

Oil & Gas

Russia reluctant to extend production cuts

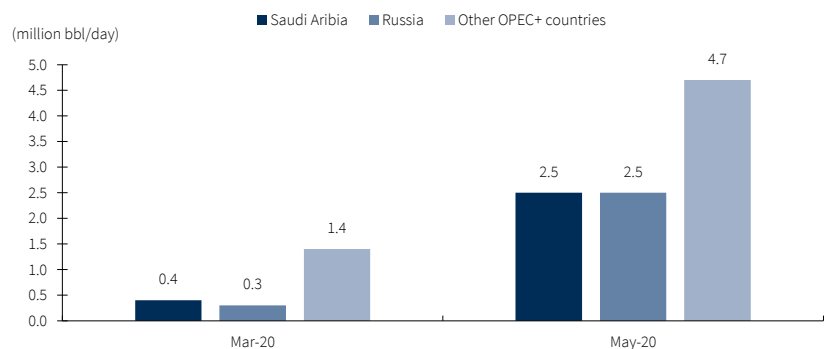
Extension to OPEC+ production cuts in doubt

— OPEC+ countries are set to bring forward its next meeting to June 4 (originally set for June 9) to agree on extending the 9.7 million bbl/day extraordinary production cuts to the end of the year. The current agreement would see this additional production cut expire automatically at the end of June. The large and unprecedented production cuts have already seen record performance in Brent oil prices that rebounded by 104% to USD38 from the April bottom after the cuts were announced. Reportedly, this proposal has already met resistance from Russia, while Saudi Arabia has already committed to the extension until the end of 2020E. Russia's reluctance can largely be explained by: 1) Russia's breakeven oil price is estimated at USD40/bbl vs Saudi Arabia's USD80/bbl; and 2) reopening of several economies has already put oil prices on the recovery trend.

Extension to production cuts unlikely but oil price recovery should continue

— OPEC+ countries could fail to extend the extraordinary production cuts but we believe this will not lead to any sharp drop in oil prices. Rather, we expect the failed talks to merely slow the pace of recovery in oil prices. Production cuts agreed to by the OPEC+ nations in May are already larger than those that expired in March and will extend until April 2022. Nonetheless, oil price recovery is well on track as economies reopen after coronavirus lockdowns, which should support recovery in oil prices and Vietnam's oil & gas stocks. The biggest risk to oil prices, in our view, is a prolonged macro downturn and delayed recovery.

Fig 1. Agreed output cut before March 2020 & after May 2020



Source: KBSV

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(based on expectations for absolute price gains over the next 6 months)

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Outperform the market	Perform in line with the market	Underperform the market

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