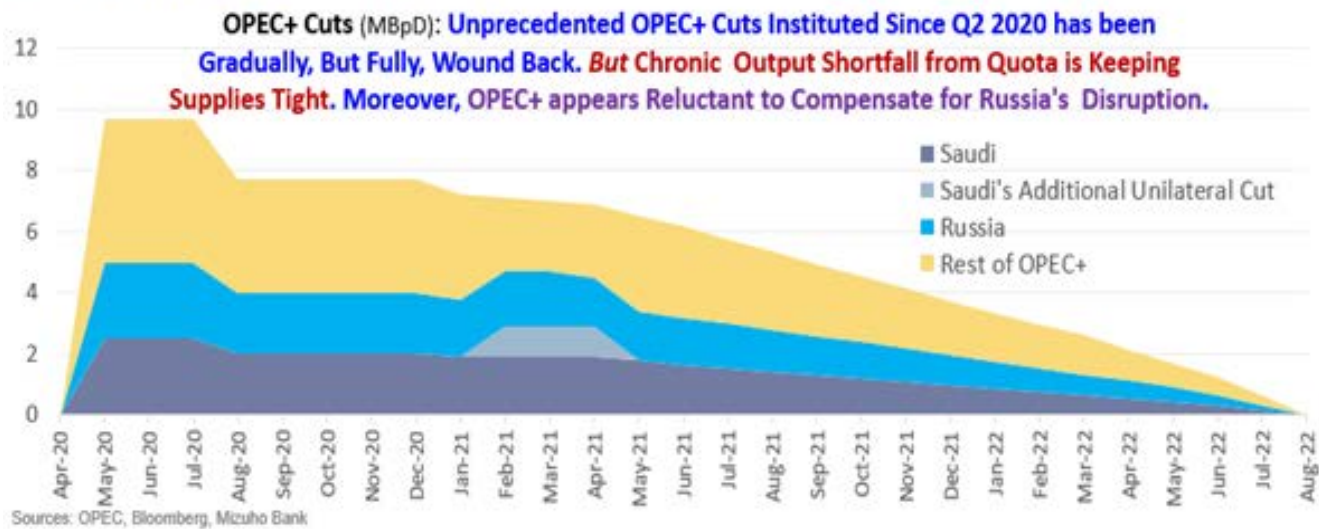
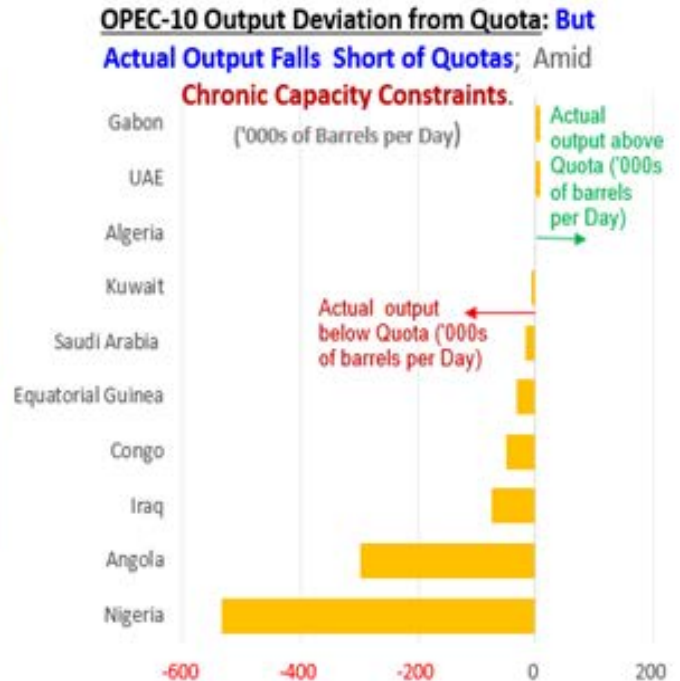
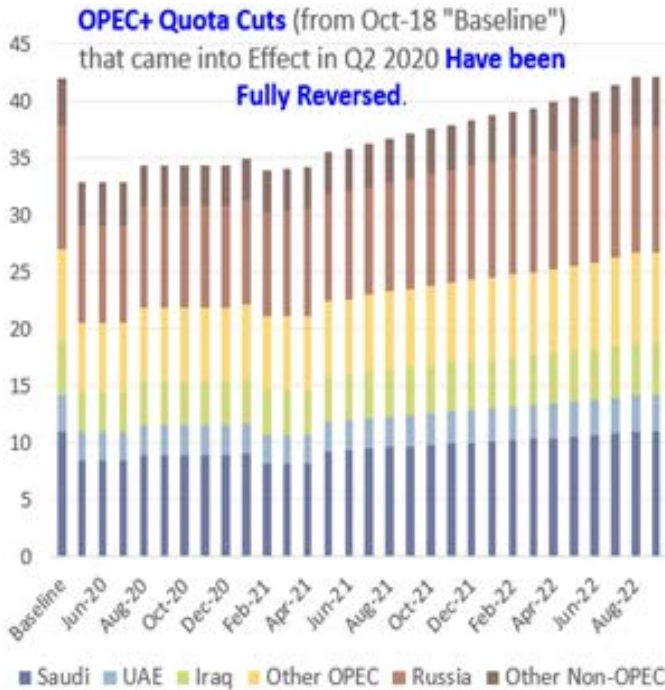


