Flash Note:
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Oil - The focus remains on the weekend's OPEC+ deal. What next?

- Saudi Energy Minister Abdulaziz said yesterday that **"the effective global supply cuts amount to 19.5M bpd",** taking into account the reduction pact agreed by OPEC+, and pledges by other G20 nations, as well as oil purchases into reserves.
- **Saudi Arabia** agreed to cut to cut its output to 8.5M (the lowest since 2011), but Saudi Energy Minister said that it could reduce output below that quota if there was a need and if reductions are done collectively on a pro-rata basis
- **US production is also in focus** after yesterday's EIA Drilling Productivity Report showed an expectation for US shale output to decline.
    - Crisis in global oil market is causing US and Canadian producers to shut down production across both West Texas and western Canada, where pipelines, refiners, and storage facilities are filling up.
    - The number of active rigs drilling in the US has fallen by around 200 to about 600, while only 35 rigs are operating in Canada (the fewest that Baker Hughes has ever counted).
    - Canadian production has fallen by an estimated 325K bpd, though some analysts expect that ultimately cuts will rise to 1M bpd, or around 25% of its output.
    - Bank of America analysts said that because of the OPEC+ cuts, the US shale industry may only see declines of 1.8M bpd instead of a worst-case scenario of 3.5M bpd.
- Meanwhile Saudi Arabia continues to slash prices. The kingdom still faces competition from rival suppliers to the Asian market and slashed its official selling prices to Asian customers for May by larger-than-expected margins this week. Other countries from West Africa also sell crude to Asian customers (around 20M barrels of April-loading crude remains unsold), with potentially triple that amount unsold for May-loading.

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Outlook

- This agreement is clearly positive in that it indicates very well that there will be no excess production when the economies reopen after the lockdowns. (just recall that the OPEC+ proposes a reduction of 10 mbpd until June 30, 8 mbpd until December 31, and 6 mbpd until April 2022.)
- The favorable effects of this agreement should be seen in a stabilization of the spot price as well as a rise in the slope of the crude oil futures curve (this can already be seen, with the June Brent contract trading at USD 32 pbl, and the July contract at USD 35 pbl).
- This suggests a gradual recovery in the spot price from June.
- This scenario for crude oil is favorable as it will flatten defaults in the HY space. If it's good for HY then it's good for IG assets. And if it is good for IG assets then it is good for Equity and volatility. When volatility falls also means good news for HY (again), and then IG… and so on.

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