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Comments on breakdown of OPEC+ negotiations attributed to Chris Midgley, head of global analytics, S&P Global Platts:

BY S&P GLOBAL PLATTS

The deep price cuts signal a move by Saudi Arabia away from market price to market share at a time when the market is already reeling from severe demand destruction as the result of both the warmest winter on record in the Northern Hemisphere, and the impact of the coronavirus to demand.

Demand for the first quarter is likely to fall 2.4 million barrels per day (MMBD) with a U-shaped recovery, which will not see demand growth move back closer to normal trend levels until the second half of the year where we may see a small rebound. In contrast, despite losing 1 million barrels per day (MMBD) of Libyan, 350,000 barrels per day (MBD) of Venezuelan and 400, 000 barrels per day (MBD) of Saudi production, oil production has been up year-over-year. And it is closer to 1 million barrels per day, due to record US production and growth in other non-OPEC production such as Brazil, Guyana, Canada and North Sea, plus 400,000 barrels per day of OPEC non-compliance from UAE, Iran and Nigeria.

Crude fell sharply on Friday to test $45/bbl on the back of the failed talks and we now expect if to fall sharply as markets open on Monday testing resistance at $42 and $40 before perhaps breaking into the 30's.

With increasing number of reports of the Coronavirus across the world, demand continues to look uncertain. On the supply side, a market share strategy could see Saudi Arabia production jumping 800,000 barrels per day (MBD) to around 10.5million barrels per day (MMBD), which along with the other OPEC countries throwing off their gloves could see OPEC and Russian supply adding well over an additional 1 million barrels per day (MMBD) to the market.

We find ourselves in unprecedented conditions where the market will be looking towards which producer blinks first. While low prices will test Saudi fiscal balances, they have the lowest cost barrels and with low debt can pull on sovereign reserves and take the pain.
Russia may simply allow the Rouble to slide in order to sustain flow of Roubles into their economy while US Shale will certainly take the brunt of the pain - their production unlikely to change quickly with much activity already committed and significant volumes hedged and protected. However, some producers, who have used more sophisticated collars for their hedging strategy, could find themselves in all sorts of difficulty.

Without any positive signals on demand or evidence of any supply agreements, the market has only one way to slide, and with contagion expected to widen, even the back of the curve will lack any confidence - especially if the market also assumes the return of Libya, and even Iran at some point, over the next 12 months.

Comments on Aramco moves by Kang Wu, Head of Analytics, Asia
On Sunday, Saudi Aramco announced the deepest ever cuts to its official selling prices (OSPs) to Asia. Prices for April-loading crude cargoes to Asian buyers were slashed by an unprecedented range between $4-6/Bbl. The move comes against a backdrop of plummeting crude prices following the failure by OPEC and its partners to agree on new production cuts in response to global demand destructions stemmed from the coronavirus outbreak and the warm weather. The OSP cuts also signal a move of Saudi Arabia away from market price to market share.

Aramco moves will no doubt be followed with similar price cuts by other Middle Eastern producers. With term price tumbling, spot prices for Asian, Russian and Middle Eastern grades will also weaken significantly. While damaging to crude producers, lower prices and heightened competition in crude markets will provide some relief to Asian refiners. For consumers and oil-importing countries, lower prices are a positive development amid the coronavirus gloom.

The collapse of crude oil prices toward the $30s per barrel is likely to trigger China's product floor-price mechanism where domestic retail gasoil and diesel prices will be set by the government at the floor price of $40 per barrel for a basket of presentative crudes. This will incentivize the Chinese refineries to run more crudes on higher domestic margins though the upside may ultimately be limited by China's oil demand and regional refining margins in Asia. With the first shot fired by Aramco in terms of the biggest OSP cuts in history, competition for market shares in Asia and China—a 10 million b/d crude oil importer—will intensify substantially among major oil exporters around the world.

Comments on Saudi positioning by Shin Kim, Head of Supply and Production, Analytics
The gauntlet has been thrown down. Saudi OSPs signal the beginning of an oil price war. Brent heading to $30/Bbl, maybe even lower. Massive discounts for April Saudi Aramco barrels, which included cuts of up to $8/Bbl, leave no doubt about Saudi Arabia's intention to regain market share from higher cost producers. For April, Saudi Aramco OSPs were cut by $4-6/Bbl for Asia, $7/Bbl for US, $6-7/Bbl for the Mediterranean, and as much as $7-8 for Northwest Europe, the latter which specifically targets Urals and other Russian crude.

