Our View: Will OPEC Sign Its Death Warrant?

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December 2, 2019

Argus Media's chief economist David Fyfe addressed the upcoming OPEC meeting in a blog published last week. His second paragraph nicely summed up the view of most who follow the oil market. After noting the widespread belief that OPEC+ would extend the current agreement, he wrote the following:

> Based on forward market fundamentals, Opec+ should be preparing further supply cuts when producers meet in Vienna on 5-6 December. The existing production accord for 2019 targeted a 1.2mn b/d reduction for Opec members and the 10 non-Opec participating producers.[1]

Fyfe expressed a view held by many analysts. However, his opinion does not reflect the perspective of most professional economists who are not invested in oil.

After viewing Fyfe's projections in the context of a slowing global economy and pressures from investors and environmentalists to reduce fossil fuel consumption, most professional economists would probably conclude that oil-exporting countries would be cutting their own throats by reducing production further. The most strident of these economists would warn that now is not the time for this.

These economists would likely add that many of the world's oil companies are standing on the edge of a financial cliff. All that is required is a small **push** to change the market outlook completely and invalidate Fyfe's predictions. They might also explain that oil firms accounted for ten percent of the S&P 500 in 2014, just before the last price collapse, but account for only 4.3 percent today.

Thus, the rational strategy for OPEC today seems to be "do nothing," that is, make no changes to the current OPEC+ agreement and let prices slide. The decline would help restore the organization's market share.

On the other hand, if the OPEC+ members cut production to sustain prices at current levels or raise them, they could be signing their death warrants. Such actions would allow non-OPEC producers to continue funding projects that will take market share from the producer's club. Meanwhile, the pressure to combat global warming will surely lead to cutbacks in fossil fuel use, including oil, leaving OPEC+ or whatever remains of the organization with a declining market share.

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[1] David Fyfe, "Viennese waltz: OPEC+ dancing between a rock and a hard place," Argus Media, November 27, 2019 [https://tinyurl.com/vl55yup].