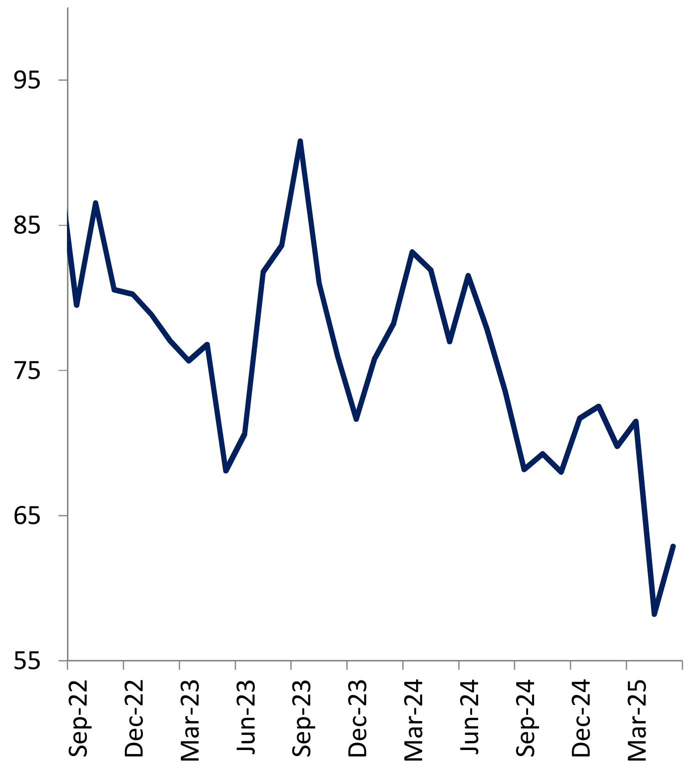
OPEC Cuts : Silent Saudi Gift

Navneet Damani- Head Research,
Navneet.damani@motilaloswal.com
Shweta Shah – Energy Analyst,
Shweta.vshah@motilaloswal.com

Price rally Despite Output Hike?

- OPEC+ agreed to add another 411,000 barrels daily to its combined output for third time and prices rallied by 3%
- Prices rallied because there were expectations of a bigger hike and oil markets just remembered that “ Geo Politics “ exists
- Oil traders have already gotten used to OPEC+’s new strategy, which seems to focus on regaining market share, and no longer itching to exit their position
- U.S. shale growth is slowing, which has prompted revisions in oil market balance forecasts—and it should also prompt revisions of price projections
- On Geo Political front, Russia has been provoked on a strategic level, and markets should brace for a forceful Russian retaliation
- The latest escalation between Russia Ukraine has dimmed possibility of a lasting peace anytime soon, so chances of Russian sanctions remains
- U.S. is off to a strong start to driving season as the slump in oil prices in recent weeks has led to the lowest gasoline prices for Memorial Day weekend in four years
- Gasoline demand was strong over the holiday weekend, which ushers in the start of the period of peak demand in U.S. and the rest of the northern hemisphere
- There are multiple reports stating that Saudi Arabia is trying to stop Shale industry by intentionally pushing barrels into the market
- But reality is far from this, the last 2 price war and the lessons learned are the triggers for this coordinated efforts to keep prices below $75(WTI)

WTI Crude Oil Prices($)



Source: RTRS

Rewind : 1st Price War Failure

- 2014–2016 war was driven by Saudi Arabia's belief that U.S. shale breakeven for WTI was ~$70/bbl
- Saudis assumed sustained sub-$70 prices, via OPEC production increases amid steady demand, would bankrupt many U.S. shale players
- The strategy also aimed to halt production and deter future shale investment
- OPEC members revealed a shift from maintaining high prices to accepting much lower Brent levels, even $80–90 or lower, for 1–2 years if needed
- Apart from crippling U.S. shale, the strategy also intended to enforce supply discipline among other OPEC members
- Early indicators in 2015 suggested the Saudi strategy was working
- U.S. oil rig count saw its steepest drop since 1991 in Feb 2015
- By end-Q1 2015, U.S. shale output dropped ~50% over the year; capex was slashed to ~$60B from ~$100B in 2014
- U.S. shale adapted, evolving into a lean, lower-cost operation viable at ~$35/bbl WTI, down from ~$70/bbl earlier
- Efficiency gains came from tech improvements: longer laterals, closer frack stage management, finer sand, faster drill times
- Meanwhile, Saudi Arabia swung from a surplus to a record $98B deficit in 2015, spending $250B+ in FX reserves, seen as unrecoverable
- IEA estimated OPEC collectively lost at least $450B in revenues during the 2014–2016 price war

