

Markets provide a standing ovation for OPEC's latest twist in the Greek Tragedy

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Back in March 2020, we likened OPEC1 meetings to a Greek Tragedy. It may be hard to define the protagonist, but there is always a sense of betrayal and vengeance followed by a rallying of comrades. The high drama never fails to entertain. However, oil prices end up bearing the brunt of the emotional volatility.

Brent oil price rose close to US\$50/bbl on Friday 4th December, following an OPEC+2 meeting on 3rd December, marking the highest price since March 2020, just before the oil price crash occurred. It has surprised us, given that the OPEC+ deal fell short of expectations. The market had widely priced in an extension of current quotas for another three months. Yet OPEC+ has pursued with increasing production by 500,000 barrels per day in January 2021 and has scheduled monthly meetings to assess more production increases each month. Yes, that is lower than the 1.9 million barrel per day increase that was originally planned, but surveys of market participants clearly pointed to expectation of no increase for the first quarter. The outcome was a product of a compromise with the United Arab Emirates. The United Arab Emirates, traditionally a stalwart supporter of Saudi Arabia and the Gulf Cooperation Council, broke ranks, as it has become increasingly impatient to utilise its expanding oil capacity. The meeting had been delayed several days as a result and it has been the first time since March 2020 that Saudi Arabia hasn't seen the outcome that it had desired. To put that in context in March 2020, Russia broke ranks with Saudi Arabia sparking the price war that led to the worst oil price crash in history. While yesterday's outcome isn't as dramatic, fraying relationships in what is the core of OPEC could spell weak compliance. Furthermore, we could have a repeat of this saga every month, now that the production volumes have not been set for the coming quarter or year.

Tapering of just 500,000 barrels per day in January, followed by similar values in February and March, could allow the oil market to remain in a supply deficit in Q1 21, helping to withdraw the excessive inventory of oil. We believe the market is focused on that as a positive outcome.

While the major agencies like the International Energy Agency, Energy Information Administration and OPEC, remain cautious and have revised their 2021 demand figures downwards, the market appears to be more optimistic, with recent vaccine news providing a tailwind. Both Brent and West Texas Intermediate (WTI) futures curves are in backwardation from 2021 to 2024 indicating that the market is bullish on the demand front.

In 2020 OPEC has celebrated its 60th birthday. What a celebration it has been! The drama and infighting among members and partner countries has been matched by price behaviour. After front month Brent prices fell 72% from 6th January 2020 to 21st April 2020, they have risen 157% from that point to 4th December 2020.

1 Organization for Petroleum Exporting Countries

2 Organization for Petroleum Exporting Countries (OPEC) and its partner countries (combined as OPEC+)

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