This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit https://www.djreprints.com.

https://www.wsj.com/articles/oil-prices-jump-as-saudi-led-group-plans-output-cuts-c5c9a55e

COMMODITIES

Oil Prices Surge 6.3% in Steepest Rise in Over a Year

Jump follows a vow by Saudi Arabia and other OPEC+ members to cut production

Drivers are likely to face more costly gasoline bills if oil prices continue to rise.

PHOTO: GENE J. PUSKAR/ASSOCIATED PRESS

By Joe Wallace Follow

Updated April 3, 2023 5:36 pm ET

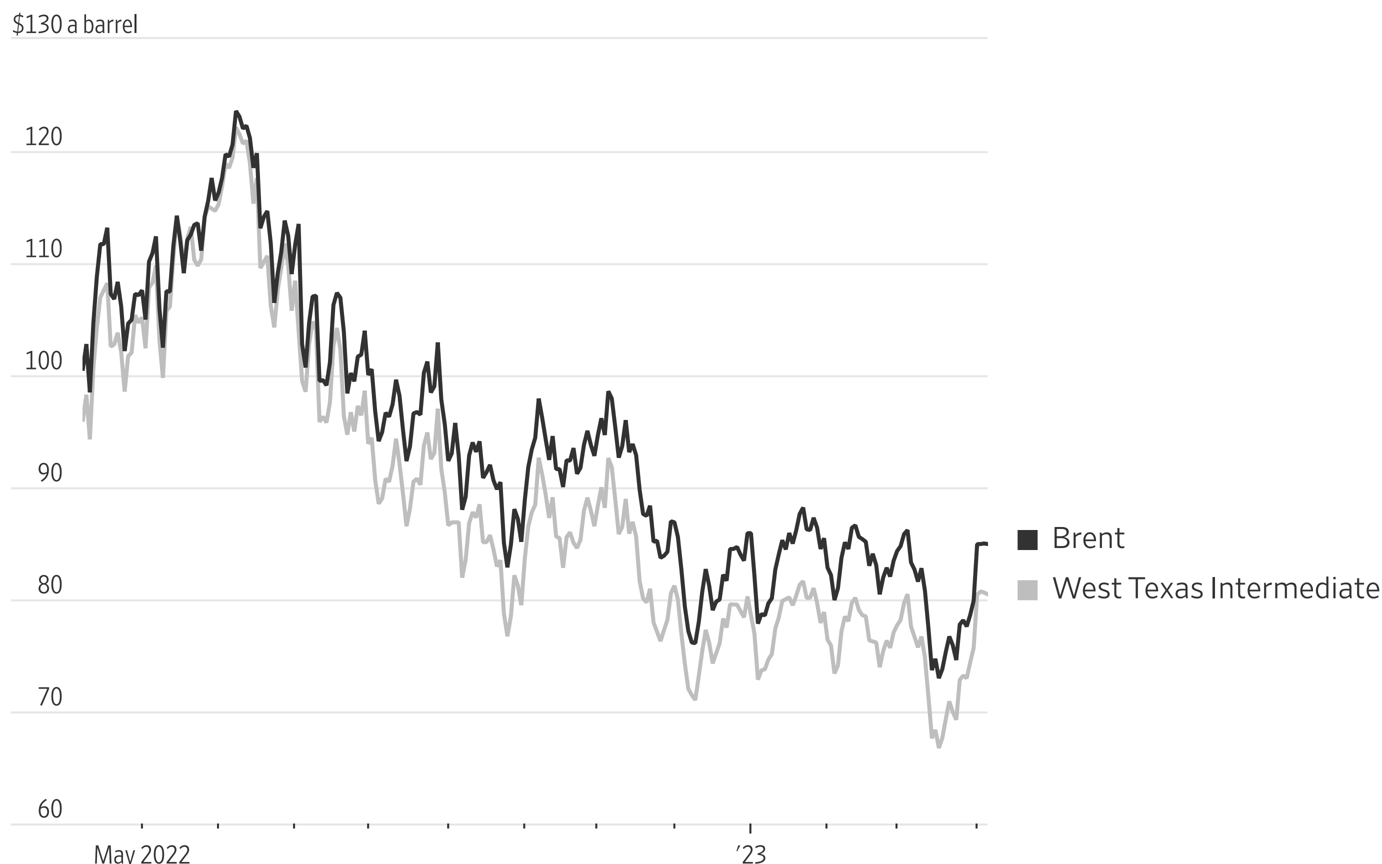
A Saudi Arabia-led production cut vaulted crude prices 6.3% higher Monday in their steepest one-day increase in more than a year. But with oil markets facing a host of challenges including a possible U.S. recession, only the most bullish analysts see prices touching $100 a barrel soon.

