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OPEC Will Stay the Course But Markets Wanted Shock and Awe; Oil Below $50

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PEC on Thursday agreed to extend production cuts through March 2018 in a bid to prop up prices, according to reports, but didn't deepen output curbs as some had speculated, sending crude prices lower.

U.S. oil tumbled 3.6% to $49.50 a barrel after rising close to $52 a barrel, and Brent fell 3.4% to $52.11. U.S. oil prices trended higher leading up to the meeting as expectations for a nine-month extension were priced in.

"Nine months with the same level of production that our member countries have been producing at is a very safe and almost certain option to do the trick," Saudi Energy Minister Khalid al-Falih told CNBC ahead of a closed-door meeting.

OPEC and key allies last November agreed to remove 1.8 million barrels per day from global markets. That helped boost prices, but it also has spurred a big increase in U.S. shale production, with more expected to come on line. And while crude stockpiles have been coming down, the pace has been slower than expected and the level remains elevated above historical averages.

Despite the market's immediate reaction to OPEC's decision, analysts see oil prices recovering eventually.

Stewart Glickman, equity analyst at CFRA, wrote that the market was "hoping for deeper cuts" but he still sees prices firming as "decline rate for legacy wells in the Permian Basin are beginning to steepen, which should make U.S. producers' ability to boost production (on a net basis) more difficult."

Raoul Nowitz, a managing director at SOLIC Capital, said the current cuts "are probably sufficient." But if oil prices start to rise, the cartel could allow members to increase production quotas before the nine months are out.

"In the last quarter of this year, heading into 2018, there might be some assessment and looking back over 2017," he said. "So I think it's not unreasonable that a reassessment might be possible."

Exxon Mobil (XOM) dropped 0.6% in midday trading on the stock market today. Chevron (CVX) fell 0.9%. BP (BP) lost 1.2%. Royal Dutch Shell (RDSA) retreated 0.9%. Exxon Mobil and Chevron, both Dow industrials components, remain in deep downturns. BP and Royal Dutch Shell have been approaching buy points.

In a joint appearance with Falih Thursday, Russian Oil Minister Alexander Novak noted the "very high level of commitment" on the deal between the 24 countries that took part in the cut despite "significant skepticism" from analysts.

"It's not just the question of stabilizing oil markets, but is much broader," Novak added. "This cooperation has helped the countries better understand each other, raise the level of trust between counties."

He also suggested there might be more bilateral and multilateral cooperation among OPEC and non-OPEC countries in the future outside of oil.

The day before the meeting saw some twists and turns. Early Wednesday, OPEC's Joint Ministerial Monitoring Committee, made up of Venezuela, Russia, Saudi Arabia, Oman, Kuwait and Algeria, agreed to support extending current cuts through next March.

But later in the day, Russia's Novak told the Wall Street Journal that the possibility of extending current cuts to June 2018 would be discussed. He also said that he recommended keeping the current quotas and not deepening cuts.

Then his Kuwaiti counterpart, Essam al-Marzouq, told Reuters that only a nine-month cut will be considered and a 12-month cut isn't an option. Meanwhile, Iraq's oil minister said three or four possibilities would be discussed at the biannual OPEC meeting Thursday.

Rising U.S. production has limited the effectiveness of the earlier output deal, and any price bump from the latest deal could put renewed downward pressure on crude as shale companies rush to pump more oil.

The EIA reported Wednesday that U.S. crude output climbed to 9.32 million barrels a day last week, the highest since August 2015, after dipping the prior week for the first time in three months.

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