OPEC+: Capacity, Not Quota, Constraints



“Crime is common. Logic is rare. Therefore, it is upon the logic rather than upon the crime you should dwell.” - Sherlock Holmes

Obvious **unwillingness on the part of the OPEC+** to rapidly raise output targets, evident in this month’s token 100KBpD output target bump-up, is undeniably **a political bugbear** for the US (and the global economy) struggling with high inflation. **But the physical capacity constraint may be the more binding OPEC+ problem for now.** That’s *where logic leads us despite coincident geo-political intent.*

Simply put, the larger **trouble with OPEC+** is that it is the **chronic capacity impediments** faced by many **OPEC members** (other than Saudi and UAE, where there may be viable excess capacity to exploit), *not self-imposed restrictions*, that are **keeping supplies tight**.

And **so, simply lifting output quotas/targets proportionally across OPEC+ members alone will not resolve the problem of tight supplies**; and the *attendant stickiness/tipping risks in Oil*.

As is plain to see (Top Left and Bottom Charts), **OPEC+ has actually restored all of the COVID quota cuts** to production, which it imposed at the height of COVID fears that cause Oil to crash in April/May of 2020.

Yet, prices remain exceptionally sticky. And this is **despite Brent crude's sharp decline from \$110 to ~\$95 over the week**.

Point being, **Oil remains far more elevated than would have been suggested by** markets fretting *recession risks* and a world in which *air travel is yet to be fully restored*. And this points to **chronic output shortfall** (missing quotas; Top Right Chart) as the culprit for a distorted Oil market.

Worryingly, the problem may prove persistent as capacity compromised over COVID may not be restored as quickly as the paper exercise in quota restoration.

What's even **more troubling is that the capacity for geo-politics to exacerbate supply-side impediments**.

Not only is *Russia's war on Ukraine* and the consequent sanctions on Russia *adversely impacting global crude supplies*; but the *Saudi's snub of US charm offensive* to raise production also *speaks to a reluctance on the part of OPEC+ to compensate for Russian supply at risk*.

And that is **apart from the inherent interest to keep prices high and supplies tight** amid looming recession risks.

The upshot is that **quota tweaks mask lack of dis-aggregated capacity** to alleviate supply impediments while **geo-political self-interest removes the incentive** (for the likes of Saudi and the UAE) **to compensate** on an aggregated basis. Which tragically means the *world must contend with higher energy costs and more precarious downturn risks*.

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