Saudi Arabia Cuts Oil Production; Muted Response From United States


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SINGAPORE — Oil prices soared on April 2 as Saudi Arabia and other major oil producers announced cuts amounting up to 1.15 million barrels per day (bpd) from May until the end of the year.

Based on reports from Reuters, such a move raises the total of recent oil cuts by the OPEC+ group, which encompasses Russia, to 3.66 million bpd and contributes to 3.7 percent of global demand. Following Sunday's announcement, oil prices instantly escalated, rising by 8 percent at first before dropping slightly, according to reports from London-based news outlet *Financial Times*.

OPEC countries made their last reductions in October last year, but Reuters further reported that not all OPEC+ members were participating in the cuts, as some members have been facing a lack of production capacity and are already pumping below agreed-upon levels. Saudi Arabia has made the largest share of production cuts, 500,000 bpd.

Statements from other members revealed that Iraq will cut its production by 211,000 bpd, the UAE by 144,000 bpd, Kuwait by 128,000 bpd, Oman by 40,000 bpd, Algeria by 48,000 bpd, and Kazakhstan by 78,000 bpd.

Russia's Deputy Prime Minister Alexander Novak declared that Moscow would lengthen a voluntary cut of 500,000 bpd until the end of 2023. Moscow announced those cuts unilaterally in February following the introduction of Western price caps.

An OPEC+ source said that Gabon would make a voluntary reduction of 8,000 bpd, and other member states may join more cuts in production announced by some members of the group on April 2, if they think it is necessary for the market, Russia's Novak added on Monday.

"Since nine countries, including Russia and Saudi Arabia, have announced voluntary cuts to date, and — as you know, we have 23 countries in OPEC+ — in principle, today we talked about the fact that other countries can also join and announce some additional cuts of their own, if they deem it necessary in order to stabilize the market," Novak told reporters.

Novak asserted that the decision of the OPEC+ Joint Ministerial Monitoring Committee (JMMC) to give the green light to the voluntary reduction by several member states was a vital move:

> I would especially like to note that this is an additional reduction, a voluntary one. Not within the OPEC+ framework. And this is in addition to the measures that were taken in October last year with a reduction of two million barrels per day until the end of 2023. These decisions were taken into account. And, in principle, they were approved today at the JMMC as very important and necessary measures at the moment in order to stabilize the

> situation on the market. The volume of world oil reserves is quite low — 87 million barrels below the five-year average. But nevertheless, we see that there has been growth in recent months, and this means that we are still seeing an excess of oil on the market today.

"OPEC is taking pre-emptive steps in case of any possible demand reduction," Energy Aspects' director of research, Amrita Sen, told Reuters. Observers predict that the price of gas will likely increase as well in the coming months due to Saudi Arabia and other major oil producers' surprise cuts in oil production.

The United States slammed the curb in production, saying it was unwise to make cuts amid current market instabilities and fears of higher gas prices, though remarks from Washington policymakers on April 3 were much more restrained as compared to past bellicose comments.

Last year, after intense White House lobbying, U.S. President Joe Biden had warned that "there will be consequences" for Saudi Arabia after its October announcement of oil cuts, and White House Council of Economic Advisers member Jared Bernstein stated in a *Yahoo Finance Live* interview that such a reduction was "a very wrong-headed decision."

Analysts have opined that Washington's most recent muted rhetoric mirrored how America currently views Saudi Arabia's diplomatic role in the Middle East, as well as its claim that increases in oil prices were not as steep as last year.

"This is a different situation than we had last year," Admiral John Kirby, National Security Council spokesman, told reporters. While maintaining that the production cuts were "inadvisable," he elaborated that the White House and Saudi Arabia "don't always see eye to eye on everything." He said that Washington's more muted response was mainly attributable to the fact that "we're just in a different place in the market than we were last year."

The U.S. has publicly claimed that the world needs lower oil prices to boost economic growth and prevent Russian President Vladimir Putin from earning more revenue to fund Russian efforts in Ukraine. Such claims contradict Biden's campaign pledges in 2020 to shift the country away from fossil fuels.

On March 29, Oliver McPherson-Smith, director for energy, trade, and environmental policy at the American Consumer Institute, testified before members of the House Oversight Committee's Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs Committee that the United States is producing hundreds of millions fewer barrels of oil daily than it could have if the leftist Biden administration had continued with Trump-era policies.

"Had the Biden administration simply mirrored the Trump administration's production growth rate, daily oil production would have reached almost 15 million barrels by December 2022," McPherson-Smith said. "This represents a hypothetical shortfall of almost 3 million barrels each day by December 2022, a significantly larger amount than the average OPEC member's production of 2.23 million barrels per day in that same month."

When the price of crude fell to almost $70 per barrel in March, a 15-month low, oil prices plummeted considerably before recovering to around $80 a barrel, according to Reuters. Simultaneous to the price drop of crude in March were Silicon Valley Bank's crumbling and Credit Suisse's near-collapse.

"A higher oil price will put pressure on global inflation and if we assume the banking turmoil continues to reside then the markets will increasingly focus on the inflation outlook," said Mohamad Al-Saraf of

Danske Bank. “With oil prices going up it could be a trigger to reverse Fed rate cut pricing.”

On April 3, the U.S. dollar rose against other major currencies due to worries over inflation as well as expectations that the Federal Reserve may need to increase interest rates again.