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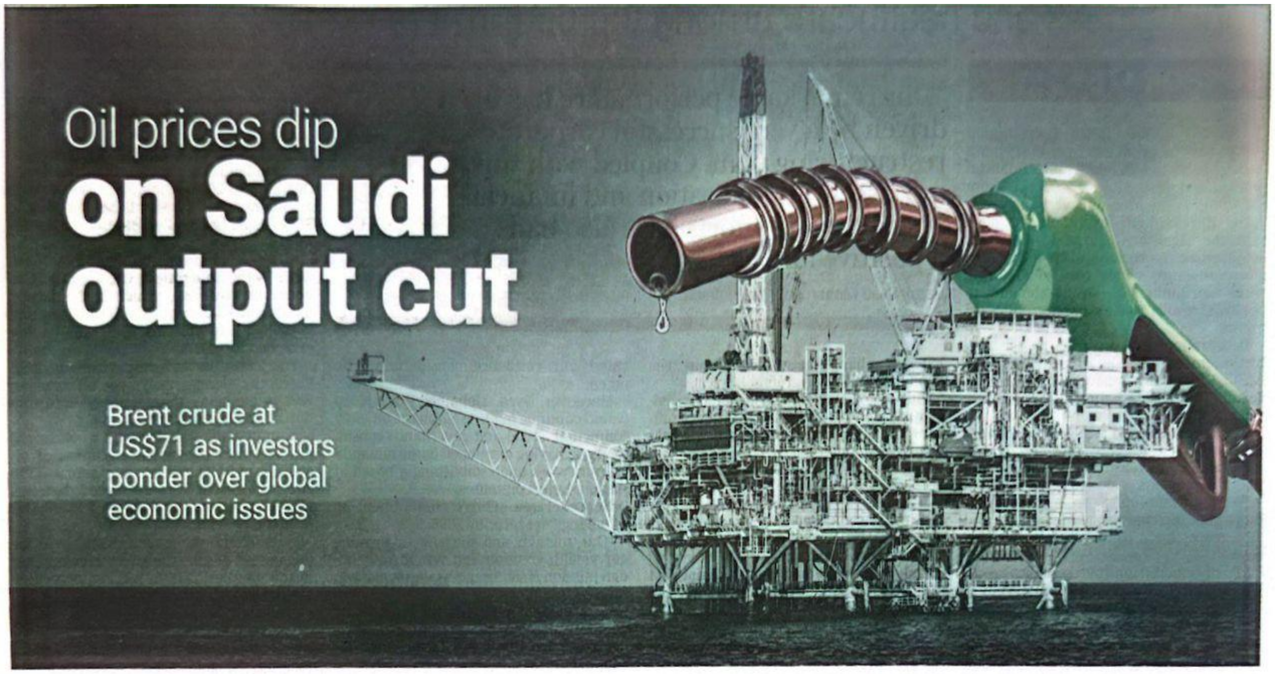
Oil prices dip on Saudi ouput cut



OIL AND GAS

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>
> An analyst

PETALING JAYA: The oil production cut announced by Saudi Arabia over the weekend appears to have failed to raise oil prices.

Even as the global economic situation remained in the forefront of investor's concerns, oil prices fell yesterday, reversing gains made on Monday.

The Brent crude oil plunged to US$70.94 (RM326) at press time, which was lower than before the Saudi announcement was made.

According to RHB Research, the latest development will likely to have a minimal impact on the oil market but the voluntary cut by Saudi Arabia will provide more price support if it is extended until the end of the year.

"We are 'neutral' on this event. Opec 10's production is at 24.1 million barrels per day (mbpd) – below the required production of 25 mbpd.

"Furthermore, the additional quota committed in April does not seem to continue into 2024 but has been instead been replaced by the adjustments mentioned earlier," the research house said.

"Therefore, the net production cut impact year-on-year (y-o-y) by Opec in 2024 is not significant and we believe the market may not be unduly worried about this," it added.

RHB Research also pointed out that there was no mention as to whether the Saudi voluntary cut of one mbpd in July would be maintained until the end of the year since the previously announced production level in 2024 has not factored in the reduction.

SPI Asset Management's managing partner Stephen Innes said it is crucial to take the Organisation of the Petroleum Exporting Countries' (Opec) decision in the context of sentiment and market-based positioning which is fragile.

"At the same time, the extra cut by Saudi is bullish in terms of fundamentals but it depends on whether the cut will last one to six months," Innes said.

According to Innes, there appears to be massive speculative pressure on oil prices to the downside, with visible Brent crude oil bearish positioning.

"If demand disappoints, Saudi Arabia could extend its one mbpd cut to keep global inventories lean.

"On the other hand, if demand were to be bolstered by China, fulfilling expectations of two mbpd global growth, then the balances would likely tighten on their own accord, and speculative positioning would revert.

"This will allow Saudi Arabia to reverse its temporary cut without any damage to its credibility," he said.

The bears appeared to be in firm control of oil prices at least for now, and analysts also noted that the initial bullishness may have already been factored in.

"There is a chance that Brent prices may go even lower if it fails to sustain the psychological US$70 (RM322) level which is near where the trades are at the moment," said a price analyst.

> TURN TO PAGE 2

Overall bullish outlook for O&G

> FROM PAGE 1

Meanwhile, RHB Research maintained its "overweight" rating on the integrated oil and gas (O&G) sector.

The bullish call on the sector was despite three stock downgrades under its coverage post the first quarter results season.

"While we are still positive on overall O&G activities level, we are more selective on our stocks.

"We prefer counters with resilient earnings profile backed by a solid order book. Our 2023 to 2024 crude oil prices are still maintained at US$85 to US$80 (RM391 to RM368) per barrel," the research house said.

RHB Research pointed out that there were eight integrated O&G companies under its coverage, which had released their results last month, with three coming in below expectations and one having exceeded forecasts.

The sole outperformer among RHB Research coverage was Petronas Dagangan Bhd on the better than expected contributions from its retail arm.

Commenting on Petroliam Nasional Bhd's capital expenditure (capex) of an average of RM60bil per year from 2023 to 2027, the research house noted that this was a 43% increase from RM208.5bil over the previous five years.

It is likely the capex plans will be unchanged despite the latest development in the international oil market, according to the research house.

"However, we think that the first quarter capex spending will be rather slow due to the monsoon season and is expected to pick up sequentially," the research house added.

The production cut by Saudi Arabia, which is a member of the Opec, came shortly after an earlier production cut in April 2023.

Saudi announced its biggest output cut in years to nine million barrels per day (mbpd) in July from around 10 million mbpd in May.

This is on top of an Opec+ deal to limit its supplies into next year.