

Oil price breaches \$90 as Saudi Arabia and Russia extend supply cuts

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Oil prices spiked more than 1% on Tuesday after Saudi Arabia and Russia announced a fresh extension to their voluntary supply cuts, stretching a combined 1.3 million barrel per day (bpd) reduction for another three months through December.



Pump jacks operate at sunset in an oil field in Midland, Texas. Source: Reuters/Nick Oxford

Riyadh's decision to extend its one million bpd voluntary cut will be reviewed monthly to consider whether to deepen the cut or increase production, state news agency SPA said on Tuesday.

Fellow OPEC+ member Russia also prolonged its voluntary cuts through the end of the year "to maintain stability and balance" on oil markets, deputy prime minister Alexander Novak said on Tuesday.

The world's second-largest oil exporter is reducing exports by 300,000 bpd for the period. It has been cutting output and exports in tandem with Saudi Arabia on top of existing OPEC+ supply reductions.



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Russia had said it would cut oil exports voluntarily by 500,000 bpd, about 5% of its output, in August and by 300,000 bpd in September. Russia is also reducing its oil production by 500,000 bpd until the end of 2024.

Although Saudi Arabia was widely expected to extend its voluntary cuts into October, and Russia had indicated that it too planned on expanding its cut through next month, the three-month extension was unexpected.

"It would appear they're trying to double down and capitalize on the recent price moves. Put a big buffer in place for when the cuts end," OANDA analyst Craig Erlam told Reuters.

Brent, which is used to price over three-quarters of the world's traded oil, has been rising since late June, after Riyadh first announced its voluntary cuts.

The premium of the front month Brent contract to the six-month contract rose to more than \$4 a barrel on Tuesday, the highest since November 2022. This structure, called backwardation, indicates tightening supply for prompt delivery.

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