Oil prices surge after Saudis and others announce production cuts

Oil prices are up more than 5% after Saudi Arabia and other major producers vowed to cut production.

Brent crude, the international oil benchmark, was up 5.5% by 9am on Monday to $84.28 per barrel after it was announced that production would be cut by 1.15 million barrels per day from May until the end of the year.

It comes after a previous production cut announced in October.

The resulting price increases will take some time to filter through to forecourts but will eventually add to the difficulties facing many in the UK during the cost of living crisis.

Rising oil prices will also present a further challenge to central banks trying to keep inflation in check.

There are also concerns that higher oil prices will bolster Vladimir Putin's war chest as the Ukraine war continues.

A number of countries have cut down on the energy they import from Russia since it invaded Ukraine but, according to the International Energy Agency (IEA), Russia is still exporting oil, mainly to China and India.

Kevin Book, managing director of Clearview Energy Partners LLC, said that it could take as much as a year for the cuts to take effect.

'It's a big deal… you could have a very significant price response'

However, even though the production cut accounts for only a small amount of the world's daily usage, the impact on prices could be big, he added.

"It's a big deal because of the way oil prices work," he said.

"You are in a market that is relatively balanced.

"You take a small amount away, depending on what demand does, you could have a very significant price response."

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Sophie Lund-Yates, lead equity analyst at Hargreaves Lansdown, said: "The development comes as a blow for inflation, with expectations of inflation coming down partly balancing on the trajectory of the oil price.

“Markets are aware that if the pressure continues, central banks will need to extend or strengthen their interest-rate hiking cycles, the expectations of which will need to be repriced.”

Nigel Green, chief executive of deVere Group in Dubai, said: “The dramatic cut will only add to pressing global inflationary squeezes.

“The oil price rises can be expected to increase the cost of production and transportation, reduce consumers’ purchasing power, disrupt supply chains, and lead to higher inflation expectations.

“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.”

‘Stabilising the oil market’

The Saudi Energy Ministry has said its cuts are a “precautionary measure” aimed at stabilising the oil market.

Cuts were also announced by Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman.

Russia’s deputy prime minister Alexander Novak said his country would extend a voluntary cut of 500,000 barrels until the end of the year, extending a reduction announced in February.

The countries are all members of the OPEC+ group, which includes OPEC (Organisation of the Petroleum Exporting Countries), Russia and others.

OPEC itself has not commented.