Saudis, other oil giants announce surprise production cuts; prices could go up

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Online Desk: Saudi Arabia and other major oil producers on Sunday announced surprise cuts totaling up to 1.15 million barrels per day from May until the end of the year, a move that could raise prices worldwide. Higher oil prices would help fill Russian President Vladimir Putin's coffers as his country wages war on Ukraine and force Americans and others to pay even more at the pump amid worldwide inflation. It was also likely to further strain ties with the United States, which has called on Saudi Arabia and other allies to increase production as it tries to bring prices down and squeeze Russia's finances.

The production cuts alone could push U.S. gasoline prices up by roughly 26 cents per gallon, in addition to the usual increase that comes when refineries change the gasoline blend during the summer driving season, said Kevin Book, managing director of Clearview Energy Partners LLC. The Energy Department calculates the seasonal increase at an average of 32 cents per gallon, Book said. So with an average U.S. price now at roughly $3.50 per gallon of regular, according to AAA, that could mean gasoline over $4 per gallon during the summer.

However, Book said there are a number of complex variables in oil and gas prices. The size of each country's production cut depends on the baseline production number it is using, so the cut might not be 1.15 million. It also could take much of the year for the cuts to take effect. Demand could fall if the U.S. enters a recession caused by the banking crisis. But it also could increase during the summer as more people travel.

Even though the production cut is only about 1% of the roughly 100 million barrels of oil the world uses per day, the impact on prices could be big, Book said. "It's a big deal because of the way oil prices work," he said. "You are in a market that is relatively balanced. You take a small amount away, depending on what demand does, you could have a very significant price response." Saudi Arabia announced the biggest cut among OPEC members at 500,000 barrels per day. The cuts are in addition to a reduction announced last October that infuriated the Biden administration. The Saudi Energy Ministry described the move as a "precautionary measure" aimed at stabilizing the oil market. The cuts represent less than 5% of Saudi Arabia's average production of 11.5 million barrels per day in 2022.

Iraq said it would reduce production by 211,000 barrels per day, the United Arab Emirates by 144,000, Kuwait by 128,000, Kazakhstan by 78,000, Algeria by 48,000 and Oman by 40,000. The announcements were carried by each country's state media. Russia's Deputy Prime Minister Alexander Novak meanwhile said Moscow would extend a voluntary cut of 500,000 until the end of the year, according to remarks carried by the state news agency Tass. Russia had announced the unilateral reduction in February after Western countries imposed price caps.

All are members of the so-called OPEC+ group of oil exporting countries, which includes the original Organization of the Petroleum Exporting Countries as well as Russia and other major producers. There was no immediate statement from OPEC itself.

The cuts announced in October — of some 2 million barrels a day — had come on the eve of U.S. midterm elections in which soaring prices were a major issue. President Joe Biden vowed at the time that there would be "consequences" and Democratic lawmakers called for freezing cooperation with the Saudis. Both the U.S. and Saudi Arabia denied any political motives in the dispute. Since those cuts, oil prices have trended down. Brent crude, a global benchmark, was trading around $80 a barrel at the end of last week, down from around $95 in early October, when the earlier cuts were agreed.

Analysts Giacomo Romeo and Lloyd Byrne at Jefferies said in a research note that the new cuts should allow for “material” reductions to OPEC inventory earlier than expected and could validate recent warnings from some traders and analysts that demand for oil is weakening.

Kristian Coates Ulrichsen, a Gulf expert at Rice University’s Baker Institute for Public Policy, said the Saudis are determined to keep oil prices high enough to fund ambitious mega-projects linked to Crown Prince Mohammed bin Salman’s Vision 2030 plan to overhaul the economy. “This domestic interest takes precedence in Saudi decision-making over relationships with international partners and is likely to remain a point of friction in U.S.-Saudi relations for the foreseeable future,” he said.

Saudi Arabia’s state-run oil giant Aramco recently announced record profits of $161 billion from last year. Profits rose 46.5% when compared to the company’s 2021 results of $110 billion. Aramco said it hoped to boost production to 13 million barrels a day by 2027. The decades-long U.S.-Saudi alliance has come under growing strain in recent years following the 2018 killing of Saudi dissident Jamal Khashoggi, a U.S.-based journalist, and Saudi Arabia’s war with the Iran-backed Houthi rebels in Yemen.

As a candidate for president, Biden had vowed to make Saudi Arabia a “pariah” over the Khashoggi killing, but as oil prices rose after his inauguration he backed off. He visited the kingdom last July in a bid to patch up relations, drawing criticism for sharing a fistbump with Crown Prince Mohammed.

Saudi Arabia has denied siding with Russia in the Ukraine war, even as it has cultivated closer ties with both Moscow and Beijing in recent years. Last week, Aramco announced billions of dollars of investment in China’s downstream petrochemicals industry.