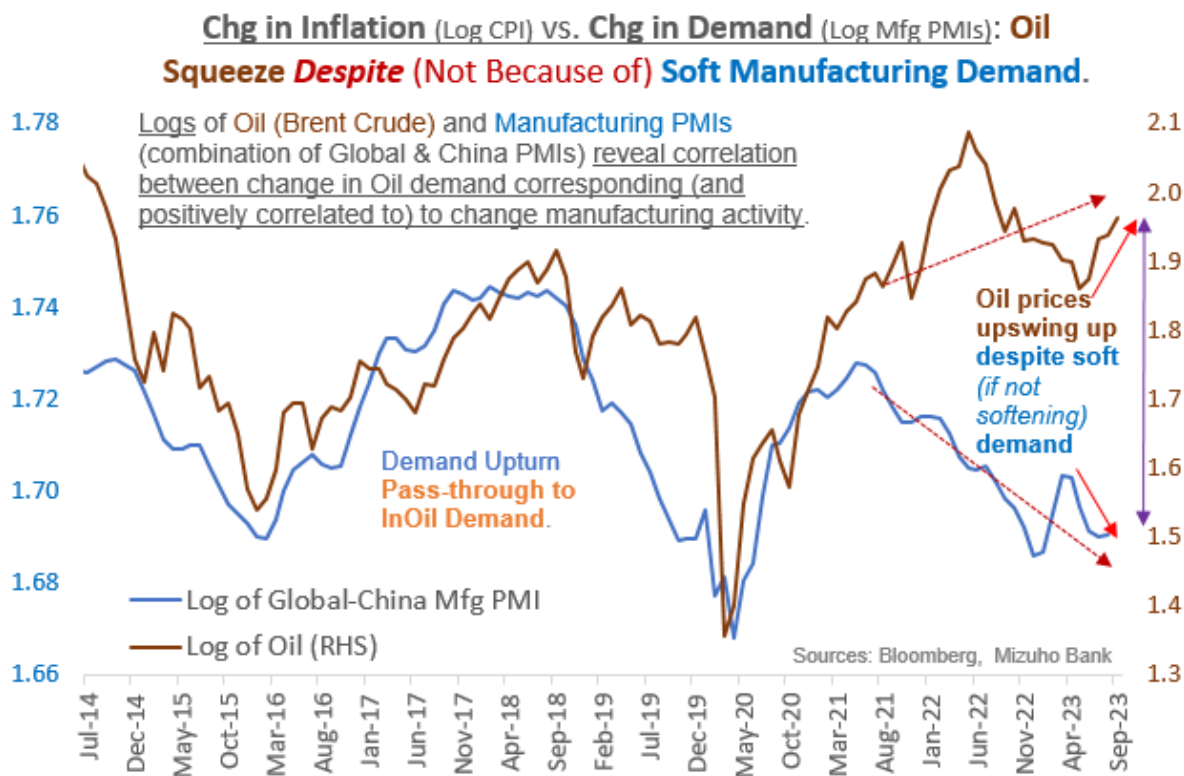


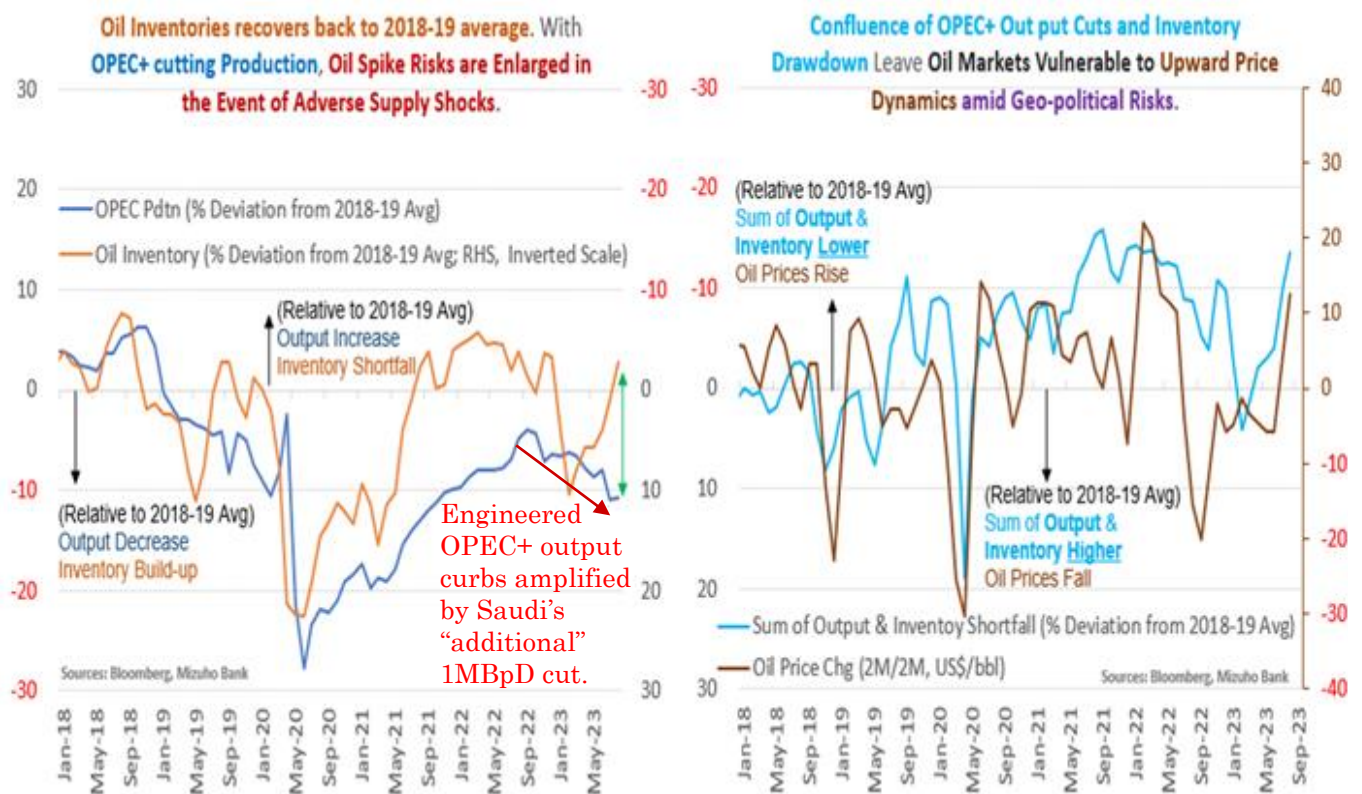
The OPEC Squeeze



“...it would wield a power too great and terrible” Gandalf, Lord of the Rings

- The (Q3) **surge in global crude prices**, lifting Brent past \$90, is *mostly intended OPEC+ supply squeeze* not it is an **inevitable** by-product of **global demand upswing** that has stormed markets.
- Admittedly, one may justifiably argue that growing hopes of more forceful **China stimulus** (to stoke demand) accentuating the **post-pandemic air travel boom** are **stoking demand** for crude.
- But *ascribing Oil’s enthused upswing to demand* resurgence is at best *convenient attribution, not a compelling argument* that actually stands.
- Especially when presented with evidence of **corresponding drop in various barometers of global demand conditions** (including PMIs; Chart above); which clearly indicate that *Oil’s bullish tendencies have been in spite of demand being underwhelming and uneven*.
- Instead, what appears compelling is **supply-side manipulation engineered by purposeful output curbs instituted by the OPEC+** to ensure that **distinct upside price dynamic propensity**. And this is **nakedly evident in the systematic and sustained output cuts that have stepped up**.
- Notably, Saudi has upped the ante on orchestrated tight supply with its “additional” 1MbPD cut that is to be sustained; even as it alludes to robust demand conditions elsewhere.

- Apart from the *intended purposeful supply shortfall*, the *observed strategy is to clearly whittle down inventories to ensure upside price sensitivities are amplified* (see Charts overleaf).
- With *both supply output and inventories running below 2018-19 average*, and *persistent geo-political tensions* (which impose hard-to-predict supply disruption risks) what this means is **that near-term upside risks to crude oil may well persist**. Especially if seduced by narratives of tantalizing stimulus-driven China demand flirting with a Fed “soft-landing”.
- But equally this means that **OPEC+ is exhausting its supply (cut) response, leaving less “dry powder”**, should demand buckle more abruptly and possibly in a dis-orderly fashion. In particular, if “soft landing” hopes turn out to be overstated.
- And *perversely* (some might argue, poetically), **too much upside price-engineering by the OPEC may sow the seeds of a much sharper (possibly dis-orderly) price correction in crude**; imaginably as **elevated oil inflicts the tyranny of tighter-than-necessary monetary policy even as it suffocates marginal demand** (already under pressure).
- The **OPEC squeeze** is an undue degree of influence afforded to the cartel, but it arguably “*it ...wield(s) a power too great and terrible*” ... **even for itself**.



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