

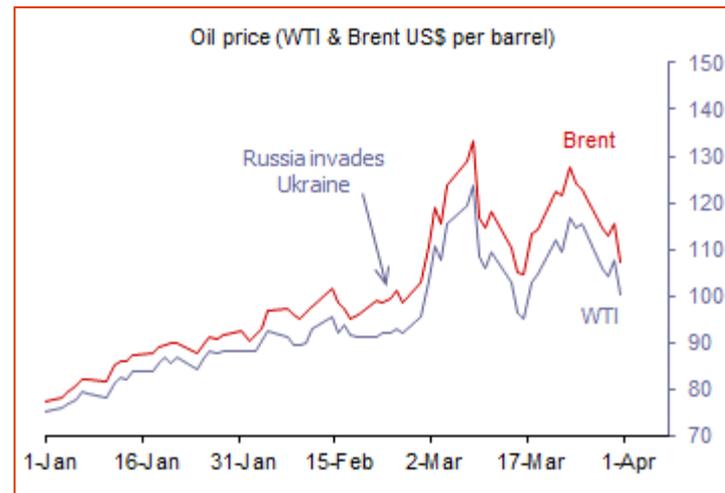


OPEC+ production stepped up, but quotas not met

4^h April 2022

RECENT EVENTS

Starting on 24 February, the date on which Russia's military aggression on Ukraine began, the oil market entered a further price increase phase on top of the upswing observed since the beginning of the year. Since hitting a relatively high on 8 March, however, the price of oil has range-traded, rocked by very high volatility in function of news flows from the states and international agencies most actively involved in the energy market. In the past week, oil prices have been pushed down by two factors: the first is the fast-paced spread of the Omicron variant in China, and the reintroduction of drastic measures to contain it (Shanghai has in lockdown since 26 March); the second is today's news that the Biden administration is working on releasing one million barrels of oil per day from strategic reserves for several consecutive months.



EXTERNAL PRESSURES ON OPEC+

OPEC+ is being pressured by the United States to step up production in order to fill the void left by the drop in Russian exports. In all likelihood, the Gulf countries will not adopt strategies that could result in the allegiance with Russia being broken.

In addition to this already complex intertwining of themes, another variable is represented by the Iran nuclear talks, a positive outcome of which would result in Iran increasing production, to Saudi Arabia's chagrin.

A SCARCELY SIGNIFICANT INCREASE

At its meeting at the end of March, OPEC+ changed the pace of its production increases compared to the plan adopted in July 2021, that provided for a monthly increase of 0.4 million barrels per day until pre-Covid levels were restored. Starting in May 2022, planned production will increase to 0.432 million additional barrels per day until December 2022; a scarcely significant increase by OPEC+ that reconfirms the cautious approach taken by the cartel of producer countries. Following OPEC+'s decision, the reaction of the price of oil was very marginal, reflecting a neutral interpretation by the markets of the 32,000-barrel per day increase in monthly production.

QUOTA COMPLIANCE ISSUES

A secondary theme, that has been out of the spotlight since Russia's invasion of Ukraine, is the ability of OPEC+ to comply with its planned production quotas. In the opening months of 2022, the delay accumulated compared to the quotas allocated had started to raise alarm on potential supply deficits.

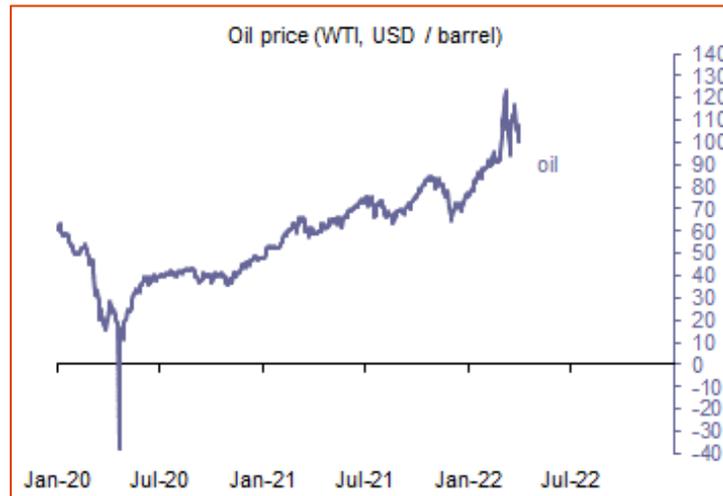
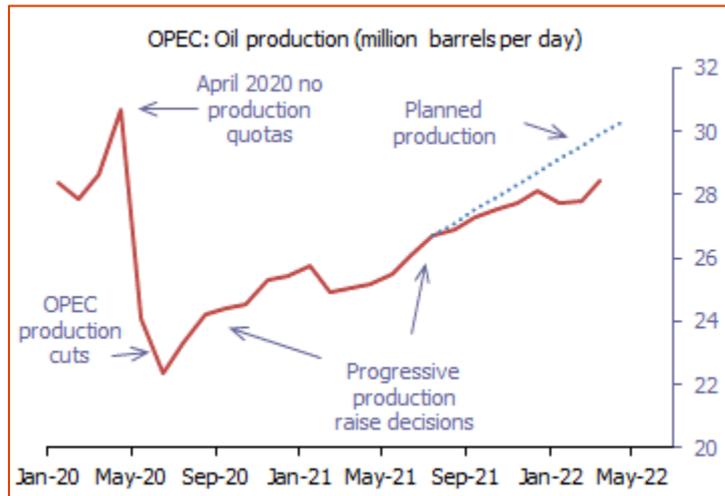
The pre-meeting estimates provided by OPEC+ point to a surplus of 2.5 million barrels per day in the second quarter, another reason that explains the caution displayed by the cartel in the course of 2022. However, it should be said that Opec+ estimates referred to the first quarter have been revised down to 0.6 Mbd from 1.0 Mbd previously.

Taking July 2021 as the starting date for production increases, OPEC+ has accumulated a delay of around 2 million barrels per day. Based on analyst estimates, the increasing probability of seeing higher prices for longer than forecast could start to reap a progressively more negative impact, that would weigh on demand, although this effect is unlikely to balance or outbalance the upward thrust on prices impressed by the decline in demand.

QUOTA COMPLIANCE ISSUES

However, not all the world reasons and acts in the same way: in fact, in mid-March India stepped up its quota of oil purchases from Russia, taking advantage of the drop in foreign demand for Russian crude oil, and the resulting reduction in its specific price.

However, in the event of the surplus prospected by Opec+ not materialising, and a deficit arising, pressures from the West, led by the US, will very likely increase on the cartel, also in consideration of Opec's spare capacity (excluding Russia), estimated by several sources at between 3.2 and 4.8 million barrels per day.



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