Brent futures, the international oil benchmark, jumped to $84.93 a barrel after Saudi Arabia and other leading members of the OPEC+ cartel said they would throttle production. The uptick marked prices' biggest one-day percentage gain since March 2022, when Russia's invasion of Ukraine sent a shudder through energy markets.

The rally extends a spell of volatility for oil. Crude tanked last month when the collapse of several banks appeared to hasten a potential recession in the U.S. Losses were pared after the closure of a major pipeline in Iraq.

The swings add a complication for central bankers balancing the need to tackle inflation with worries about the health of the banking system. If crude prices continue to rise, they are likely to feed quickly into higher gasoline bills for drivers, boosting inflation.

Yet benchmark oil prices stand lower than they did a month ago even after Monday's jump, and are well below the pandemic closing high of more than $125 a barrel posted in March 2022, limiting the immediate impact on inflation calculations.



Source: FactSet

For crude prices to zip higher from here depends on a number of moving parts. These include the degree to which producers actually follow through on cuts, as well as strong supply from midsize producers, demand from China and the recent banking upheaval in the U.S. and Europe.

"OPEC probably needs to do this to stand still," said Martijn Rats, chief commodity strategist at Morgan Stanley. The decision "reveals something, it gives a signal of where we are in the oil market. And look, let's be honest about this, when demand is roaring… then OPEC doesn't need to cut," he added.

The production cut by the Saudi-led group showcased how Crown Prince Mohammed bin Salman is increasingly giving priority to a nationalist energy policy over U.S. concerns. OPEC and its allies have been curtailing their output since last November, to little effect.

Confounding the cartel's desires: rising output in a number of smaller producers, including Nigeria, Brazil and Guyana as well as Iran and Kazakhstan. Combined, that was enough to lead to a significant increase in stockpiles of crude starting late last year.

Sunday's cuts are designed in part to whittle down that surplus, analysts say. They say the Organization of the Petroleum Exporting Countries and its Russia-led allies, collectively known as OPEC+, are also trying to show they are in control of the oil market, not Wall Street traders.

Tallying up Sunday's commitments by Saudi Arabia, Iraq and others, OPEC producers say they will cut daily output by more than 1.1 million barrels from May, according to Natasha Kaneva, head of commodities research at JPMorgan Chase.

In reality, the reductions are likely to be smaller than that, Ms. Kaneva said. Some participants in the latest round of cuts are pumping less oil than their OPEC quotas allow them to, meaning lower quotas wouldn't necessarily pass into lower output. Cartel members haven't always followed through fully on promised production curbs in the past.

On top of the OPEC cuts, Russian officials said Moscow would extend existing daily curbs of half a million barrels through to year-end. In practice, Sunday's move will take just 70,000 additional Russian barrels off the market each day this year, compared with what she was expecting previously, Ms. Kaneva said.

Nonetheless, the cuts are big enough to drain excess stockpiles of crude that began to emerge late last year, said Paul Horsnell, head of commodities at Standard Chartered.

Much hangs on the trajectory of demand in China, the one major economy where oil consumption is expected to grow significantly this year. Mr. Horsnell expects daily Chinese demand to rise 1.3 million barrels in 2023. That would help push global consumption to 100.8 million barrels a day and boost Brent to about $90 a barrel, but not much higher.

"This is China returning to business as usual. This isn't China booming in quite the same way as it did, say, after the global financial crisis," Mr. Horsnell said.

Chinese commodities demand hasn't risen as fast as many traders expected when President Xi Jinping relaxed Covid-19 lockdowns late last year. But data such as international-flight bookings and a recent rise in the price of tankers carrying oil to China suggest consumption is now picking up.

The U.S. remains by far the world's biggest oil consumer in the world. If banks cut lending significantly in response to the collapse of Silicon Valley Bank and other midsize lenders, it could tip the economy into a recession and weigh on crude prices globally by hitting demand.

“My biggest worry in terms of risks is definitely what is happening in the United States,” Ms. Kaneva said. Higher borrowing costs set by central banks “will start showing up in the system. In the United States, it’s already showing up,” she said.

“What will be the impact on demand? That’s the question,” Ms. Kaneva added.

Write to Joe Wallace at joe.wallace@wsj.com

Appeared in the April 4, 2023, print edition as 'Oil Prices Shoot Up As Saudis Lead Cut In Output.'

Copyright © 2023 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit https://www.djreprints.com.