Petroleum Economist

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Opec can have cake and eat it–Morgan Stanley

No longer having to choose between price and market share means the cartel does not need to rush to ease cuts, says analyst

"Opec is finding itself in an extraordinarily positive environment," Martijn Rats, global oil strategist and head of European energy research, told the "Crude Oil Markets: What Lies Ahead for 2021?" webinar organised by consultancy Renaissance Energy Advisors and the Energy and Commodities Club of the Bayes Business School at London's City University. And this may, in his view, influence how quickly it eases production curbs even at stronger prices.

"The historical trade-off has always been one between do you want high prices now or do you want market share in the future. In the past, these things have been contradictory to each other, you cannot have both at the same time. If you overcook it now, frankly, you will probably lose market share in the future," says Rats.

"But if you look at the non-Opec capex response to these very high prices, there is none. Capex remains very, very low. I cover a number of European equities and none of these companies are looking to drill more wells, do more projects or raise capex.

"The historical trade-off has always been one between do you want high prices now or do you want market share in the future"; Rats, Morgan Stanley

"If you look at the US, shale development is also lagging behind. For almost the first time in Opec's history, they can conclude that they can keep the oil market tight now and, nevertheless, market share will eventually come their way anyway in this environment. And for that reason, they might be sitting on these high levels of spare capacity," Rats concludes.

"They will monetise that capacity at some point, [but] they do not need to be worried about it. They might be looking at the future and saying, 'We can have it all. We can have both high prices and market share in the future.'" And that leads Rats to suspect that any acceleration of a relaxation in Opec+ production curbs at this week's monthly meeting will be limited, even as Brent hovers around the $75/bl mark.

Opec has "actually found a very good tool" in its new monthly decision making, agrees Vladimir Langhamer, managing director at Austrian integrated oil firm OMV. "It is perfect. They can react very quickly to the upside and to the downside. They make oil very investable," he says.

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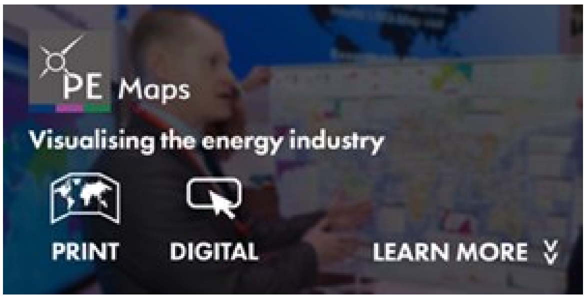

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