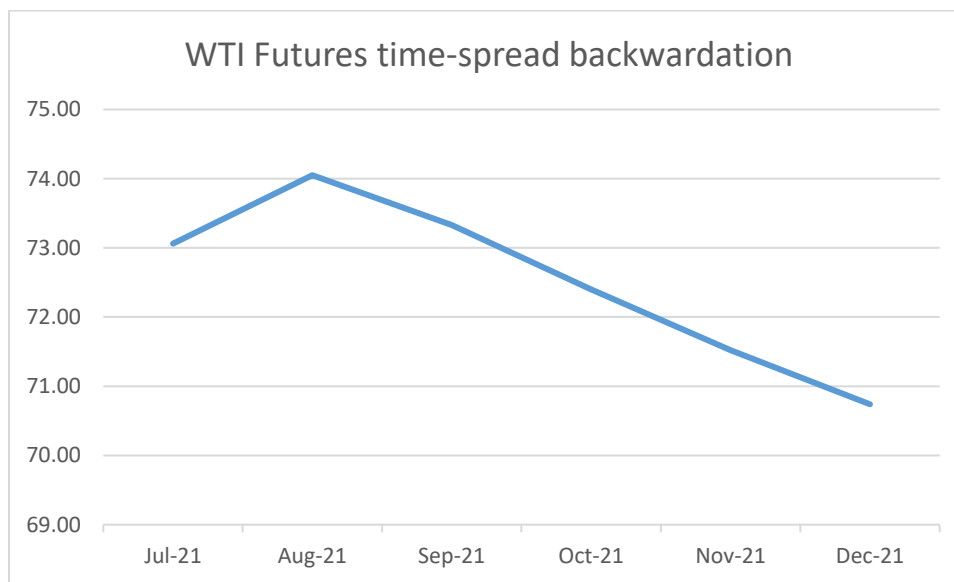


Next week OPEC+ is meeting in order to judge whether to raise oil production to counter recent growth in oil demand. There have been some interesting comments recently out of OPEC+. Russia has been the strongest contender in raising production. From what I can tell, Russia is the most concerned about a US shale come-back amongst all members. Saudi Arabia's oil minister came out this week arguing for OPEC+'s important role in containing inflation, which is partly driven by a fast climb in oil prices. This comment came after Iran pulled back from the nuclear negotiation table in order to wait for new President Raisi to conclude on any agreement. President Raisi has raised his stance in his first news conference stating to go back to the 2015 agreement – Raisi is taking office on 3rd August, hence no agreement is expected before then. Saudi Arabia also has a growing \$ debt pile of over \$240bn, for which reason the level of inflation, and therefore interest rates, becomes more and more important.

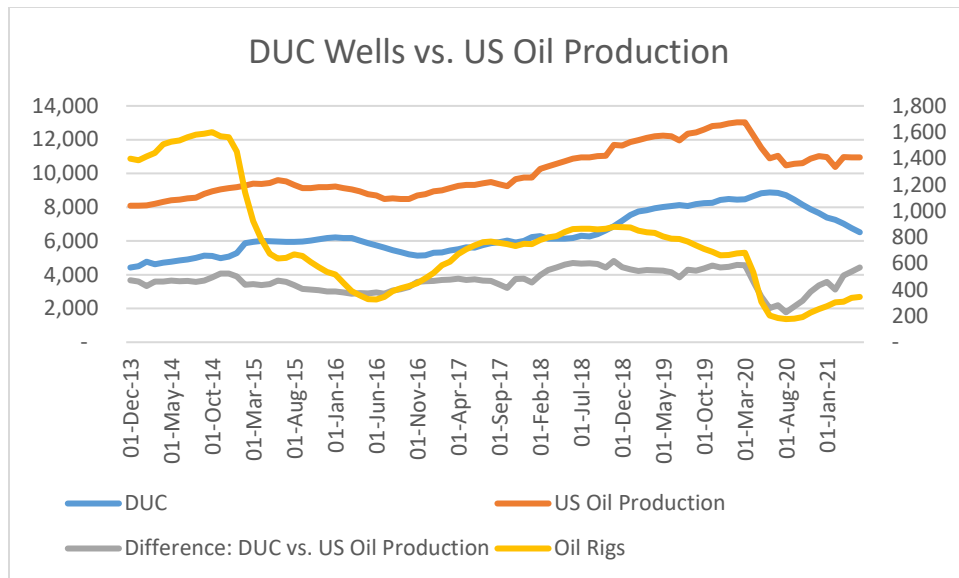
Currently OPEC is producing 27.7mb/d and with its June decision to hike output by 841,000 b/d in July 2021, OPEC's production will reach over 28.5mb/d. Many oil analysts expects OPEC+ to hike output by between 500,000 and 1mio b/d in the July meeting for August 2021 output. The question is, will it be enough?

