

# Oil-nomics

## Downside Risk to Oil: Saudis Can Reverse Production Cuts

Saudi Arabia has been a key player in the global oil market, often adjusting its production levels to maintain market stability and safeguard its economic interests. However, price trends and loss in market share may prompt the Kingdom to reassess its production curtailment strategy. Despite implementing significant production cuts, Saudi Arabia faces challenges such as declining oil prices, risk to fiscal breakeven levels, loss of market share and non-compliance by certain OPEC nations. The combination of these factors can compel Saudi Arabia to reverse its production curtailment in 2024, which can weigh on the Oil prices. Notwithstanding the Geopolitics, we see Brent Oil averaging around US\$75-80/bbl for quite some time, with a downside risk materializing during H2 2024.

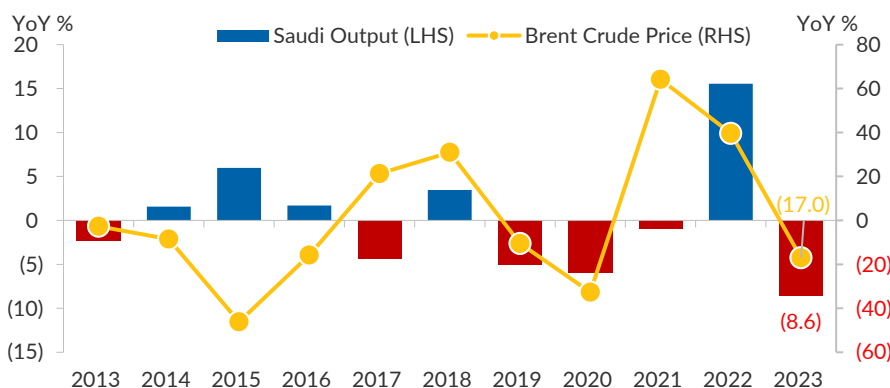
**Declining Oil Prices and Fiscal Breakeven:** Notwithstanding steep production cuts, Oil prices are on a downward trend, posing a threat to Saudi Arabia's economic growth and fiscal situation. Although The Kingdom is trying to diversify its economy, it still relies heavily on oil revenues to support its budget, and a sustained period of low prices could impact its economic stability.

**Loss of Market Share, OPEC Non-Compliance and Increased Production by Iran and Venezuela -:** The surge in U.S. oil production and exports has resulted in a loss of market share for Saudi Arabia. The Kingdom's production cuts have inadvertently allowed the US and other nations to export more Oil to the World. Several OPEC nations are not adhering to agreed-upon production quotas, undermining the effectiveness of collective efforts to stabilize oil prices. Furthermore, the lack of enforcement of sanctions on Iran and Venezuela has led to increased production in these countries, contributing to a challenging competitive landscape for Saudi Arabia.

**Historical Precedents:** Past instances have shown that when Saudi Arabia curtails production, it risks losing market share, only to produce more in the subsequent years. Considering historical patterns, the Kingdom may consider reversing the production cuts to regain its competitive edge in the global oil market.

**OPEC's Outlook on Demand and Supply:** OPEC's assessment anticipates that oil demand growth in 2024 will surpass incremental supply from non-OPEC nations. This projection places additional pressure on Saudi Arabia to increase production to meet rising global demand and maintain its market position.

