



Muddled Clarity 4/3/23

OPEC+, led by Saudi Arabia, surprised everyone Monday by announcing a cut of up to 1.6 MMB/D. The actual cuts will be much lower. Iraq is coming back and the Russians have already promised a cut of 500,000 B/D. Many of us believed they wouldn't have removed the announced cut in June. In truth, Russian production will be what it will be, we won't know for sure given the dark tanker and trading market involved in moving Russian oil.

Nevertheless, the cuts are significant. The Saudis alone said they would cut by 500,000 B/D. Why did they surprise the market and why now? There is messaging and contradictions in their actions. The Saudis believe there is still too much crude oil around and that demand has not yet picked up to a satisfactory level.

While China is improving its oil production, demand is recovering slowly. Yet ask yourself how does a weak demand recover with a cut in supply and an increase in price? **It doesn't.** The Saudis are also unhappy about losing market share in Asia (China and India) to the Russians. Again, how does a cut in production improve that situation? **It doesn't.** Russia is the primary beneficiary of higher prices.

The Saudis have always said they will supply what their customers ask for. Is demand weaker than we think? Are they worried about a U.S. recession?

So why did they support a cut in supply? With the possibility of a slow recovery, they might have wanted to support a price level around \$80+ Brent (and might have been disappointed that the U.S. seems to be backing away from filling the SPR). But more importantly, I believe that



they were sending a message to the Biden administration. Wake up, your policies are pushing us closer and closer to the Russians and Chinese.

The interesting question given the Saudi move is: is the U.S. listening?