OPEC’s decision to cede no ground to rival producers underscored the price war in the crude market and the challenge to U.S. shale drillers.

The 12-nation Organization of Petroleum Exporting Countries kept its output target unchanged even after the steepest slump in oil prices since the global recession, prompting speculation it has abandoned its role as a swing producer. Yesterday’s decision in Vienna propelled futures to the lowest since 2010, a level that means some shale projects may lose money.

“We are entering a new era for oil prices, where the market itself will manage supply, no longer Saudi Arabia and OPEC,” said Mike Wittner, the head of oil research at Societe Generale SA in New York. “It’s huge. This is a signal that they’re throwing in the towel. The markets have changed for many years to come.”

The fracking boom has driven U.S. output to the highest in three decades, contributing to a global surplus that Venezuela yesterday estimated at 2 million barrels a day, more than the production of five OPEC members. Demand for the group’s crude will fall every year until 2017 as U.S. supply expands, eroding its share of the global market to the lowest in more than a quarter century, according to the group’s own estimates.

Benchmark Brent crude fell the most in more than three years after OPEC’s decision, sliding 6.7 percent to close at $72.58 a barrel. Futures for January settlement extended losses to $71.12 a barrel in London today, the lowest since July 2010. Prices peaked this year at $115.71 in June.

**Market Signals**

“We will produce 30 million barrels a day for the next 6 months, and we will watch to see how the market behaves,” OPEC Secretary-General Abdalla El-Badri told reporters in Vienna after the meeting. “We are not sending any signals to anybody, we just try to have a fair price.”

OPEC pumped 30.97 million barrels a day in October, according to data compiled by Bloomberg. The group has exceeded its current output ceiling in all but four of the 34 months since it was implemented, the data show. OPEC’s own analysts estimate production was 30.25 million last month, according to a report Nov. 12. Members will abide by the 30 million barrel-a-day target, El-
Badri said yesterday.

“OPEC has chosen to abdicate its role as a swing producer, leaving it to the market to decide what the oil price should be,” Harry Tchilinguirian, head of commodity markets at BNP Paribas SA in London, said yesterday by phone. “It wouldn’t be surprising if Brent starts testing $70.”

**Conventional Producers**

Conventional oil producers in OPEC can no longer dictate prices, United Arab Emirates Energy Minister Suhail Al-Mazrouei said in an interview in Vienna on Nov. 26. Newcomers to the market who have the highest costs and created the glut should be the ones to determine the price, he said.

“That is what OPEC is hoping for,” Carsten Fritsch, a commodity analyst at Commerzbank AG in Frankfurt, said in an e-mail. “It’s the question of who will blink first.”

OPEC will face pressure too, with prices now below the level needed by nine member states to balance their budgets, according to data compiled by Bloomberg.

“They haven’t taken collective action,” Richard Mallinson, an oil analyst at London-based Energy Aspects Ltd., said by phone. “That doesn’t mean they won’t do it in the next few months if prices stay low.”

Venezuela’s oil income has fallen by 35 percent, President Nicolas Maduro said on state television Nov. 19. Yields on its benchmark bonds due in 2027 reached a six-year high this month, while foreign-currency reserves are close to an 11-year low.

Nigeria increased interest rates for the first time in three years on Nov. 26 and devalued its currency. The government is planning to cut spending by 6 percent next year, Finance Minister Ngozi Okonjo-Iweala said Nov. 16.

**U.S. Production**

U.S. oil production has risen to 9.077 million barrels a day, the highest level in weekly data from the Energy Information Administration going back to 1983. Output will climb to 9.4 million next year, the most since 1972, it forecasts.

The boom has been driven by a combination of horizontal drilling and hydraulic fracturing, which has unlocked supplies from shale formations including the Bakken in North Dakota and the Eagle Ford in Texas. The technique is typically more expensive than pumping from conventional reservoirs.

Middle Eastern exporters including Saudi Arabia, Iran and Iraq can break even at about $30 a barrel, Sanford C. Bernstein & Co. said in a report last month. Some U.S. producers need more than $80 and output growth will start to slow with prices below that level, it said.
Shale Crash

OPEC’s policy will spur a crash in the U.S. shale industry, Leonid Fedun, a vice president and board member at OAO Lukoil, Russia’s second-largest oil producer, said in an interview in London before the group’s decision.

“In 2016, when OPEC completes this objective of cleaning up the American marginal market, the oil price will start growing again,” said Fedun. “The shale boom is on a par with the dot-com boom. The strong players will remain, the weak ones will vanish.”

Ministers from Russia, Mexico, Venezuela and Saudi Arabia met in Vienna on Nov. 25. The meeting was the result of weeks of diplomacy by Venezuelan Foreign Minister Rafael Ramirez, who was attempting to coordinate with producers outside OPEC to halt the collapse in oil prices. They failed to reach an output accord.

Igor Sechin, the chief executive officer of OAO Rosneft, Russia’s largest oil producer, said after the meeting that his nation wouldn’t need to cut output even below $60.

What Price?

“The question is, what price level will be low enough to slow U.S. production growth?” Torbjoern Kjus, an analyst at DNB ASA, Norway’s biggest bank, said by phone. “What price will get U.S. growth to slow to 500,000 barrels a day from this year’s rate of 1.4 million barrels?”

Only about 4 percent of U.S. shale production needs $80 or more to be profitable, the Paris-based International Energy Agency says. Most production in the Bakken formation, one of the main drivers of shale oil output, remains profitable at or below $42 a barrel, the IEA estimates. The agency expects U.S. supply to increase by almost 1 million barrels a day next year, with increasing flows to international markets.

OPEC has gone “cold turkey” on balancing the oil market, Goldman Sachs Group Inc. said in a report yesterday. Prices may have further to fall until there is evidence of U.S. production slowing, according to the bank, which forecasts Brent will average $80 to $85 a barrel next year and U.S. benchmark West Texas Intermediate will be $70 to $75 a barrel. The bank said last month that oil markets were entering a “new oil order,” with OPEC retreating from its role as a swing producer.

“OPEC’s decision means it is over to you America,” Miswin Mahesh, a London-based commodities analyst at Barclays Plc, said in an e-mail. “This opens the window for the U.S. to be the new swing producer.”

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