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'Global oil supply to tighten in H2'

FLAGGING PRICES

'GLOBAL OIL SUPPLY TO TIGHTEN IN H2'

This follows Saudi Arabia's decision to cut output by an extra 1m barrels per day

VIENNA

SAUDI Arabia will make a deep cut to its output next month in addition to a broader deal by Organisation of the Petroleum Exporting Countries and allies (Opec+) to limit supply to the end of next year as the group faces flagging oil prices.

Opec+ already had in place oil output cuts of 3.66 million barrels per day, amounting to 3.6 per cent of global demand.

The figure comprises a two million barrels per day (bpd) cut agreed last year from August production levels, and a further 1.66 million bpd of voluntary cuts from nine Opec+ countries.

But Saudi Arabia on Sunday

pledged an additional voluntary oil output reduction of one million bpd for next month, which could be extended.

As a result, the country's output will drop to nine million bpd next month from around 10 million bpd last month.

As well as extending the group's existing supply cuts of 3.66 million bpd for another year, Opec+ agreed on Sunday to reduce overall production targets from January next year by a further 1.4 million bpd versus current targets to a combined 40.46 million bpd.

Including additional voluntary production cuts, which the nine partaking countries extended to the end of next year, this results in an even lower target of 38.81 million bpd.

In real terms, this is around 500,000 bpd lower than April production, when compared with International Energy Agency figures.

As part of Sunday's agreement, the United Arab Emirates received a higher production target while targets for Russia, Nigeria, and Angola were reduced to bring them in line with declining production levels.

Analysts already expected supply to tighten in the second half of this year with the current OPEC+ production policy in place.

As Saudi Arabia has a track record of fully delivering on its output commitments, analysts see the deal's initial impact as lowering supply.

Rystad Energy said it expected the Saudi cut to deepen the market deficit to more than three million bpd next month, "which could add upside pressure in the coming weeks". **Reuters**