### Exhibit 1: Despite Saudi Arabia's production cuts, Oil prices have moved lower...



Source: Bloomberg, YES Sec

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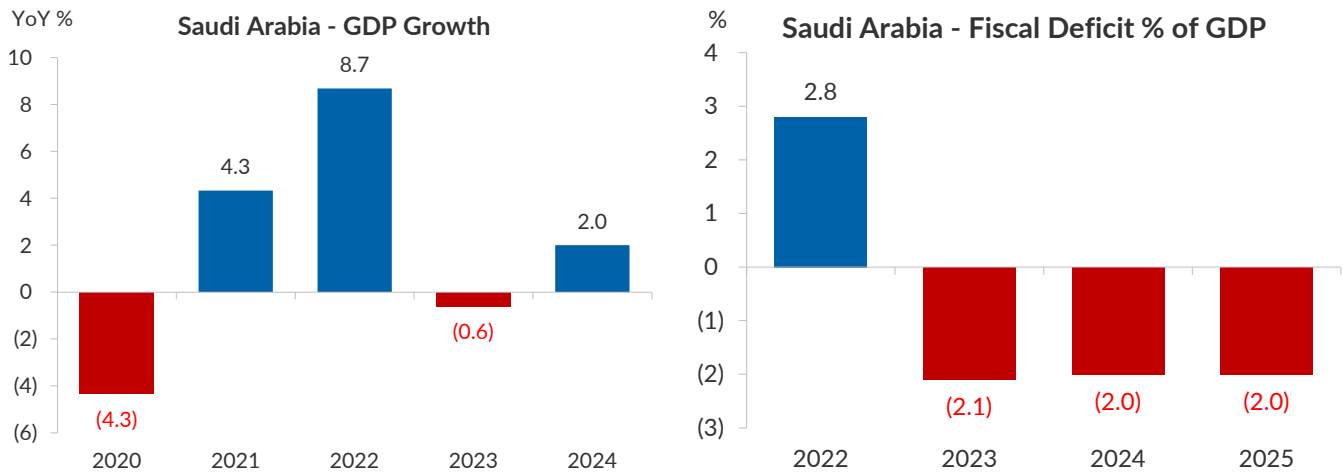
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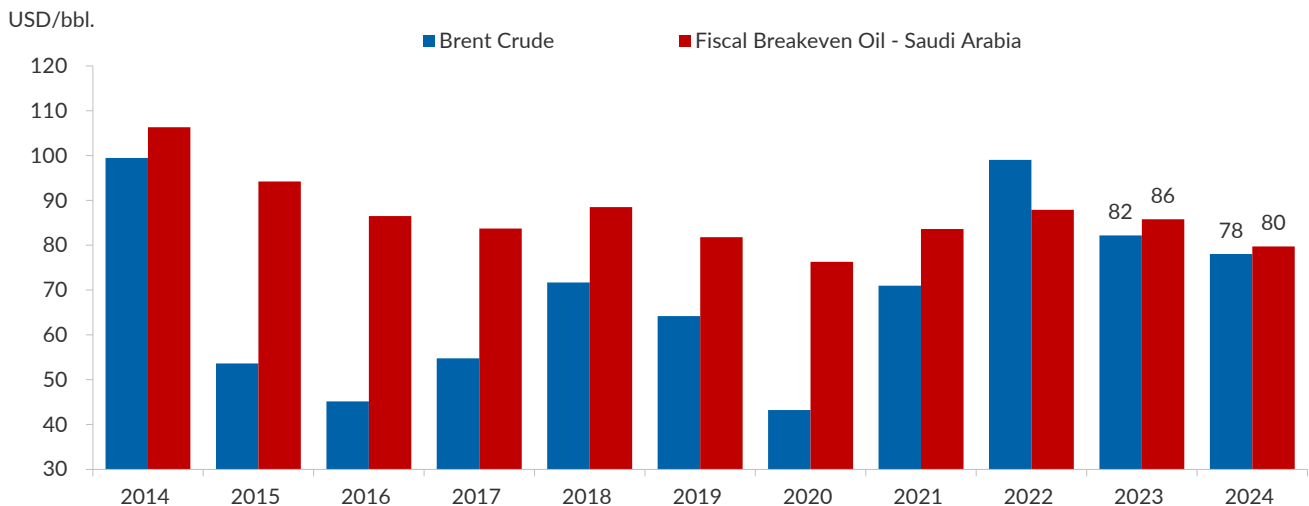
**KEVAL SHAH**, Associate

