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OPEC+ post-meeting: gradual ramp-up in production but not price bearish

- OPEC+ has agreed to ramp-up production gradually in the coming months. While the increase comes a month sooner than we had expected (May vs. June), the June and July increases are smaller than we had assumed, for a net similar cumulative ramp-up through July. Finally, Saudi Arabia will start reversing its unilateral 1m b/d cut in May by 250k b/d. Taken together, the group is now expected to reach the third phase of its original agreement by July – half a year later than initially projected.
- Breakdown of the OPEC+ ramp-up in production. The breakdown of what was agreed in the months ahead tallies to a total of 2.1m b/d increase from May to July:
  1. OPEC+: 350k b/d increase in May, 350k b/d increase in June and 441k b/d increase in July
  2. Saudi Arabia: 250k b/d increase in May, 350k b/d increase in June and 400k b/d increase in July
- Implications for global oil markets. At face value, an increase in OPEC+ production at a time when the global economy is on the cusp of delicate reopenings could be interpreted as price bearish. However, increasing production by a total 600k b/d, 700k b/d and 841k b/d in May, June and July, respectively, will be more than offset by our expectations of robust demand growth of 605k b/d, 1.2m b/d and 1.7m b/d for May, June and July, respectively. Indeed, from a fundamentals perspective, we forecast a larger rebound in oil demand this summer than OPEC+ and the IEA, requiring an additional 2m b/d increase in OPEC+ production from July to October, in our view. Should the US administration lobby further OPEC+ members (US Secretary of Energy Granholm discussed keeping energy prices affordable ahead of the latest OPEC+ meeting), this is still a tall order for a group of producers that has cut drilling by 50% over the past year. Importantly, we expect a normalisation in excess inventories by July even with such a large ramp-up and, as a result, reiterate our bullish conviction that the recent sell-off is a transient pullback in a larger oil price rally (see here).
- Initial market reaction has been positive. Apprehensions on the demand-side of the oil equation have been the core factor underpinning the prudent stance of OPEC+ in recent months. Indeed, the group's conservative approach (spearheaded by Saudi Arabia) has arguably been indicated since the last meeting. Crude prices have fallen by ~9% from their early March peak and the demand outlook in Europe is deteriorating, while COVID-19 case numbers are rising again in Brazil, India and other parts of Asia. Having said that, given stern progress on vaccination programmes and evidence of a demand recovery in some parts of the world, we continue to believe there is room for OPEC+ to

gradually move to the third phase of its agreement as global demand growth will be higher than the OPEC+ ramp-up. The initial market reaction was positive, with Brent prices rising ~3% on the day.

- Maintain our oil price forecast for a peak "overshoot" in Q2 2021. Whilst the oil price rally has taken a breather, this will prove transitory in our view, and we maintain a strong conviction (see here) that a vaccine-led, spring accelerated, global recovery will spur oil prices "overshooting" in Q2 (Brent USD77/b; WTI USD74/b), buoyed also by accommodative monetary and fiscal policy, pent-up savings and limited scarring effects from the virus. From a fundamentals perspective, we continue to see still rapid rebalancing as the market remains in a large deficit with the normalisation in inventories ongoing and OPEC+ is likely to continue targeting a tight market in the months ahead. From the expected second quarter peak, we see oil prices gradually regressing back in H2 2021 towards the equilibrium price for the oil industry, which we view as being centred on the current anchor near the long-term marginal cost of production and support of ~USD55-65/b for Brent and ~USD50-60/b for WTI. For 2021 as a whole, we now forecast Brent averaging USD68/b (from USD58/b previously) and WTI averaging USD65/b. For 2022, we continue to forecast Brent averaging USD58/b (WTI averaging USD55/b), with lower prices next year being driven by (i) a lower carbon future accelerating the decline in oil intensity of GDP growth and (ii) an ongoing falling cost structure of the oil industry. Succinctly put, we are cyclically positive an expect an "overshoot" over the near-term prospects but the medium-term outlook for oil is not rosy.

OPEC+ PRODUCTION RAMP-UP IS SLIGHTLY EARLIER THAN EXPECTED

OPEC+ PRODUCTION CUTS AND QUOTAS

Production	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
New OPEC+ quota	350	350	441	500	500	500
Saudi unilateral cuts	250	350	400	---	---	---
New OPEC+ ramp-up	600	700	841	500	500	500
Previous cumulative ramp-up	100	1,000	2,000	3,050	3,550	4,050
New cumulative ramp-up	600	1,300	2,141	2,641	3,141	3,641

Source: OPEC, MUFG Research

Ranges and outlook for the week ahead

BRENT – BULLISH BIAS – (59.00-69.00)

WTI – BULLISH BIAS – (55.00-65.00)

Quarter End (USD/b)	Spot close 31.03.21	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Brent	63.05	77.10	69.40	64.20	58.40
NYMEX	59.47	74.20	66.10	60.90	55.10
		Range	Range	Range	Range
Brent		66.60-87.60	55.90-82.90	50.45-79.95	42.65-74.15
NYMEX		63.70-84.70	52.60-79.60	47.22-76.65	39.35-70.85

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