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UAE Minister: Opec's Deal to Last Until Year's End

Opec's oil production curb deal with non-Opec states will remain in place until year end because the market needs more time to rebalance, the United Arab Emirates' energy minister said Monday. But an extension of the agreement beyond 2018 might be unnecessary if crude prices continue to increase from present levels above $70 per barrel, his Iranian counterpart separately said.

"The deal is for the whole year and everyone is saying that. The inventories suggest we need to continue, there are many moving parts," UAE Energy Minister Suhail al-Mazrouei told journalists on the sidelines of the Middle East Petroleum and Gas Conference in Abu Dhabi, reiterating comments made by Opec and non-Opec officials following the Joint Ministerial Monitoring Committee (JMMC) meeting in Jeddah on Friday (IOD Apr.23'18).

At the JMMC, officials said their curb agreement would need to be kept in place this year to ensure market stability and encourage healthy investment back into the upstream – or risk stock levels building up again, in turn harming oil prices. Al-Mazrouei, who holds Opec's rotating presidency this year, also reiterated Monday that the group wasn't pursuing any price target.

"We are not in the business of looking at the price, we are in the business of market stability, we are in the business as Opec and non-Opec of ensuring that enough investments are going to this important industry to the world economy," al-Mazrouei told the conference earlier Monday.

The oil price recovery has spurred a significant increase in US shale

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spending over the past years, but most international oil companies continue to exercise tight capital discipline with large projects in places like the offshore and oil sands.

Producers' better-than-expected compliance to the joint curb deal, first introduced in December 2016, has helped push down global oil inventories to levels above 2.8 billion barrels above their targeted five-year OECD inventory average – well below the 2017 peak of 3.12 billion bbl but still higher than their pre-glut level of 2.6 billion bbl – and boosted prices. Benchmark Brent crude hit three-year highs of nearly $75 per barrel last week and was trading slightly lower at above $73/bbl Monday.

Al-Mazrouei said geopolitics were somewhat factoring in recent price developments, including issues such as uncertainty over the future of the Iran nuclear accord amid threats by US President Donald Trump to walk away from the deal as early as May 12 when sanctions waivers are due to be renewed.

"We have geopolitical issues ... Iran and what's going to happen in May. Those are maybe pushing the envelope a little bit, but all in all, the fundamentals of the market, supply and demand, the job is not complete. We need to continue until we see a true balanced market and the market in our view is not balanced in a fair way," al-Mazrouei said.

Gulf Opec officials have said they want to keep the production-cutting deal in place until the end of 2018, and possibly even into 2019. But Iranian Oil Minister Bijan Zanganeh told Iran's official Shana news website Monday that no such move would be needed if prices kept rising. He also warned that "high oil prices, even in the midterm, would destabilize prices and put pressure on them against Opec's interests."

In response to a tweet by Trump on Friday that accused Opec of artificially boosting the oil price, Zanganeh said the president was addressing "a certain group of Americans who may be unhappy with rising oil prices, while he would approve of increased prices" (IOD Apr.23'18).

Trump's comment further added to the geopolitical complexities that oil markets must navigate, with observers saying that the possibilities of US action to temper oil prices and the implications of any tensions between Washington and Saudi Arabia were adding to an already long list of potential wild cards this year.

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