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OPEC-plus Agrees on 2.2 million bpd in Voluntary Production Cuts

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On November 30, the OPEC-plus group of oil-producing countries at its online ministerial meeting agreed that like-minded group members will voluntarily cut oil production by 2.2 million barrels per day from January in light of the current trends in the international oil market and crude oil prices, as well as the outlook for international oil supply and demand.

Of the voluntary production cuts, Saudi Arabia will account for 1 million bpd, Russia for 0.5 million bpd, Iraq for 0.223 million bpd, the United Arab Emirates for 0.164 million bpd, Kuwait for 0.135 million bpd, Kazakhstan for 0.082 million bpd, Algeria for 0.051 million bpd, and Oman for 0.042 million bpd. The group also indicated that the production cuts will be implemented from January 1 to March 31 before being phased out in line with market conditions from April.

It should be noted that the voluntary production cuts were presented not in a press release on the outcome of the ministerial meeting but in a separate press release. This means that the like-minded OPEC-plus members announced additional production cuts as their voluntary initiative.

The OPEC-plus group has continued to implement coordinated production cuts to support oil prices and manage the supply-demand balance. The current coordinated production cuts total 2 million bpd, remaining in effect since November 2022. The coordinated production cuts had been planned to last until the end of 2023 and have been extended to continue until the end of 2024 in line with market conditions. To further support crude oil prices, Saudi Arabia started a voluntary production cut of 0.5 million bpd in April 2023 and expanded the voluntary cut to 1 million bpd in July. Russia has also implemented a voluntary production cut. The coordinated OPEC-plus production cuts have thus been combined with like-minded OPEC-plus members' voluntary cuts. The fate of these voluntary production cuts planned to last until the end of 2023 was attracting attention to the ministerial meeting.

On the international oil market, crude prices followed an upward trend from June to late September, supported by the OPEC-plus production cuts. On September 27, the key Brent and West Texas Intermediate crude oil futures prices hit this year's respective highs of $96.55 per barrel and $93.68/bbl. Later, however, crude oil prices came under downside pressure due to concerns about a global economic slowdown. WTI slipped below $80/bbl in November as the international oil market was dominantly expected to see an oversupply in the first half of 2024. Meanwhile, the Middle East situation was destabilized by the Hamas Palestine terrorist group's blitz on Israel on October 7 and Israel's subsequent counterattack. Crude oil prices rose temporarily in response to Middle Eastern geopolitical risks growing on the deepening humanitarian crisis in the Gaza Strip. As market participants later found that the crisis had little impact on oil supply from the Middle East, however, crude oil prices were pushed down by supply and demand fundamentals.

Then, international oil market participants focused their attention on supply and demand fundamentals and how the OPEC-plus group would respond. Most of them expected that the group would enhance production cuts in some manner to prevent crude oil prices from weakening further.

The OPEC-plus ministerial meeting, originally scheduled for November 24, was suddenly postponed until November 30, while attracting global attention. The postponement came as some African OPEC-plus members were reportedly reluctant to enhance production cuts, making it difficult for the group to produce any consensus on the enhancement. Towards the postponed ministerial meeting, market speculators anticipated the OPEC-plus group's failure to get united to enhance production cuts, exerting downside pressure on crude oil prices.

In light of this situation, the latest OPEC-plus decision and announcement apparently indicated that the best solution for the group and its leader Saudi Arabia to support oil prices might have been an agreement on the enhancement of the coordinated production cuts. As far as the current coordinated production cuts were scheduled to last until the end of 2024, the group might have wanted to expand each member's and overall coordinated production cuts. As noted above, however, some members might have felt great costs accompanying any expanded production cuts, making the coordination difficult. If the group failed to reach any agreement despite the postponement of the ministerial meeting, it would have been the worst result to risk a sharp fall in crude oil prices after the meeting. Such deviation from market expectations would have exerted a great impact on oil prices.

There were still options to enhance voluntary production cuts to avoid the worst scenario. One option was to extend voluntary production cuts beyond the end of 2023 until sometime in 2024. Another was to expand voluntary production cuts. The announcement demonstrates that a production cut expansion has been secured, even though with member-by-member expansions being limited. I think that the group has achieved the second-best solution by sending the market a message that expanded voluntary production cuts would be implemented until the end of March 2024. Another point that was interesting to me was that Saudi Arabia could have increased its voluntary production cut further. If willing to support oil prices even despite its difficult coordination with other oil-producing countries, Saudi Arabia may have an option to expand its voluntary production cut. The latest coordination among the OPEC-plus group members has led me to feel that Saudi Arabia wanted to avoid its unilateral voluntary production cut expansion and leave it as a last-resort option.

The rough coordination among OPEC-plus group members resulted in doubts about the unity of the group for the coordinated production cuts, and while there were voluntary production cuts totaling 2.2 million bpd, the amount of additional production cuts was not that large. Consequently, crude oil prices decreased on November 30. The front-month futures contract lost $1.90/bbl to $75.96/bbl for WTI and $0.27/bbl to $82.83/bbl. Market players might have expected to see a clearer, stronger message from the OPEC-plus group.

The new OPEC-plus initiative leads me to pay close attention to crude oil market developments from December. Market players will focus their attention on how voluntary production cuts will be implemented by like-minded OPEC-plus group members. Winter temperatures and weather conditions in the northern hemisphere will attract attention as factors exerting an influence on oil demand. Actual global economic deceleration as well will attract attention, particularly regarding the economy and oil market in China, the world's largest oil importer. Trends in non-OPEC oil production, driven by rising U.S. oil production, will also be a focus of attention in 2024. On the other hand, we cannot ignore the impact of the geopolitical situation in the Middle East, which remains serious, as well as some oil supply disruptions and geopolitical risks that are not expected now.

Depending on developments in the international oil market and oil prices around the turn of the year, interest may grow significantly in OPEC-plus actions again. The OPEC-plus group and its leader Saudi Arabia will be required to make sensitive and difficult responses to future developments.

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