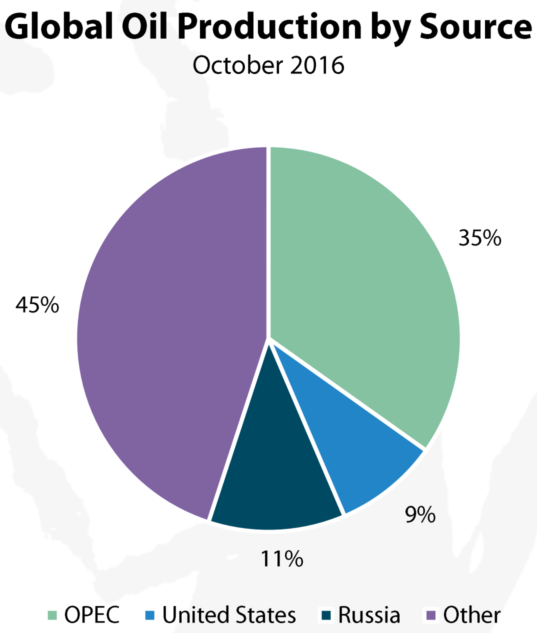
Advisor Pulse: OPEC Production Cut Agreement

After several eleventh-hour negotiation breakdowns at its meetings over the past two years, OPEC announced on November 30th that it had reached a substantive agreement to collectively cut oil production in order to limit global supply and lift prices. According to the terms of the agreement, OPEC will cut its collective production by 1.2 million barrels per day (mmbd) or about 3-4 percent. Saudi Arabia, the de facto leader of OPEC, will take on the largest cut at nearly 0.5 mmbd.

Organization of the Petroleum Exporting Countries

This announcement came after weeks of uncertainty and tense internal negotiation, as the group had agreed to cut production, but no individual member was eager to bear the costs of the production cut. The regional tension between Saudi Arabia and Iran was of particular note, as Iran insisted on maintaining its production levels, as it works to increase exports following the lifting of Western sanctions last year. In the end, a tentative agreement was reached, with most, if not all, parties appeased. Furthermore, OPEC brought non-member Russia into the agreement, with Russia indicating that it will cut its own production by 0.3 mmbd in alignment with the group. With Russia's participation a condition of the deal, it will be interesting to follow that country's progression. Russia notably reneged on its obligations in the most recent joint agreement with OPEC nearly ten years ago.



As of November 30th, this agreement has already pushed prices for crude oil up 10 percent in a single day, closing at $49.44/barrel in the US. It is notable that this closing price is still below the high price of $51.60/ bbl seen in October, when the market reacted to the mere possibility of a production cut. The coming days will reveal the impact this will have in the US diesel market, although it is clear that prices will rise noticeably in the short term.

Looking at a broader market view, some level of stability is likely in the coming weeks and months. While OPEC's agreement represents a clear shift in strategy for the largest producer group in the world, the cuts are not drastic, and the global market has been in a position of overproduction for so many years, that supplies will remain high for the near future. To this end, the US has enough oil and refined products on hand to accommodate an additional 1 mmbd of consumption for a year before returning to historical norms.

The Breakthrough®Fuel Applied Knowledge Team will continue to monitor the US and global marketplaces and report on major movements in the coming days. In the meantime, please contact Daniel Cullen, Director of Applied Knowledge at Breakthrough®Fuel, if you have any further questions.