



Price Will Dictate OPEC+ Response, Once Again Saudi Arabia is in the Driver's Seat 2/4/22

OPEC+ once again agreed to raise quotas this coming month by 400,000B/D. With prices hovering around \$90, it was a relatively easy call. While almost everyone agrees that stocks will build this year, there is a wide range of views on its impact on price. Some see prices well above \$100, while one credible banking institution sees it falling \$30 from its high. In truth no one really knows. Will Putin invade Ukraine? President Biden says yes. Yet only Putin knows. Will there be a deal with Iran in the next month? Maybe, maybe not. Will the Federal Reserve raise rates 5 times or more in 2022, maybe 50 basis points? It's too early to tell. Yet, the answers would have an impact on price.

The market is focused on the monthly quota increases of 400,000 B/D. Constraints in certain countries probably restricted growth closer to 250,000-275,000 B/D. May is right around the corner. Some of you may not be aware that the baseline for Saudi and Russia (Iraq and UAE get a smaller baseline increase) jumps by 500,000B/D each. Keep in mind that while the baseline jumps, the actual quota increase is more modest. This adjustment in May was a carrot primarily given to the UAE who complained that their original baseline was too low.

At the April monthly meeting, OPEC+ (Saudis) will review stock level and price. The Saudis have several options. If stocks are high and prices low, they could choose to pass on the May boost or even propose a cut. If prices are high, flirting with \$100, they could easily increase by the full amount. It's too early to call. Just like the Federal Reserve, they will be data dependent.



We have written and strongly believe that the Saudis have a band of prices in mind: \$65/70 at the low end and \$90+ at the high. We believe they will do what they can to defend their own view of price levels. With prices at \$90, the outcome of this past meeting was easy to call.