**Exhibit 2: ...resulting in a likely contraction in Saudi Arabia's 2023 GDP and duress on the fiscal situation...**



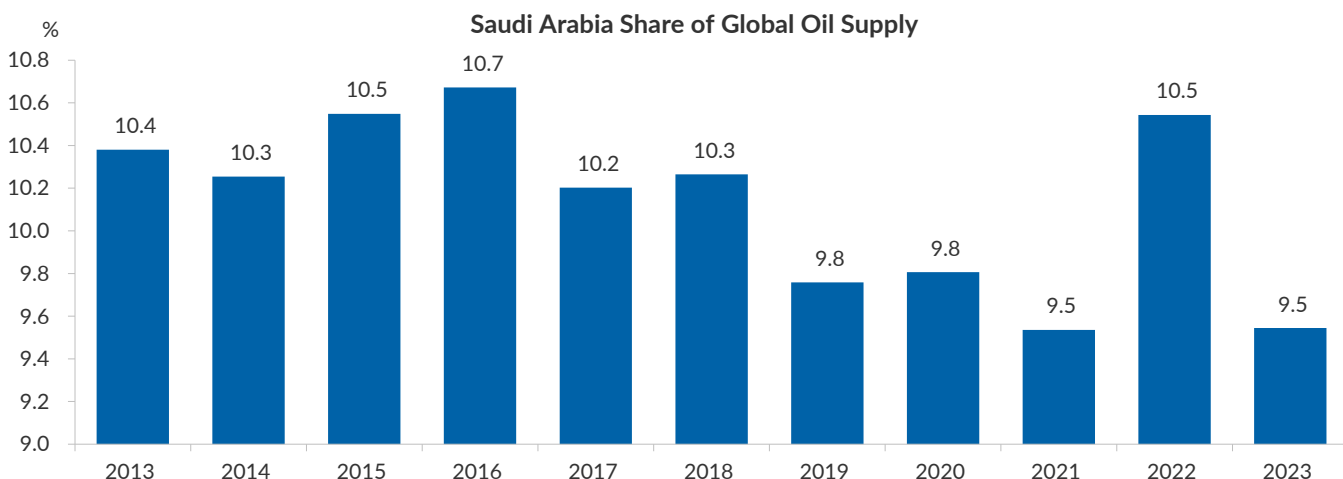
Source: Bloomberg, YES Sec

**Exhibit 3: ...average Brent Prices were lower than Saudi's Fiscal Breakeven point**



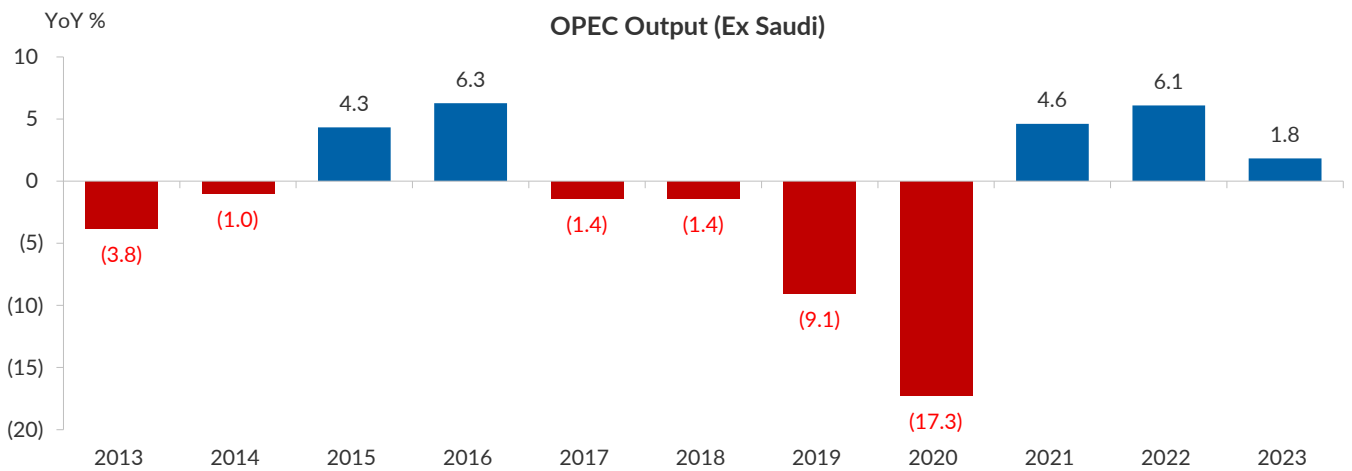
Source: Bloomberg, YES Sec

**Exhibit 4: Saudis are losing market share due to production curtailment...**



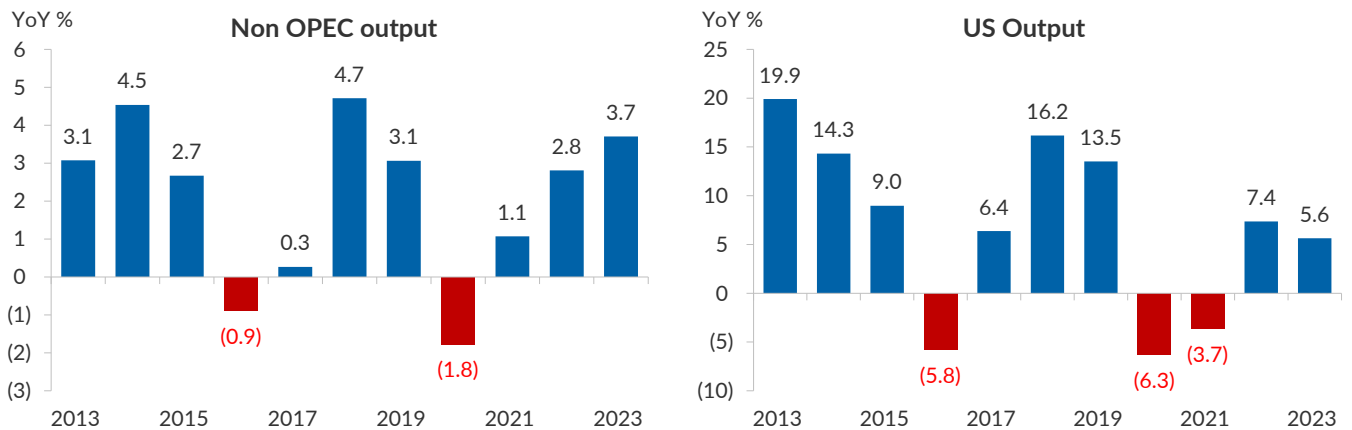
Source: Bloomberg, YES Sec