WTI future time-spreads show a strong backwardation, in which future prices are lower than current and near term oil prices. This usually takes place when the market is tight and short of oil. In addition, the likely return of Iranian oil and possible shale output increase could be the trigger for the steep backwardation.



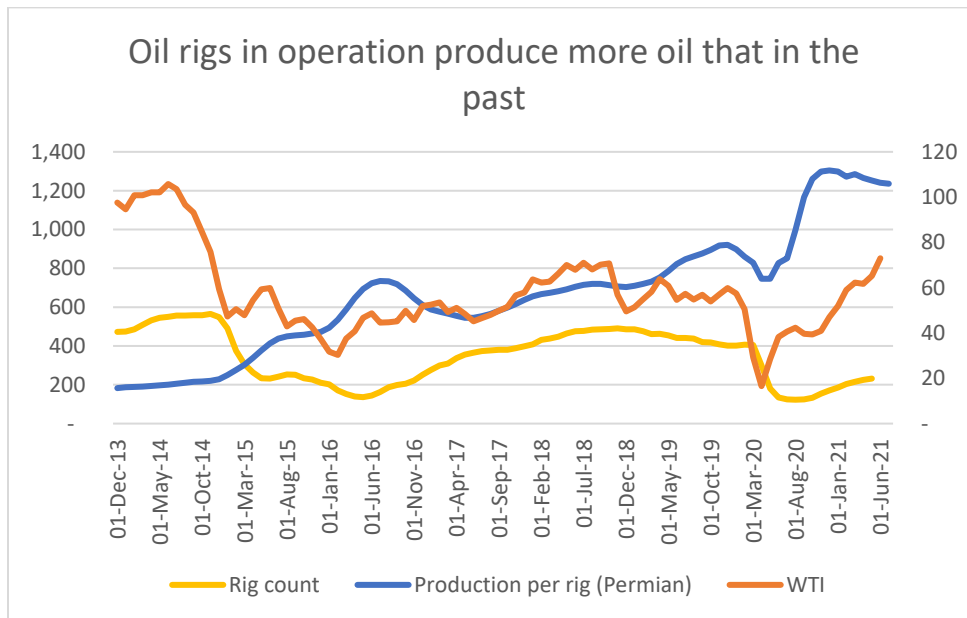
Source: Bloomberg

OPEC expects US oil production to be pretty stable until the rest of the year. There remains a big question mark around shale drillers, who have not come back to the market yet. Instead, we witnessed a rapid decline in drilled but uncompleted wells (DUC). The number of new wells saw a steep increase in May to reach 851, surpassing the pre-Covid level of January-March 2020. This means that US oil production has been held stable by bringing DUC wells online rather than by drilling new wells. The difference between DUC and US oil production (a creative way of looking at this data) is now back at pre-Covid level, which would indicate new drilling to take place and DUC to become more stable going forward.



