

OPEC and Russia: a balancing act

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The oil price has recently reacted positively to two important events. Firstly, OPEC's proposal to reduce supply, [which we documented previously](#), has helped propel oil to above \$50 per barrel. Secondly, Russia has also contributed to the potential tightening of supply with President Vladimir Putin saying at a press conference in Turkey that "Russia is ready to join the joint measures to cap production and is calling for other oil exporters to join." [1]. However, as many commentators have noted, in both cases there is a long way to go before these statements translate into any concrete action. With respect to OPEC the end of November is the key point of focus for a firm agreement. Russia's actions on the other hand, whilst not tied to any specific timing, have the ability to significantly impact the overall supply balance. Over the past ten years, Russia's oil production has increased at a reasonably steady pace. It has risen from a low point of 9.65 m b/d at the end of 2006 to a recent high of 10.9 m b/d at the end of March this year. Whilst Russia is a significant producer it is just as important to consider exports as a percentage of its production. Having averaged close to 50% over the six years to the end of 2012, exports as % of production hit a low point of 38.5% in February 2014. Since that nadir it has continued to rise and as of June 2016 was back to its long term average at 49.5%.

Perhaps a more salient way to consider Russian exports is that it has added around 1.3m b/d to overall supply in the oil market. This is interesting in the context of OPEC's recent stated desire to lower production from the recent high in [September 2016 of 33.6 mb /d to between 32.5 and 33 mb /d](#). Overall OPEC is only targeting a reduction of a maximum of 1mb /d, somewhat less than the amount added by Russia over the past two and half years.

Clearly Russia's ability to impact the over supply side of the market can be an important determining factor with respect to prices. If one considers Russia's oil production relative to that of Saudi Arabia it has been on a steadily increasing upward trend. Recently it has spiked to the highest level over the past ten years, reaching over 11.1 mb /d in September. In contrast Saudi Arabia's levels of production, whilst on the increase over the past two years, have been more volatile. This historically has been indicative of Saudi Arabia's willingness to be the key swing producer within OPEC that can impact pricing. It also a function of the fact that Saudi Arabia represents over 31% of total OPEC output.

Whilst Russia's impact on oil supply – and therefore the stability of the oil price – will be an important factor over the next few months, there are other factors to consider. A number of OPEC nations, over the past year have come to dominate the increased supply of oil. Iran has been able to resume production at higher levels and over the past year this has risen by close to 30% from 2.8m b/d to over 3.6m b/d. This increased output is a key component of Iran's rehabilitation to the international oil market and reflects an easing of sanctions. To put this into perspective the current level of output by Iran is only 11% below its highest levels over the past 15 years and capacity constraints suggest that it is unlikely to reach such levels in the short term. Other substantial OPEC producers that may impact the forthcoming negotiations include Iraq,

which is currently at record levels of output, up almost 7% from one year ago levels. Additionally, supply disruptions in Nigeria have constrained production by over 24% over the past year, a decrease of almost 0.5m b/d and overall Nigerian output is close to 40% below peak levels.

The volatility in the oil price, which peaked at close to 75% in February this year, has helped create trading opportunities and turnover in short and leveraged ETCs that track the oil price. In May and June of this year, on-exchange ETC turnover was close to \$1.5bn even as realised oil price volatility edged significantly lower to between 30 and 40%. Recently there has been a pick-up in volatility to over 45% and turnover that has risen to over \$1.1bn. Even in times of lower volatility it is apparent that investors are looking to position themselves for potential moves in the oil price. Although the price of oil has stabilised at levels ranging from \$40 to \$50, the next couple of months ahead of the next formal OPEC meeting will create more opportunities for oil price volatility. Whilst OPEC has a stated intention of lowering production it is noteworthy that there are complex dynamics both within OPEC and with significant non-OPEC producers such as Russia. On balance, from a macro-economic and financial stability perspective most parties are aligned to create a more robust environment for the oil price.

[1] Reuters

For investors who believe oil prices will continue to be volatile:

- + [Boost WTI Oil 3x Short Daily ETP \(3OIS\)](#)
- + [Boost WTI Oil 3x Leverage Daily ETP \(3OIL\)](#)
- + [Boost Brent Oil 3x Leverage Daily ETP \(3BRL\)](#)
- + [Boost Brent Oil 3x Short Daily ETP \(3BSR\)](#)
- + [Boost WTI Oil 2x Short Daily ETP \(2OIS\)](#)
- + [Boost WTI Oil 2x Leverage Daily ETP \(2OIL\)](#)
- + [Boost WTI Oil 1x Short Daily ETP \(OILZ\)](#)
- + [Boost Brent Oil ETC \(BRND\)](#)
- + [Boost WTI Oil ETC \(WTID\)](#)

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