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OPEC Backs Biggest Oil Cut Since 2008 Crisis, Awaits Russia

By Reuters

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Yegor Aleyev / TASS

OPEC agreed on Thursday to cut oil output by an extra 1.5 million barrels per day (BPD) in the second quarter of 2020 to support prices that have been hit by the coronavirus outbreak but made its action conditional on Russia and others joining in.

The oil demand outlook has been pummelled by global measures to halt the spread of the virus, prompting the Organization of the Petroleum Exporting Countries to consider its deepest cut since the 2008 financial crisis.

Demand growth forecasts in 2020 have been slashed as factories have been disrupted, people have been deterred from traveling and another business activity has slowed.

Saudi Arabia has been pushing OPEC and its allies, including Russia, for a big cut up to 1.5 million BPD for the second quarter of 2020 while extending existing cuts of 2.1 million BPD, which expire this month, to the end of 2020.

But Riyadh, the biggest OPEC producer, and other OPEC states have struggled to persuade Russia to support the move. Moscow has till now indicated it would back an extension but not a new cut.

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Russia, which has co-operated on output policy since 2016 in the informal group known as OPEC+, has in the past been hesitant during talks but has signed up at the last minute. Moscow will take part in the OPEC+ ministerial meeting in Vienna on Friday.

OPEC said in a statement after its ministers met that the coronavirus outbreak created an "unprecedented situation" with risks "skewed to the downside", adding that action was needed.

It said ministers agreed to an extra supply cut of 1.5 million BPD until June, out of which non-OPEC states were expected to contribute 500,000 BPD. The group said this was in addition to extending existing supply curbs to the end of 2020.

OPEC holds its next ministerial meeting on June 9.

Worst case scenario

OPEC sources have previously signaled that preliminary discussions with Russia about the cuts held this week in the Austrian capital had been trickier than before.

"The worst-case scenario is an extension," said an OPEC source when asked what would happen if Russia refused to join a new cut on Friday.

In a sign that bargaining was not over, Russian Finance Minister Anton Siluanov said Moscow had still not reached a deal with OPEC and it was ready for a possible drop in oil prices.

Suhail al-Mazroui, energy minister of the United Arab Emirates, said OPEC would not carry the burden of cuts alone and non-OPEC states had to join in. "We are all in this together. So it’s not going to be us making a decision alone," he said.

This year's price slide of about 20% has made it tough for OPEC states to balance their budgets, while Moscow said its books would be balanced at prices as low as $40 a barrel.

Brent oil prices rose 0.6% on news of OPEC's plan to cut but later fell below $51 per barrel on Siluanov's comments. The weakness highlights general uncertainty about the real impact on global oil demand as the virus continues spreading.

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The proposed OPEC cut, if approved, would be well above what the market had expected up until this week.

If OPEC+ was to decide to remove an extra 1.5 million BPD, it would bring the group's overall output reduction to 3.6 million BPD or about 3.6% of global supplies.

The last time OPEC reduced supplies on such a scale was in 2008 when it cut production by a total of 4.2 million BPD to address slower demand because of the global financial crisis.

"OPEC+ have little choice but to cut output substantially given the virus-related demand losses," said Gary Ross, founder of Black Gold Investors, adding that he expected Russia "will join because it is overwhelmingly in their economic interests."

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