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Exclusive | OPEC+ Agrees to Extend Production Cuts in Bid to Boost Oil Prices

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5–6 minutes

OPEC+ on Sunday agreed to extend all production curbs into next year, a deal that likely signals oil prices will remain elevated through the U.S. presidential election.

The agreement comes on the same day the group's kingpin, Saudi Arabia, launched a giant sale of shares in its national oil champion that will yield billions to help fund the kingdom's economic transformation.

The Organization of the Petroleum Exporting Countries and its allies, together known as OPEC+, agreed to keep collective curbs through next year. The group has longstanding official reductions of 3.66 million barrels a day.

The new deal includes the United Arab Emirates securing another upgrade to its official production quota, by 300,000 barrels a day. The UAE's new official quota will be gradually phased in starting in January and stand at 3.519 million barrels a day by September 2025.

Eight top producers in the group also agreed to continue voluntary cuts separately into 2025, currently around 2.2 million barrels a day, according to an OPEC+ document. But the voluntary cuts, which include a production cut of one million barrels a day from top producer Saudi Arabia, will be only maintained at the same level for three months before being gradually eased through September next year, the document says.

In effect, the agreement gives the cartel considerably leeway to make adjustments depending on market conditions.

The curbs are aimed at bolstering prices and avoiding a global surplus in a context of rising output from other nonmember producers, particularly the U.S., and concerns over demand amid high interest rates and inflation.

Brent crude, the international oil benchmark, currently trades around $83 a barrel, some way off its intraday high for the year to date of $91.17 on April 5, while the U.S. oil gauge, West Texas Intermediate, is at $79 a barrel. Both benchmarks regained some ground last week supported by market expectations of OPEC+ cuts and elevated tensions in the Middle East, but failed to gather significant momentum.

The price of oil, and in particular its effect on inflation and consumers' outlook on the economy, will be closely watched in a presidential election year in the U.S. While gas prices have drifted downward of late, the extension of the production cuts is likely to keep them from falling dramatically.

Higher oil prices are also designed to boost the Saudi economy.

Saudi Arabia on Sunday started selling less than 1% in state-run oil giant Aramco, potentially raising almost $12 billion, an offering that followed the record $25.6 billion generated in its 2019 initial public listing. The kingdom has embarked on many megaprojects including a multibillion-dollar city in the desert and a global airline and needs oil in the high $90s to fund its ambitions, according to market watchers.

But Riyadh has become worried traders on Wall Street were taking positions to sell off oil futures, paving the way for declining prices, delegates said.

Futures trading positions currently imply the WTI will trade at $73 a barrel in a year from now, down more than 5% from current levels. In April, money managers in New York cut their net long positions in the West Texas Intermediate—the main U.S. futures oil contract—by 20.6% and increased their short positions by 97.5%, according to the U.S. Commodity Futures Trading Commission.

The further extension of cuts agreed Sunday could tip global oil markets into a supply deficit, pushing up prices. Demand for OPEC+ crude is set to increase next year by 800,000 barrels a day, the cartel said in a report last month.

Lagging compliance to agreed curbs has also been a bone of contention between Saudi Arabia and other top producers. Russia, Iraq and Kazakhstan respectively overproduced 200,000 barrels a day, 240,000 barrels a day and 72,000 barrels a day in April, according to S&P Global's commodities-data service Platts.

In recent months, flows of Russia's crude to global markets were boosted by 400,000 barrels a day as Ukrainian attacks on its refineries reduced Moscow's capacity to process the commodity at home, said data-commodities provider Kpler. But they are set to decline in the summer as the plants restart, it said.

OPEC's meeting, which normally takes place in Vienna, was held with several key oil ministers in the alliance attending in Riyadh after Saudi Arabia reverted from plans to carry out the meeting exclusively online. Other producers joined virtually as they did back in November when the meeting was delayed by four days as members wrangled over production.

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