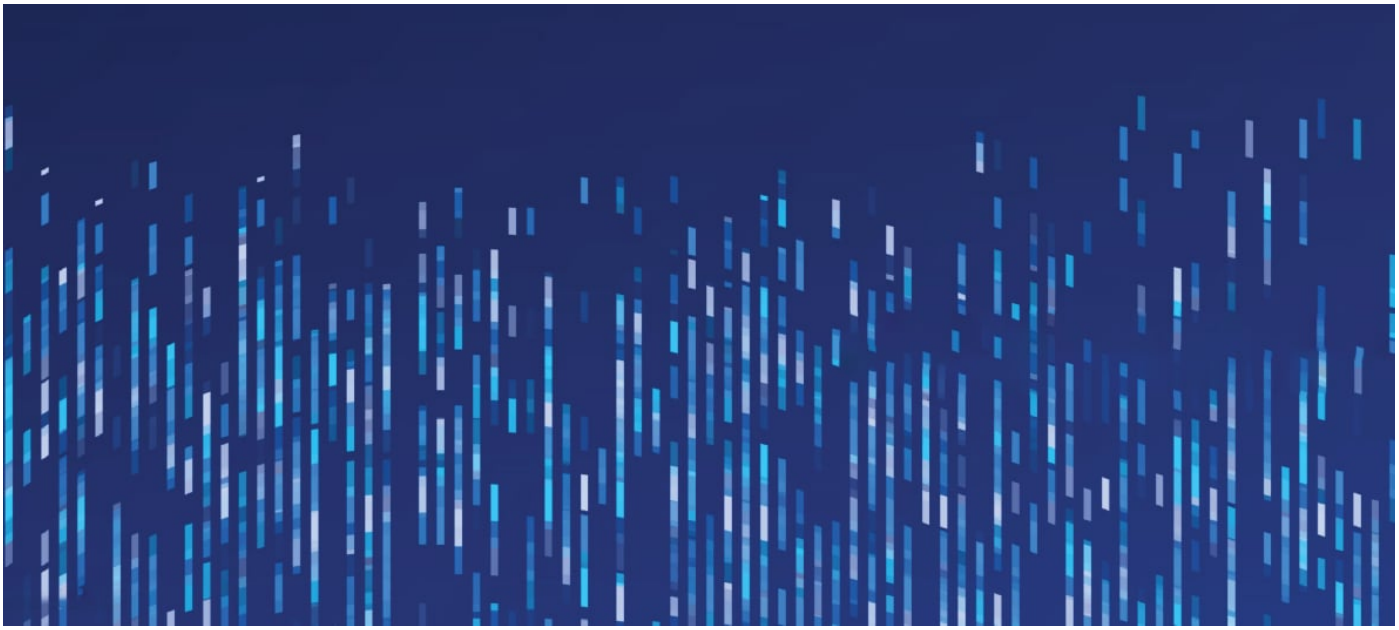

Capital Bytes – October 6, 2022

Capital Bytes: What to Make of the Recent OPEC+ Production Cuts

OPEC+ (Organization of the Petroleum Exporting Countries, plus Russia and 10 other non-member countries) agreed to impose double the expected amount of output cuts by a total of 2 million barrels per day. The move puts further strain on global energy supplies (and likely demand) and pushed West Texas Intermediate oil above $87, well above its average trading price of around $60 between 2014 and the beginning of 2022, while natural gas, now nearing $7, is more than double its average price during that same period.

While much of the world continues to reel from damaging, ultra-high inflation, OPEC+ announces this dramatic cut, the largest of its kind since the pandemic began. The cartel, whose purpose is purportedly to balance supply and demand, seems more concerned about money than balancing a marketplace that is already elevated in price, especially as many countries slip into recession. What's more interesting is that OPEC members have already been under-delivering, as actual output has been millions of barrels below their daily quotas for months now. Quota-bound members undershot September's target by 1.32 million bpd (barrels per day). That said, their output was the highest since 2020.

Industry watchers see the move as a slap in the face to western nations struggling to keep energy costs down, and obviously offers Russia additional financial “aid” to fund their faltering war with Ukraine. On another level, the announcement supports arguments that demand has fallen due to quickly deteriorating economic conditions, and may continue to decline over the coming year. The production cut and subsequent rise in prices could further reduce oil demand and damage the economy in the months ahead, undercutting their plan to hold energy prices high as the world’s thirst for oil is so fragile at present. The cartel also announced it will now meet every two months to readjust quotas, another signal that they want to play this game carefully as market conditions remain volatile. For now, expect prices to rise slightly at the pump, but natural gas prices will likely be the biggest detractor of economic health as it relates to energy.

OPEC+ member countries currently produce 40% of the world’s oil and their exports represent up to 60% of the global oil market, according to the EIA (U.S. Energy Information Administration). America was the world’s top producer of oil in 2021 and is still on track to retain that title this year.