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OPEC+ Cuts Extension Likely After Russia-Saudi Talks

Oil ministers are pursuing cooperation in the face of a slowing global economy.

By Bloomberg

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The top oil officials held talks at the St. Petersburg Economic Forum. **Bloomberg Mercury**

Saudi Arabia's top oil official said he was sure that OPEC+ will extend production cuts into the second half of the year after holding talks with Russia.

Ministers from the countries voiced similar concerns about the impact of a slowing global economy on oil prices and talked up the benefits of cooperation. The unified front presented on Friday appeared to resolve signs of division visible in the previous days.

Still, the two leaders of the coalition between the Organization of Petroleum Exporting Countries and several non-members stopped short of any specific commitments on production volumes after the current output deal expires at the end of this month. They were also unable to fix a date for a meeting to discuss the matter with fellow ministers.

"I don't think the question is at all whether we will extend or not," Saudi Energy Minister Khalid Al-Falih said after a panel at the St. Petersburg International Economic Forum. "A rollover is almost in the bag for OPEC. The question is to calibrate with non-OPEC if there needs to be an adjustment from the first half."

Diverging interests and surging market volatility are making the ministers' decisions more difficult. Oil is torn between the bearish influence of U.S.-instigated trade wars and the bullish threat of supply disruptions from Iran to Venezuela.

"I don't think there will be a need to deepen the cut, but whether we need to scale it back a little bit will depend on what happens in Iran, Venezuela, other countries," Al-Falih said.

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U.S. oil futures slumped back into a bear market this week, while Brent crude dipped below $60 a barrel in London for the first time since January.

"The biggest drivers are now sanctions, tariff wars" and they cannot be predicted, Russian Energy Minister Alexander Novak said. "The situation in the market is far from being a positive one" and demand growth may slow to below 1 million barrels a day, so the OPEC+ deal "is a very great instrument for dealing with this uncertainty."

While the Saudis have clearly wanted for some time to extend the group's production curbs beyond their expiry at the end of this month, Russia had been at best non-committal. President Vladimir Putin showed little concern this week about the latest market moves and said his country was better placed to withstand lower prices than its Gulf ally.

"We have certain differences in opinion regarding the fair price" compared with Saudi Arabia, Putin told reporters on Thursday. "$60-65 a barrel suits us just fine" because Russia's budget is based on $40 crude, he said.

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Brent crude advanced as the ministers spoke, rising as much as 2.4% to $63.12 a barrel, and traded at $62.53 as of 10:28 a.m. in London. The international benchmark is still about 15% below its peak for this year.

Saudi Arabia is able to tolerate lower crude prices than almost anyone else, Al-Falih said. However, letting the market slump again like it did in 2015 — when Brent traded in the $30s — would be "unacceptable," he said.

The kingdom pumped about 9.65 million barrels a day in May, which is 700,000 barrels a day below its target in the OPEC+ deal, Al-Falih said. The kingdom will keep output below its 10.3 million barrel-a-day limit through July, but there's no need to deepen the cuts, he said.

OPEC and its allies haven't yet confirmed a date for its next ministerial meeting in Vienna. Originally set for late June — just days before the group's cuts expire — scheduling conflicts mean it has been postponed. Most members have confirmed they can gather in the Austrian capital from July 2 to 4, Novak said.

"I'm very confident that when we do meet in a few weeks, we will come to the right decision," Al-Falih said. If it does extend the cuts, the group can still be responsive to changes in the market. "We can adjust up and down as the need may be."

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