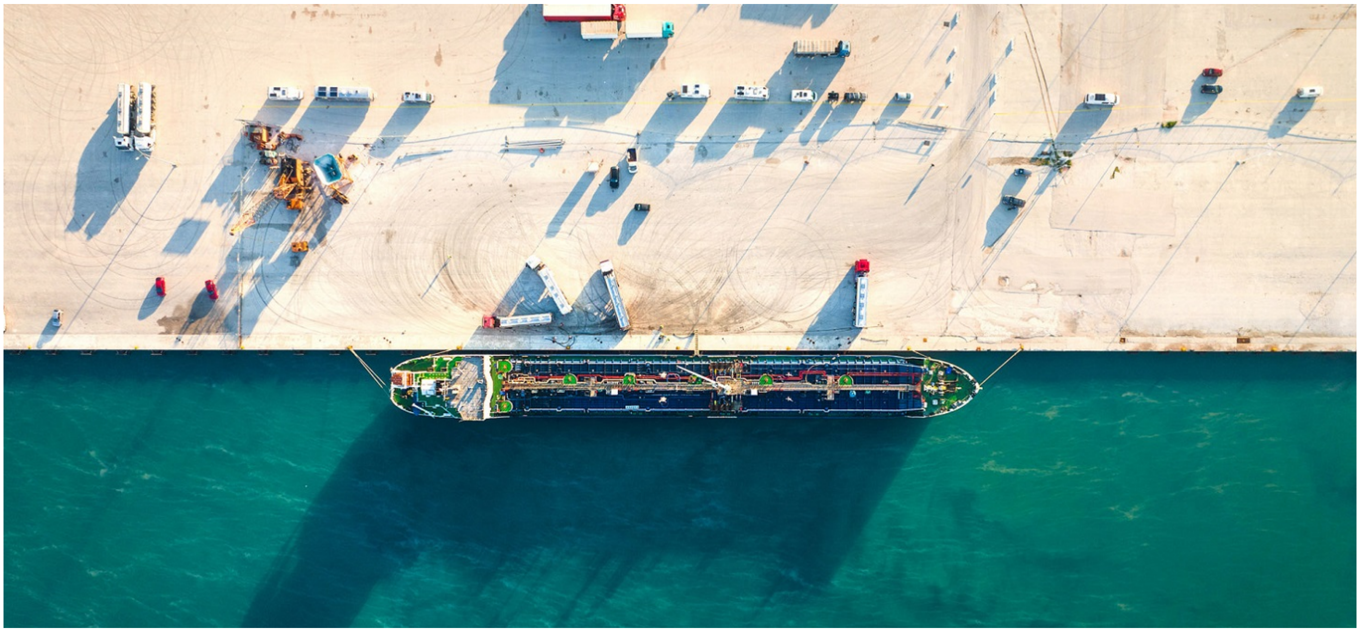

While oil prices are likely to stay volatile near term, CIO retains a positive outlook and expect prices to recover from current levels over the coming months. (UBS)

CIO sees lower OPEC+ crude production in Sept tightening the oil market further

09 September 2024, 2:09 pm CEST, written by UBS Editorial Team

Crude oil prices declined further last week, falling to multi-month lows. The high correlation to equity markets indicates to us that economic growth concerns are the dominating force weighing on crude oil, although the oil market remains in deficit.

- OPEC+ has reiterated its precautious, proactive, and preemptive stance, by extending production cuts by two more months. Compensation cuts by Iraq and Kazakhstan after previous overproduction and lower Libyan output should tighten the market, in our view.
- While oil prices are likely to stay volatile in the near term, we retain a positive outlook and expect prices to recover from current levels over the coming months. We therefore continue to recommend risk-seeking investors to sell the downside price risks in crude oil.

On 5 September, the eight member countries of OPEC+ with voluntary production cuts decided to extend their voluntary production cuts for two months until the end of November 2024. The statement reiterated the group has "the flexibility to pause or reverse the adjustments," indicating that production increases in December will depend on market conditions. OPEC+ is likely to unwind production cuts only if the oil market can absorb the additional production cuts. We expect those eight members of OPEC+ to decide in early November if they plan to add barrels in December and remain focused on balancing the oil market.

The press release also strongly emphasized enforcing production compliance: Iraq and Kazakhstan, countries which had produced above their production quota in previous months, indicated measures they took to improve their compliance levels. The oil market is likely to remain skeptical on these compensation cuts, until crude export volumes are substantially lower. Together with lower Libyan production, we anticipate lower OPEC+ crude production in September to tighten the oil market further.

Oil demand growth remains mixed. Chinese demand data has been disappointing, and demand in the US and India has been weak recently. Despite that, oil inventories have continued to fall, suggesting oil supply growth is lagging demand growth. We expect the trend of falling oil inventories to continue. We therefore still expect prices to recover, with Brent crude oil likely moving back up above USD 80/bbl over the coming months.

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Original report: **Crude oil: OPEC+ delays production increase, 9 September 2024.**