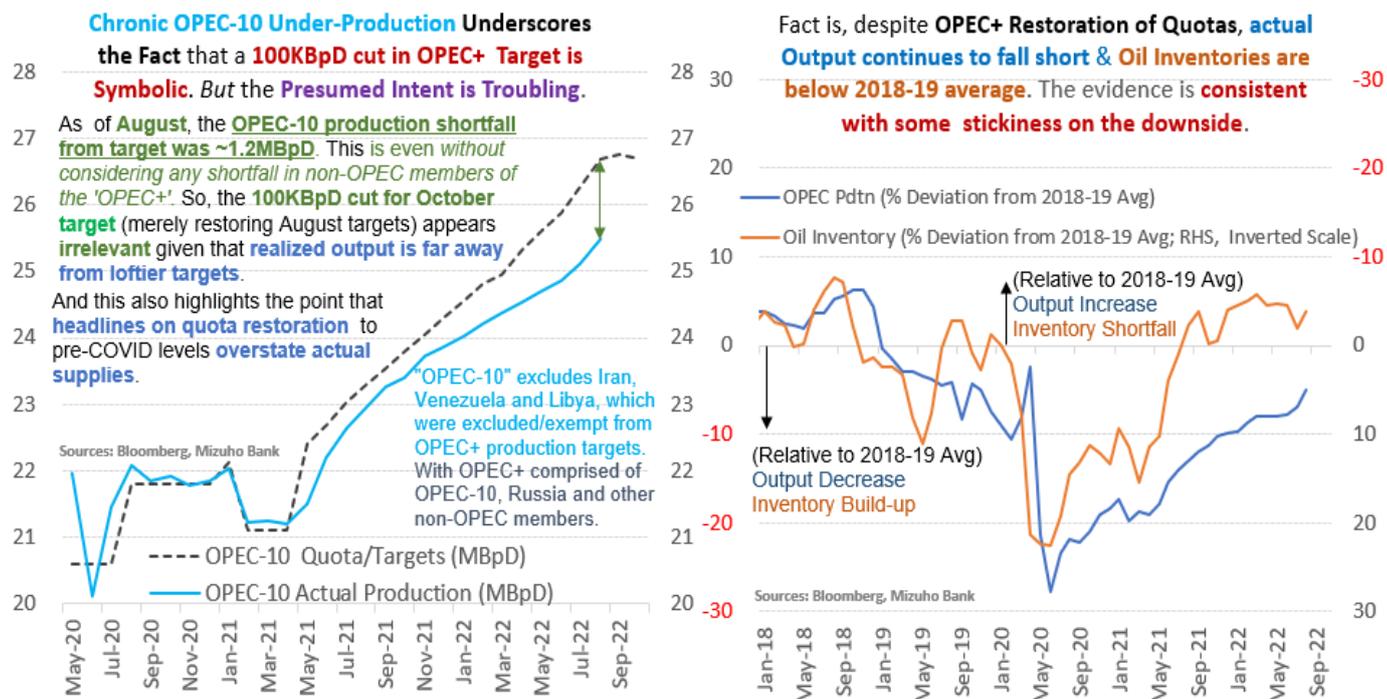


## OPEC+ Cut: Insignificant, Not Inconsequential



“Yet ... deeds that move the wheels of the world: small hands do them ...” - Lord of the Rings

True, the token **100KBpD cut to OPEC+ output targets/quota was symbolic**; hardly a drop (~0.2%) in the total OPEC+ target of 43.85MBpD. Especially considering that the cut (for October) merely restores August targets. **But** just because the cut is **insignificant doesn't mean it is wholly inconsequential**; just ask Tolkien. In fact, beneath the token headline, the **output cut is deeply troubling for three reasons**.

First, the token cut is a **distraction from the fact that actual outputs are woefully below targets/quotas\*** (see Charts). Whereas, **in context of chronic and growing shortfall** (from targets) the **output cut signals a desire for firmer price backstop**; which invariably renders crude stickier on the way down.

Second, given below-normal inventory levels, this symbolic cutback **accentuates stickiness and upside volatility to prices**; as supply reduction risks are *amplified by lower inventory level*. Especially given the geo-political context of Russia supply disruption threat (amid wider energy crunch).

Finally, the symbolic output cut **coupled with Saudi being granted the right to convene a meeting “anytime to address market developments”** is **essentially dog whistle for elevated prices**. At the very least, a **shrill threat against lower prices; including from potential Iran (deal) supply**.

So yes, the **cut itself won't meaningfully affect output**. But in the context of chronic output shortfall and geo-politics, this **symbolic cut is arguably meant to induce significant sway on price stickiness**. Attendant economic pain and policy risks evolve and may catalyze latent volatility/dislocation risks further out.

\* See Mizuho Chart Speak – OPEC+: Capacity, Not Quota, Constraints, 10 Aug 2022

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