WTI Crude Oil Prices($)

Source: RTRS

Rewind : 2nd Time : Forceful Decision

- The 2020 Oil Price War used the same overproduction strategy as in 2014–2016
- Trump began by warning Saudi Arabia repeatedly that the U.S. would not tolerate any sustained threat to its shale oil sector (and, by extension, to its economy and its domestic political landscape)
- U.S. Signalled intolerance for prolonged threats to domestic energy security, via speeches, tweets, and the advancing NOPEC Bill
- Trump issued warning to Saudi Arabia for withdrawal of U.S. military support to pressure them to raise output
- Following this pressure, oil production was reduced, and the 2020 oil price war ended
- This price war failed less because of direct political intervention of its then first-term President Donald Trump and less through the long-term effects of misjudging the effectiveness of the U.S. shale producers
- Now, the low breakeven cost resilience of the U.S. shale sector is not quite the same as it was before
- The recent Dallas Fed Energy Survey suggests a breakeven of US$65 for new wells drilled, although for existing wells it is significantly lower
- For Saudi Arabia, 2025 fiscal breakeven price per barrel of the Brent crude benchmark is a minimum of US$90
- Now, Saudi Arabia can't afford a major, sustained fall in oil prices now than it could in either 2014-2016 or in 2020

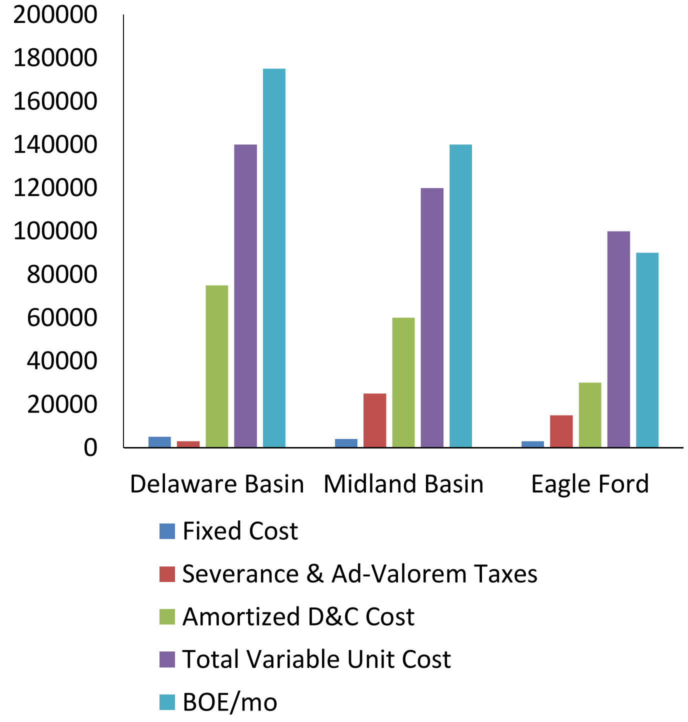
WTI Crude Oil Prices($)

Source: RTRS

Shale Squeeze

- Crude prices lingering below $65 are benefiting U.S. consumers at the pump, but they're squeezing shale producers
- Key shale players like Diamondback, Liberty, and Coterra are cutting production, scaling back rigs, and warning of dividend risks
- U.S. shale sector may face a sharp contraction of up to 500,000 bpd by year-end, with the rig count already down 7% since Jan
- Before COVID, $65 oil would not have raised alarms. In fact, many U.S. producers viewed that price level as sustainable, if not ideal
- Coming off post-pandemic cost discipline and a period of investor-enforced capital restraint, shale operators had slimmed down enough to turn profits in $60–$70 range
- Input costs for steel, labour, and fracking materials have surged, pushing breakeven prices in major basins closer to $70
- Average breakeven price for Permian producers is now edging back toward the mid-$60s, up from the mid-$50s just two years ago
- There's expectation of tight capital budgets and slower reinvestment, even if prices recover modestly
- Investors continue to prioritize shareholder returns over growth, producers now face the challenge of delivering those returns with increasingly thin margins
- Rig count, already down 7% since Jan, is expected to fall further in June and if prices remain at or below $65, shale may contract by another 300,000 to 500,000 bpd by year-end

