Industry Analysis

Doomed deal in Doha

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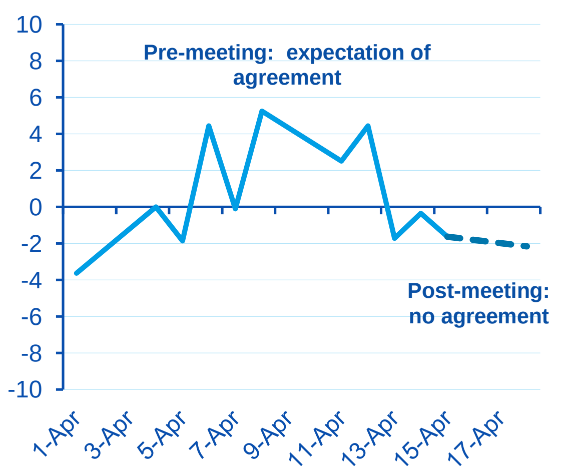
- **Deal to freeze oil production among several OPEC members and Russia fell apart**
- **Tensions between Saudi Arabia and Iran hinder potential deal in June OPEC meeting**
- **Lack of agreement will not deter market's path to rebalancing**

On Sunday, 18 oil-producing nations failed to reach a deal to freeze oil production in response to the fall in prices which began in late 2014. Nearly all of OPEC's members and a few non-OPEC producers, such as Russia, had gathered in Doha, Qatar for what was expected to be the confirmation of a proposed deal that would have halted oil output; however, on Saturday, Iran announced that it would not send a delegate to the meeting. Following five hours of debate, the deal fell apart after Saudi Arabia insisted that Iran take part in the freeze. Instead, Iran has pledged to ramp up its oil production in order to benefit from the recent lifting of U.S. sanctions, and the country has stated that it does not plan to cap output until its pre-sanction market share is regained.

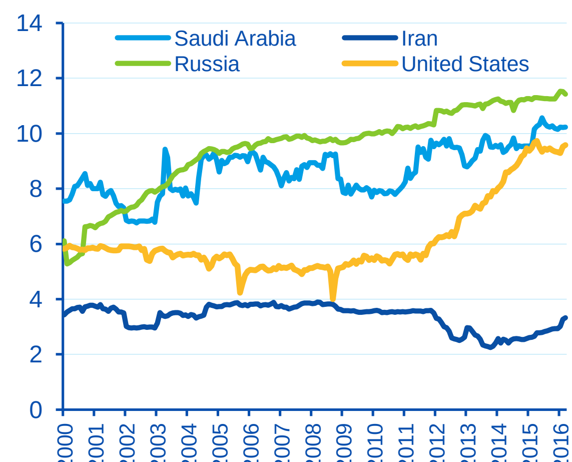
The ongoing tensions between Saudi Arabia and Iran offer little assurance that a deal can be reached by OPEC's next official meeting in June and jeopardizes the sustainability of the recent rally in oil prices. Besides geopolitical tensions, the lack of agreement at the Doha meeting reflects a structural change in oil markets, characterized by the increasing relevance of non-OPEC members and an intense fight for market share that renders attempts to control prices elusive. In this context, an agreement to freeze production would have had little impact on supply dynamics in the short-run, given that Saudi Arabia and Russia would have to stabilize their output at record levels, while Iran would have ramped up its own production.

Chart 1
Crude Oil Prices
(Brent, daily % change)



Source: Haver Analytics with data from Financial Times

Chart 2
Oil Production at the Wellhead
(Million barrels per day)



Source: Haver Analytics with data from Energy Intelligence

Even without agreement, the market will continue its path to rebalancing. U.S. crude oil production has declined by 600,000 bbl/day since its peak in July 2015, while production in countries like China, Mexico and Venezuela is also declining. In addition, the rising number of bankruptcies and drastic reductions to capital expenditures should continue to limit output in the near future, paving the way for a gradual rebound in prices as stated in our baseline scenario (around $60/bbl by end 2018). Thus, although prices are likely to correct downwards in the following days as markets assimilate the implications of the Doha meeting, the probability of sliding below $30/bbl is minimal.