A reasonably aggressive response could be for the Saudis to raise production from 9.75 million barrels per day (MMB/D) in 1Q to 10.25 million barrels per day (MMB/D) in 2Q. Russian output could rise by 300,000 barrels per day (MB/D) within three months. UAE, Kuwait, and Iraq add another 400,000-500,000 barrels per day (MB/D), combined. This suggests Brent prices of $35/Bbl in 2Q.

However, we could easily see a more aggressive and offensive Saudi position, with production rising to 10.5 million barrels per day (MMB/D), perhaps even getting up to 11 million barrels per day (MMB/D). Combined with similar actions by Gulf producers, this would imply Brent prices down to $30/Bbl, perhaps even into the twenties, given ongoing (worsening) uncertainty on COVID-19 and the inability for demand to respond.

Other risks abound. A faster Neutral Zone restart or 1 million barrels per day (MMB/D) of Libya coming back earlier than assumed would deepen the price collapse. That said, US shale activity will turn, although it will take longer for production to register year-on-year declines. Still, all signs point to Saudi Arabia and Russia wanting to inflict maximum pain, at the very least to instigate as fast a response as possible from US shale producers and each other.

Comments on unravelling of OPEC+, Brent prices and Russian currency depreciation from Paul Sheldon, Chief Geopolitical Advisor, Analytics
The unraveling of OPEC+ stemmed from Russian impatience with ceding share to U.S. shale, a dynamic most frequently voiced by the influential head of state-run Rosneft. Geopolitical factors may have played a role, including U.S. sanctions, but are likely peripheral compared with market share focus. We were surprised the alliance fell apart during an historic demand shock, but several factors may have led to the view the time is now ripe to go all-in and target higher-cost producers. Similarly, Saudi Arabia likely came away from Vienna viewing its position supporting short-term balances as an increasingly isolated one, especially with the potential for Libya to bring back 1.0 million barrels per day (MMB/D) at any time, and the November U.S. election possibly facilitating the return of up to 2.0 million barrels per day (MMB/D) from Iran. We estimate sustainable Saudi crude production capacity around 10.5 million barrels per day (MMB/D), but exports from storage could help bring supply-to-market above 11.0 million barrels per day (MMB/D) in any given month. 10.25 million barrels per day (MMB/D) seems like a safer bet for now.

Admittedly, if Brent falls into the mid-$30s/Bbl or lower, the 2014-16 experience indicates Russia, Saudi, and other large exporters could re-coordinate supply policies. However, the increasingly confrontational nature of recent events makes this scenario highly unlikely for now. Neither Russia nor Saudi Arabia will likely back down, at least until they see where the dust settles, as both have more ability to persevere through price weakness than some other oil exporters or U.S. shale.
We estimate Russian fiscal breakeven prices at $54/Bbl, compared with Saudi Arabia's $82/Bbl. Ruble depreciation could lower this figure even more, while foreign reserves increased from $380 billion to $520 billion between 2016 and 2019. Similarly, Saudi Arabia possesses the lowest cost supply in the world, in addition to foreign reserves around $500 billion, and public debt to GDP below 25% according to the IMF. Therefore, if both countries believe the time is right, we could be in for a perfect storm of price weakness. ***Contrary to 2014-16, when market imbalances primarily stemmed from the supply side, the coronavirus demand shock could combine to create a level of short-term pressure not seen since the mid-1980s. Stay tuned.***

Comments on Aramco shares to be attributed to S&P Global Platts Analytics
Aramco shares on Sunday opened and closed below the IPO price of Riyals 32 ($8.53), ending at Riyals 30, as investors reacted to the breakdown of the OPEC+ talks on Friday. Falling below IPO price is a symbolic blow to plans to list Aramco shares on foreign exchanges as well as the Saudi government's wider economic reform agenda. It further underscores the tensions between Aramco's role as the national oil company of the leading OPEC member state and its plans to become an internationally listed oil major.

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