Average Break Even Price Production and Cost Factors($/Mo)

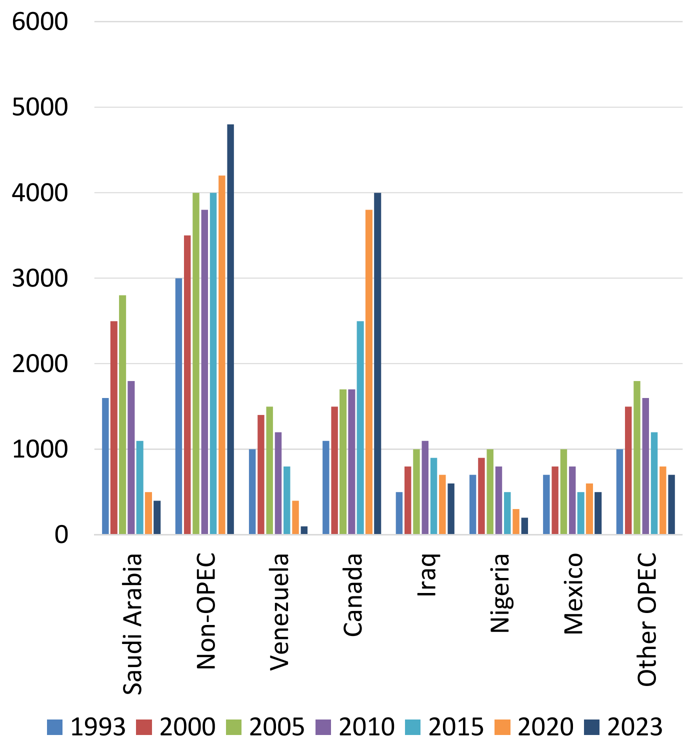


Source: RTRS

The Unspoken Gift

- U.S. and Saudi Arabia have nurtured close ties based on Saudi Arabia's pivotal role in the oil market and America's strategic interests in Middle East
- This translated into hundreds of billions of dollars of military and economic support for Saudi Arabia over the years.
- For decades, Saudi Arabia was a major supplier of crude oil to the United States, with imports peaking at 2.2 Mbpd but it slid gradually with surge in U.S. oil production
- Saudi Arabia made a dramatic shift in policy, pushing OPEC+ to increase oil output sharply into a market that was already well supplied
- Timing of Saudi supply increases seemed puzzling at first but they appear more logical if viewed as support for Trump's economic and geopolitical agenda
- Falling energy prices could offset inflation from Trump's tariffs and boost economic activity amid consumer uncertainty
- Lower oil prices could aid Trump's push to end the Ukraine war by pressuring oil-dependent Russia
- Any addition can offset any oil lost through sanctions on Iran and Venezuela
- In reality, Saudi Arabia launched oil price war to punish OPEC+ quota violators and reclaim market share
- Starting a price war amid potential demand weakness is a risky strategy.
- Trump's high-profile Saudi visit may have cantered on oil, even if not openly discussed

U.S. Crude Oil imports('000 Bpd)



Source: RTRS

Narrow Range

- Iran Sanctions
- Russia Sanctions
- Dollar Weakness
- OPEC+ relief rally
- Risk on Mode – Equity Market rally
- Shale Slowdown
- Tight Inventories

- China weak economic health
- U.S. China trade war
- U.S. Europe Trade War
- Stagflation concerns

Oil prices are expected to stay positive, with prices touching Rs. 5700 , WTI $67 as positive factor will continue to drive prices higher

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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