OPEC+ Gives the United States the Cold Shoulder as They Agree to the Most Drastic Oil Production Cut Since the COVID-19 Pandemic in an Attempt to Prop Up Prices

On Wednesday of this week, OPEC+ representatives convened in Vienna for their first in-person meeting in over two years. Ahead of the conference, it had been highly speculated that the group may agree to cut oil production by as much as 1 million barrels per day (bpd). Instead, the group grabbed headlines by approving a 2 million bpd cut, about 2% of global supply. The move follows a previous cut of 100,000 bpd last month, which many experts correctly predicted would be an indicator of larger cuts to come. The contentious maneuver by OPEC+ will foster indignation amidst many international actors. Countries such as the United States and many in Europe are already suffering from inflation due to energy crises. In fact, President Biden traveled to Saudi Arabia recently in an effort to convince the leading oil exporter to produce even more oil, but to no avail. Some analysts are confused as to why OPEC+ would vote to reduce supply within an economy that is already experiencing an oil shortage. Additionally, demand is expected to decrease as global recession deepens, so many fail to understand why OPEC+ would not want to increase their output while they still can. It is expected that the U.S. may take some action in the face of the OPEC+ decision, such as releasing more oil stocks and revamping conversations around a NOPEC bill, an antitrust bill against OPEC. In response, several Democratic members of the United States Congress have also rallied against Saudi Arabia and the United Arab Emirates over the major cuts and urged President Biden to pressure for a reversal of the decision.

OPEC+ and leading business and banking experts have defended OPEC+'s decision by arguing that dissenters are failing to recognize the difficulty of quickly upscaling supply as the U.S. requested. Saudi Aramco's Chief Executive and the CEO of Shell, among others, have stated that such a process is sometimes laid out a decade or more in advance. OPEC+ has expressed that they are not concerned so much about a specific price for their oil, but rather that the price is steady. CIO of Pickering Energy Partners, Dan Pickering, agreed that OPEC+'s goal seems to be preventing volatility, adding that OPEC+ is far less concerned about the demand for their product, despite the encroachment of recession. Prices have fallen by over $30 a barrel since June. Since it became known at the beginning of this week that OPEC+ planned to raise prices, the price of oil has risen substantially, increasing by over 4% on Monday, almost 3% on Tuesday, and yet further on Wednesday.

As far as the expected impact on the market, there is again disagreement. There were some experts who believed that OPEC+ would only vote to cut oil production by half a million bpd, which high-profile banks, including JPMorgan & Chase, thought would be enough to prevent prices from tumbling further. Forecasters at Goldman Sachs predicted that a cut of the expected 1 million bpd would cause international oil prices to surpass $100 per barrel by the end of January. They also estimated that such an increase in price would compel investors to re-enter the oil market despite climbing interest rates, thus boosting the market, but making oil much more difficult for consumers to afford. Being that the cut that was approved was twice as large as anyone predicted, we can expect all of this and more. There are some, however, who believe that the cut will not be as significant as many are assuming. Ole Hansen of Saxo Bank, for example, among others, has pointed out that OPEC+ is already failing to meet their quotas by a substantial margin, thereby softening the blow.

Further, it is important that the effect of the war in Ukraine on the oil market is not discounted. In addition to being largely responsible for the worldwide energy crisis that has damaged the oil market, Russia's actions have also provoked the G7 and the EU to place stiff sanctions – and most likely a cap – on Russian oil beginning on December 5th. Sanctions on Russia and an OPEC+ cut, in addition to China's re-entry into the oil market and the end of the U.S.'s deployment of the Strategic Petroleum Reserve (SPR), are collectively expected to significantly raise the price of oil. The OPEC+ cut, the Russia sanctions, and the end of the SPR will all lower supply, whereas China will increase demand, but the result is the same in all cases: higher prices and more dependence on OPEC+. "Despite everything going on with the war in Ukraine, OPEC+ has never been this strong" said Edward Moya, OANDA's Senior Analyst for the Americas to Reuters. And they know it.