

OPEC+ decides on oil cuts. What is the global trend?

The month of June began on a trembling note when the OPEC+ group announced production cuts of their oil stocks to combat the falling demand for oil in a global economy facing recessionary pressures. Since 2022, the production rates were severed by 3.66 million bpd and an extra 1.4 million bpd will be further cut from January 2024. Saudi Arabia (a major producer of OPEC) will aggressively push forward for cuts starting in July. It comes at a time when the prices are trading at \$70/barrel whereas it was \$140, exactly a year ago. The IMF has projected that all developed economies were expected to thrive by 1.3% in 2023.

Reasons that led to these cuts were mainly the initial pressures from the latest national debt arrangements proposed by the U.S. which made top oil exporters feel that the world's top oil buyer may default on its future obligations. Supplementary cuts will fuel tensions between the OPEC cartel and leading oil consumer nations as the latter are reeling under inflationary pressures. The U.S. has begun considering proposals for NOPEC if its investigation agencies find out whether the group had colluded to inflate prices. OPEC and allies control global crude oil prices by adjusting production levels as they already provide 40% of the world's oil. They aim to support their own economies without harming global growth.

OPEC had remarked that the excess circulation of the dollar has lowered its value implying lower returns for oil producers. Petroleum produced by the U.S. will be increasing from 12.53 million bpd (2023) to 12.7 million bpd (by 2024). More than 80% of India's crude oil requirements were imported. Although we appreciate lower pricing, a production drop will be detrimental. India is acquiring a growing amount of Russian crude oil at discounts from market rates to meet 45% of its monthly home-grown demands. Consumer patterns get negatively affected when global prices are not properly reflected in domestic pumps thereby altering demand. Reduced domestic pump costs are projected to accelerate India's economic recovery.

Terms Expanded

OPEC+ - Organization of the Petroleum Exporting Countries

Bpd – barrels per day

NOPEC - No Organization of the Petroleum Exporting Countries