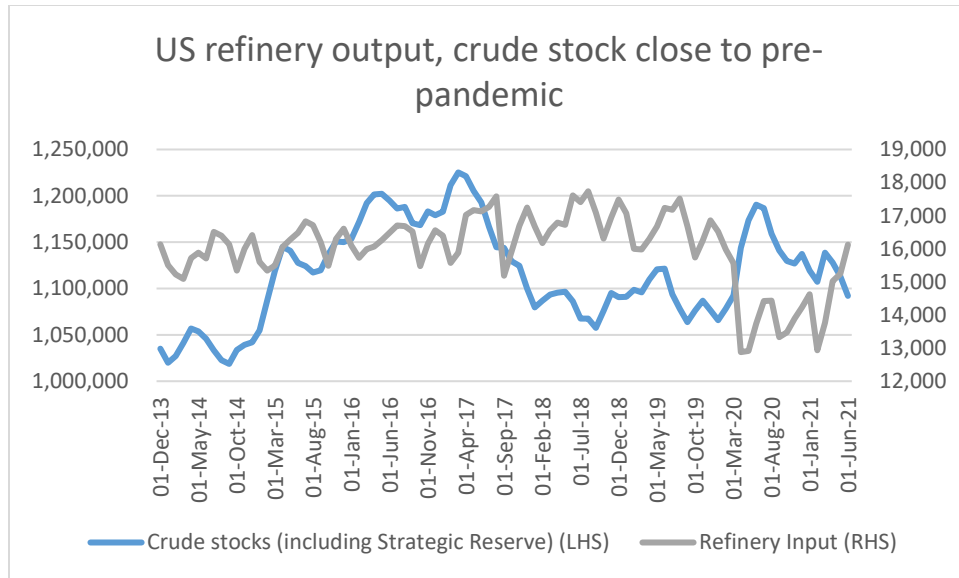
Source: EIA, Baker Hughes

With an example of oil production in the Permian region, one can observe that production per rig has increased rapidly from around 200 in 2014 to over 1,300 in 2020, but is set to decline from more rigs coming online now.



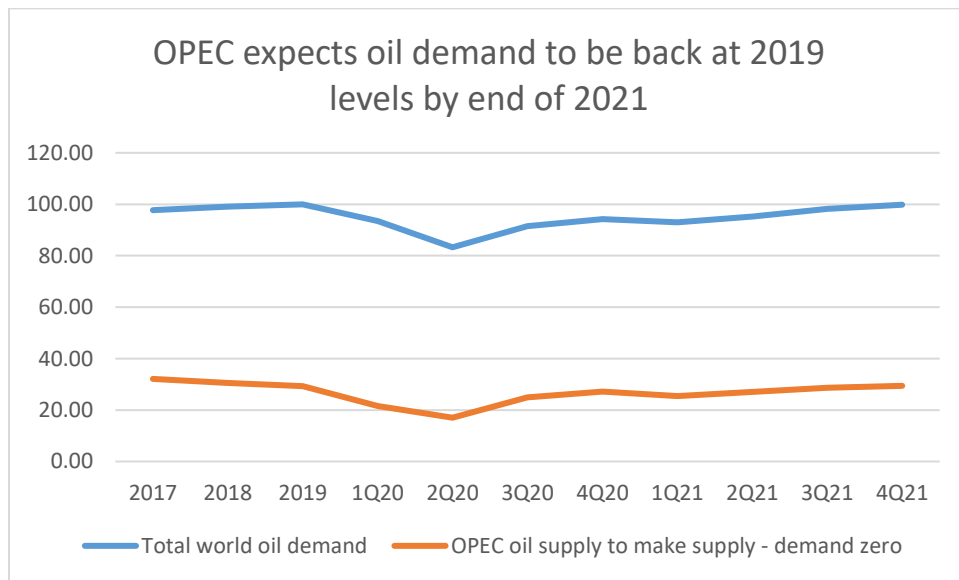
Source: EIA, Baker Hughes

At the same time, inventories have been drawn down and crude stocks (including the Strategic Reserve) are close to pre-pandemic levels, while US refinery output is also close to 2019 levels amidst higher domestic air traffic.



Source: EIA

While US oil production is expected to stay stable at around 11,000 b/d, OPEC expects oil demand to be back at pre-pandemic levels by the end of the year. This would need to make OPEC oil supply increase to 29.39 mb/d – a level that could be achieved in August with a 1 mb/d hike.



Source: OPEC

Year	Total world oil demand	OPEC oil supply to make supply - demand zero
2017	97.67	32.10
2018	99.13	30.50
2019	99.97	29.32
1Q20	93.48	21.53
2Q20	83.27	17.02
3Q20	91.43	24.95
4Q20	94.28	27.17
1Q21	92.93	25.42
2Q21	95.26	27.09
3Q21	98.18	28.66
4Q21	99.82	29.39

Source: OPEC

