

OPEC boosts oil markets with supply cut

Published 11 December 2018

Nitesh Shah

Head of Commodities and Macroeconomic Research, WisdomTree Europe

Failing to make an announcement on 6 December, the Organization of Petroleum Exporting Countries (OPEC) provided a positive surprise to the oil market on 7 December by announcing a larger-than-expected cut to production. OPEC and its non-OPEC partners (collectively known as OPEC+) will cut production by 1.2 million barrels per day compared to their October 2018 production levels. The market had expected around a 1 million barrels per day cut. While individual country quotas have not been reinstated, the exemption of Iran, Venezuela and Libya (where production levels are falling already) means that the burden of these cuts fall on other countries. So, OPEC is not simply hiding behind the supply declines that would arise anyway from these three countries. Indeed, if Iran, Venezuela and Libya continue to reduce production, total OPEC+ decline in production could be much higher than the 1.2 million barrels announced as part of the deal.

We had feared the lack of communication following the first day of meetings indicated that the group had not come to any agreement. We were also worried that Saudi Arabia could have bowed to US pressure and not pushed for a cut in production. Far from it. Saudi Arabia had led the core OPEC group to cut by 800 thousand barrels per day and OPEC's 10 partners said they will cut by 400 thousand barrels per day following the core group's lead. At the press conference Saudi Arabia was quite transparent in stating that it expects its production levels to decline from 11.2 million barrels per day to 10.2 million barrels per day by January 2019. That indicates that Saudi Arabia will be doing more than its fair-share to meet the group's goals.

What impressed us the most was that OPEC and its partners took steps to formalise their relationship. They were unable to do that back in June 2018, when it appeared that the group's cohesion was fraying. OPEC+ has thus made progress in strengthening its institution. Formalising the relationship is likely to keep the markets in balance for longer.

Oil prices initially rose close to 6% intraday on 7 December, but gains tailed-off to end the day just under 3% up. We believe that oil prices have further to gain as the agreement appears very positive in terms of bringing the market to balance.

Figure 1: Brent oil price

Source: Bloomberg, WisdomTree, data available as of 10 December 2018.

Historical performance is not an indication of future performance and any investments may go down in value

Related blogs

+ [OPEC: Déjà vu – No thank you!](#)

+ [Oil lords battle it out](#)

Related products

+ [ETFS Brent Crude](#)

+ [ETFS WTI Crude Oil](#)

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.