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Extension of OPEC/non-OPEC Production Cut Deal Near Certain - Analysts

The likelihood of OPEC and major non-OPEC producers agreeing to extend their ongoing crude output cut is near certain, two prominent analysts said Monday.

OPEC producers are "100% certain" to extend their end of the output cut deal at a May 25 OPEC ministerial meeting in Vienna, Fereidun Fesharaki, chairman of consultants FGE, told the Middle East Petroleum and Gas Conference in Dubai.

In December, OPEC teamed up with major producers such as Russia to cut production by nearly 1.8 million b/d compared with October 2016 levels starting January 1.

While a six-month deal was initially envisaged, OPEC may need to keep a lid on its production until well into 2018, Fesharaki said, as work on trimming global crude inventories continues, or they risk oil prices dropping back to \$40/b if stocks, particularly in the US, increase. "The cuts will have to be extended even beyond this year, to the middle or even the end of next year", he said.

The market is watching carefully for signs of when the build up in inventories stops and drawdowns begin, he said.

Oil prices of \$50/b-\$60/b could be sustainable, he added, but there was a risk that US production volumes could be higher than expected, pushing prices back as low as \$40/b over the next 12 months.

A number of ministers from OPEC members have already said they are amenable to extending the deal, including Bijan Zanganeh of Iran, who said Saturday he would support the extension if all, or the majority, of the group did the same.

Khalid al-Falih, oil minister of OPEC kingpin Saudi Arabia, said last week there was a consensus to extend the deal. It remains unclear, however, if Iran will be willing to cut its production from current levels of around 3.8 million b/d, which is below its pre-sanctions output of 4 million b/d.

DEAL HINGES ON RUSSIAN PARTICIPATION

"I wouldn't go as far as saying 100%," Ed Morse, global head of commodities research at Citigroup told the same conference. "I would say it is high, but until Russia says so too, it is not done."

It was also too early to tell how producers in the Persian Gulf, which form the bulk of OPEC's production as well as bearing the brunt of the cuts, would react to Russia not joining them, Morse said.

Although unlikely, that could bring the entire enterprise to an end after just six months.

Russian energy minister Alexander Novak said Friday that the country had cut its crude output by 300,000 b/d compared with its October 2016 levels, meaning it was now fully compliant with its obligations under the deal.

It remains unclear whether Russia will support an extension of the deal, under which OPEC agreed to cut its output by 1.2 million b/d and 11 non-OPEC countries led by Russia committed to a 558,000 b/d decrease from January through June.

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