**Exhibit 5: ...while OPEC excluding Saudis have produced more, with several nations not sticking to the output quota**



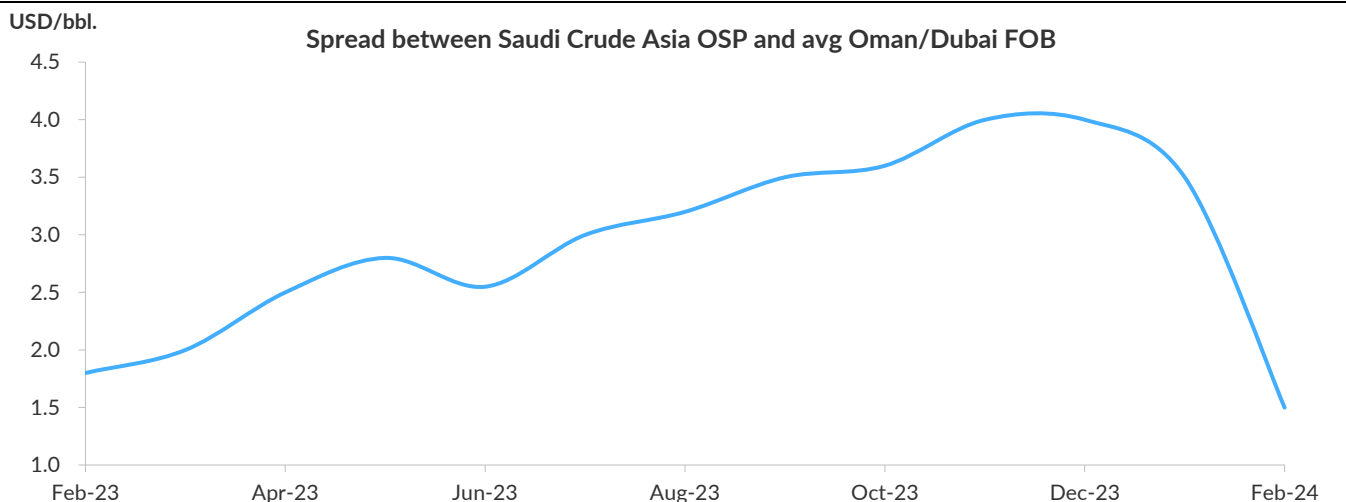
Source: US Treasury, Yes Sec. Note: Govt Current Receipts for 2023 is a projection, derived from Q2 annualised number

**Exhibit 6: Non-OPEC output has surged, with the US ramping up output by 1mbpd during 2023**



Source: Bloomberg, YES Sec

**Exhibit 7: Loss in Market Share has already compelled Saudi Arabia to cut the Official Selling Price of its Oil**



Source: Bloomberg, YES Sec

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