



OPEC+ and the Role of Expectations (12/6/22)

Expectations play an important role in economics. That's true whether you are the Federal Reserve or OPEC. When Powell of the Federal Reserve speaks, he not only tries to explain policy goals, but he attempts to influence expectations.

OPEC+ missed an opportunity this week to do the same, that is influence expectations of the oil markets, which are currently very negative. The growth rate in oil demand is slipping faster than trying to grab a fully greased hog.

China, whose demand was forecasted to grow early this year by 400-500,000B/D, is now forecasted to **decline** by 500-700,000B/D. And in the U.S. the EIA had forecasted a growth of 650,000B/D, yet it now looks like it will come in around 300,000B/D (I've written this before), that's a decline in the growth of about 1.5 million B/D.

Yes, the Saudis wanted to see how the price cap on Russian oil and Russia's response might play out, but I believe they needed to be proactive and not reactive, by sending a signal that they will not let the market get out of hand. A small additional cut by the organization of 500,000B/D would have been that signal. Crude oil stocks are building aggressively and will likely build through April of next year when we expect markets to start to turn around. It all depends on China.