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Analysis of today
Assessment of tomorrow

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Saudi Arabia's reduction in oil production? a new bargaining stake with the US

The decision of the bloc of oil producers, led by Saudi Arabia, to reduce production by more than a million barrels per day, came as a big surprise. This decision will have an impact on the current global economic projections for 2023.Even more, the decision concerns geopolitical shifts, with Saudi Arabia showing a desire to break away from the US-China conflict and assert itself as an influential, independent player.Major oil producers, led by Saudi Arabia, have agreed to reduce output by more than a million barrels per day, starting in May.The very announcement of this decision led to changes in the market, including a rise in the price of crude oil by about 5.5% - both when it comes to Brent crude, the global benchmark, WTI, and the US benchmark.Saudi Arabia will reduce production by half a million barrels per day, Iraq by slightly more than 200,000 barrels, the United Arab Emirates by about 140,000, Kuwait slightly less, and Algeria and Oman by 48,000 and 40,000 barrels per day, respectively.Everyone who participates in the reduction accounts for about 40% of the world's crude oil output.

Inflation is the biggest concern

Reduced production starts in May and the reduced output will last until the end of the year, according to the decision, so it is already certain that yesterday's estimates of the global economy would have to be rectified.The reduction in production and the consequent increase in oil prices will be a prolonged concern when it comes to inflation.“The development comes as a blow for inflation. Markets are aware that if the pressure continues, central banks will need to extend or strengthen their interest rate hiking cycles,” Sophie Lund-Yates, analyst at Hargreaves Lansdown told CNN.The sudden decision of the largest oil producers comes at a time when the first signs of curbing inflation in the eurozone, for example, appeared last summer."The dramatic cut in oil production will only add to pressing global inflationary squeezes," said Nigel Green, CEO of deVere Group, an independent financial adviser."There's real concern that the surprise decision announced by Saudi Arabia for OPEC+ will prompt central banks to maintain interest rates higher for longer due to the inflationary impact, which will hinder economic growth."

Mild US reaction again

The US has been particularly dissatisfied with the sudden shift, which came after the initiative of Saudi Arabia, as a traditional ally.The large reduction is the second in the last six months, after the one last October when production was reduced by about two million barrels per day.The decision finds the US trying to curb inflation with various measures in the midst of a crisis in the banking sector, so Riyadh's move has been viewed with considerable anger.Even though last October, Joe Biden’s administration expressed strong displeasure with Riyadh due to the reduction in production, and even warned that they would "bear the consequences", these warnings were not followed by any specific move from Washington.Today's reaction seems rather mild and does not hint at a more decisive response from the US: "We don't think cuts are advisable at this moment given market uncertainty — and we've made that clear," said the spokesperson for the National Security Council.On the other hand, Russia, as a member of OPEC+, has nothing against the new decision to reduce production, which came under the influence of Saudi Arabia.Moscow has announced that it will extend its earlier decision to reduce daily production by half a million barrels until the end of the year.The expected increase in oil prices corresponds to an isolated Russia, which expects that in this way it will more easily fill its budget, which is otherwise under great pressure due to the isolation of the West, particularly in the energy sector, including the USD 60 oil price cap, introduced by G7 and EU members.

Saudi First

In this way, Saudi Arabia shows great ambition to present itself as an independent and influential player on the geopolitical scene and puts its own economic and political interests at the centre of its actions.“The latest action by (the Kingdom of Saudi Arabia) dramatically highlights the evolution of KSA’s economic political policy shift, which, first and foremost, now prioritizes Saudi interests. This will further widen the rift between KSA and the US,” reads the BCA Research analysis.While trying to show that it has been conducting a policy that could be described as "Saudi First", Riyadh has been getting closer to China, as its major oil customer, allowing it to build on that business cooperation with political influence.This week, the heads of diplomacy of Saudi Arabia and Iran, Prince Faisal bin Farhan Al-Saud and Hossein Amir-Abdollahian, met in Beijing, consolidating the recent agreement on the restoration of diplomatic relations, which was concluded under Chinese mediation.Apart from the oil business, China is also the main partner of Saudi Arabia in its gigantic projects, such as the construction of a futuristic desert complex the size of Belgium or the state of Massachusetts, worth around 500 billion USD.Saudi Arabia's traditional partnership with the United States has been put to a test in a number of ways, and the new reduction in oil production is just the latest in a long line.One of Riyadh's ideas could certainly be that by delaying unfavourable decisions regarding oil production, and business and political rapprochement with China, it would obtain new concessions from the US, economic, political, and security.The list of expectations is long, from the sale of weapons to human rights. For the most part, with Riyadh's new intervention in the global oil market, the bargaining price has been raised.