

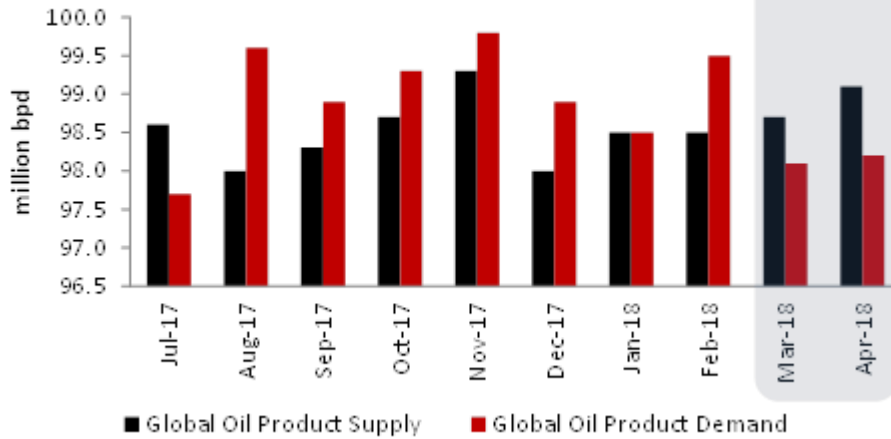
## OPEC agrees to raise production

Monday, June 25, 2018

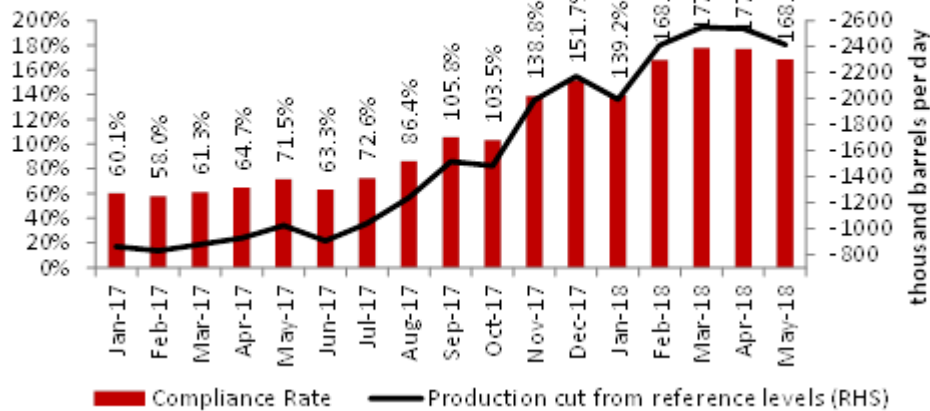
### Highlights

- **Oil prices rose over the weekend as investors reacted to a seemingly lower-than-expected rise in OPEC's production hike.** According to the OPEC meeting notes on Friday, it stated that countries "will strive to adhere to the overall conformity level, voluntarily adjusted to 100%, as of 1 July 2018", though avoiding mentioning a specific volume of production cut that the market could see in the months ahead. Just prior to the OPEC meeting, market-watchers were on their toes over a potential production gain of between 600,000 to 1 million barrels per day (bpd).
- **On this, note that Saudi oil minister Khalid mentioned that that the production hike will be shared across the members to "just under 1 million barrels per day"**, though anonymous sources who are reported to be familiar with the deal's technical aspects hint that production gains translates into about 600,000 bpd for now. Should that come to pass, the production gains are small compared to the 2.4 million barrels per day of cuts seen in May (or about 25% of the cuts). However, the deal did not specify on how the production gains will be allocated, and whether any countries are exempted from the adjustment especially given that some countries voiced on their lack of production capacity. Moreover, there were little signs if any nations were against the deal at this juncture.
- **On the surface, we do admit that the deal will effectively raise global oil production**, though it does not signal a sustain climb back to pre-2015 levels. Importantly, the deal will not end the group's 18-month deal to limit output, but rather seeking to cut no more than the 1.2 million bpd of oil agreed back in 2016. Still, the added barrels into the market (assuming 600,000 bpd) will add to the global over-supplies already seen in March & April. Moreover, should US-led oil production continue to gain into the year, oil supplies will invariably rise further into the year ahead. Accounting for the over-supplies that we are already seeing, coupled with rising US and OPEC oil production into 2018, our outlook for WTI and Brent prices to close lower to \$65/bbl & \$70/bbl respectively by year-end remains unchanged.

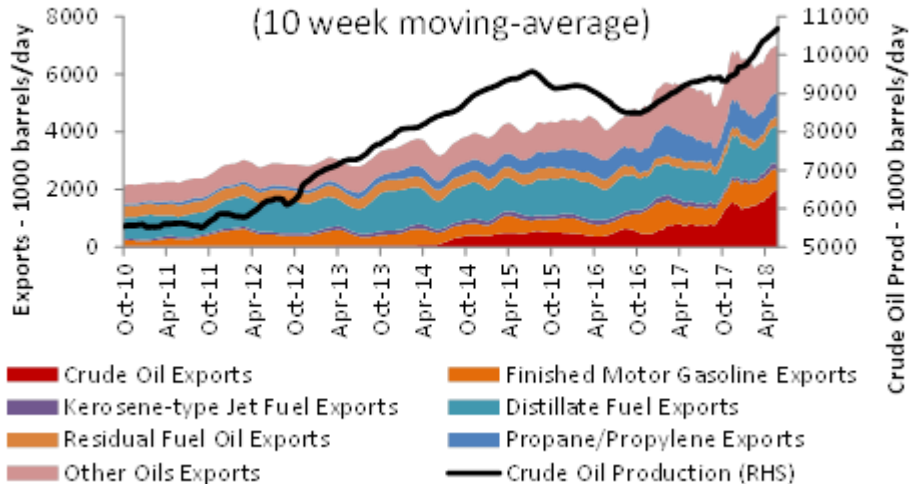
### Global supply surpassed demand for the second month



### OPEC's compliance levels remains high into May 2018



### US Oil production and exports (10 week moving-average)





Source: Bloomberg, CEIC, OCBC Bank

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