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Wall Street Is Betting OPEC+ Can Fend Off $100 Oil

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The specter of a widening war in the Middle East has put $100-a-barrel oil back on the table. But Wall Street is looking elsewhere in the region for hints about how high prices could go.

The Saudi-led Organization of the Petroleum Exporting Countries and its Russia-aligned counterparts have dialed back production of millions of barrels of oil a day in recent years. Investors are betting that spare capacity, which the countries could yet tap in to, will effectively put a cap on oil prices—and protect Americans from an inflationary shock.

Benchmark global prices have increased 23% since mid-December, recently nearing their 2023 highs. The climb has pushed up the cost of driving to work, shipping groceries and running farm equipment. That has buoyed inflation across an American economy that is still running hotter than the Federal Reserve would like.

Iran's largely thwarted strike on Israel in recent days has added new uncertainty to the market. Prices rose Friday in the lead-up to the Islamic Republic's barrage of drones and missiles. This week, as officials in Washington and elsewhere tried to dial down tensions, front-month futures for Brent crude hovered around $90 a barrel.

That muted response to the attack could be a sign that traders are betting that Israel will respond cautiously. Analysts say it is also a nod to how OPEC+ could quickly respond to any financial aftershocks.

“OPEC’s market power is more important this year than last year,” said Jorge León, senior vice president of the consulting firm Rystad Energy.

Members led by Saudi Arabia began a series of output cuts in 2022 that reduced the OPEC+ slice of global supplies to less than 34%, according to Rystad. That is the smallest amount since OPEC joined with a Russian-led producers’ group in 2016. Still, the Biden administration’s unprecedented release of oil reserves, followed by gushers of production in the U.S., Brazil and elsewhere, filled the supply gap and kept prices in check.

Slowing U.S. production growth this year flipped the balance of power back in favor of OPEC+ and higher prices. Federal officials project American output will rise by some 300,000 barrels a day this year, to a record 13.2 million, down from the one million-barrel-a-day growth in 2023.

That has led refiners to draw down some of their existing stockpiles of crude, driving up demand for future shipments. At the same time, speculators such as hedge funds have piled into petroleum in a bet that a stronger-than-expected U.S. economy will gobble up more fuel, chemicals and asphalt.

“It’s easier for OPEC and OPEC+ to be the 800-pound gorilla in the room, to be strong in this market," said Ann-Louise Hittle, vice president of oil markets at consulting firm Wood Mackenzie.

The big question in trading hubs stretching from Houston to New York to London is whether the cartel's members will boost production at a meeting expected in June.

A rise in price toward $95 a barrel will put pressure on OPEC+ to increase output, said Frederic Lasserre, global head of research and analysis at the commodities-trading giant Gunvor.

Speaking at the Financial Times Commodities Global Summit, an industry confab held in Switzerland last week, he added, "We are going to see some production back, at least from Saudi Arabia."

Traders' ultimate fear is that an expanding global economy and wartime disruptions could push prices high enough to curb the world's thirst for oil. Demand slowed after a similar shock in 2022, when Russia's invasion of Ukraine supercharged inflation by scrambling energy markets and propelling crude costs to shale-era highs.

U.S. prices at the pump remain far below their levels that year. The average cost of a gallon of regular gasoline Monday stood at $3.63, according to AAA, a hair lower than it was a year ago.

That could change if the Israel-Iran conflict spirals into a war that disrupts Tehran's oil infrastructure or slows tanker traffic in the Strait of Hormuz, a narrow shipping lane to the Persian Gulf.

Crude prices have been fluttering since U.S. and Israeli officials last week began preparing for a potential Iranian attack. Analysts believe wartime risks are adding between $5 and $10 to the price of a barrel of oil on any given day.

“The market is on tenterhooks,” said Rebecca Babin, managing director at CIBC Private Wealth.

Many traders are still betting that OPEC+ will effectively keep a lid on oil prices. Saudi Arabia, which restored relations with Tehran this past year, called on Israel and Iran to exercise restraint.

recently warned clients that a broader war could affect various OPEC+ members’ ability or willingness to pump more crude through shipping disruptions, infrastructure damage or heightened tensions.

“We’ve been surprised how long they have kept these cuts,” said Walt Chancellor, an energy strategist at the Australian bank Macquarie. “With all things OPEC and Saudi Arabia, you got to approach it humbly.”

Anna Hirtenstein and Joe Wallace contributed to this article.

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