 5.9 mb/d in 2021 and 4.1 mb/d in 2022.

Source: OIES.



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