15 September 2019

# Flash Comment International

## Saudi oil production under attack

- **Saudi Arabia has temporarily lost 5.7mb/d of oil output following drone attacks on Saturday.**
- **This amounts to 5% of world output and is a significant blow to the oil market.**
- **Reports suggest Saudis can recover a large part of the lost oil within days, but may need weeks to return to full capacity.**

The world's biggest crude production facility in Abqaiq and Saudi Arabia's second-biggest production facility in Khurais suffered drone attacks on Saturday. Consequently, Saudi Arabia has temporarily lost 5.7mb/d of crude output. Reports suggest that Saudi Aramco, the state oil company, can resume a significant part of the lost production volume within days, but may need weeks to return to full capacity.

Albeit likely only temporarily, the oil market will struggle to cope with a 5% output loss. Most of Saudi Arabia's crude exports go to the US, China, Japan and South Korea. All four countries hold significant strategic oil reserves, which can fill a temporary gap in crude supplies. On a global scale, we expect weak demand, due to slowing economic growth and the ramifications of the trade war, will act as a mitigating factor. Recently, OPEC+ voiced concerns about a growing oil supply surplus.

The output loss amounts to around 5% of total world crude output. Even if it turns out to be only a temporary output loss, we see it as a significant blow to the oil market in several ways. Firstly, the oil market is used to output disruptions, but nothing of the magnitude witnessed in Saudi Arabia over the weekend. For example, disruptions in Libya due to rebel attacks are normally 200-300kb/d. Secondly, Saudi Arabia normally holds some spare production capacity, which it can deploy when output is disrupted elsewhere in the oil market. The market knows this, which means it tends not to overreact to supply disruptions. After this weekend, the market may be more hesitant in trusting this self-stabilising mechanism. Thirdly, the market is used to geopolitical tensions in the Middle East. Besides the effect of outside sanctions, it is rare that they affect oil production. The oil market may become more averse to geopolitical news going forward.

Over the coming days, we expect the market to focus on the immediate impact on Saudi Arabia's oil production and geopolitical tensions in the region. This will set the direction for oil prices. However, over the coming months, we will keep an eye on whether this weekend's attack has implications for OPEC+, which is set to meet again on 5 December. Saudi Arabia has been overly compliant in adhering to its part of the OPEC+ deal to cut oil production. It may be less willing to continue this position.

*Senior Analyst*
Jens Nærvig Pedersen
+45 4512 8061
jenpe@danskebank.dk

# Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Jens Nærvig Pedersen, Senior Analyst.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

None.

### Date of first publication

See the front page of this research report for the date of first publication.

# General disclaimer

This research report has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

**Report completed:** 15 September 2019, 21:34 CEST

**Report first disseminated:** 15 September 2019, 22:00 CEST