OPEC needs to 'wake up' to shale revolution

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The Organization of Petroleum-Exporting Countries (OPEC) is facing a "shale-tinged" reality and needs a "wake-up call," energy analysts have warned.

Analysts in Citi's commodities research team warn that the shale gas and oil revolution in the U.S. has been ignored for too long by OPEC, the powerful group of 12 global oil producers, and it must agree to cut production when it meets on Thursday or else oil prices "will resume their slide."

"The reality of the shale revolution in the U.S., long scoffed at from within OPEC as high-cost folly, is now hitting the producer group where it hurts, while oil demand growth has underperformed significantly," a group of Citi energy analysts said in a report published late on Monday.

"After years of inaction, the shale revolution [has issued] the producer group with a wake-up call, against a weak demand backdrop," Citi analysts Seth Kleinman, Eric Lee, Christopher Main, Edward Morse and Anthony Yuen, said in their "Energy Weekly" report.

The analysts' comments come ahead of OPEC's meeting in Vienna on Thursday (November 27), a meeting at which the group could decide whether to reduce oil production in the face of a steep decline in the oil price since the summer.

The price of Brent crude for January delivery has fallen around 30 percent from a high of $115 per barrel (pb) in June to currently trade around $80pb amid a global over-supply. On Tuesday, Brent crude futures were trading at $79.43.

Iran, Venezuela and Ecuador have put pressure on fellow OPEC members to reduce oil output to stem falling prices but, so far, OPEC's biggest producer and exporter Saudi Arabia has shown no signs of being ready to cut.

On the contrary, Saudi Arabia has signaled that it is comfortable with lower prices, seen by many as a sign the country was ready to fight the U.S. -- and its shale oil producers -- for market share.

Saudi intentions?

The U.S. energy market has received a massive boost as a result of its domestic shale oil and gas industry, bringing with it a supply not only of cheaper gas but oil onto the market.


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Pump jacks are seen at dawn in an oil field over the Monterey Shale formation in California.

This has led to greater competition for the likes of traditional producers like Saudi Arabia. Indeed, the entrance of the U.S. into the global oil market added a new twist to OPEC's decision making, one investment strategist told CNBC on Tuesday.

"If you think about this from [a historic point of view] it used to be Saudis keeping OPEC in line and then being under-cut by non-OPEC [producers] which as Russia and the other guys got bigger and bigger became more important, "Sean Corrigan, Chief Investment Strategist at Diapason Commodities Management told CNBC Europe's "Squawk Box" on Tuesday.

"But now we've got the Americans as the other third big producer we have this three-way tie. We now have all these underlying geo-political currents of who's trying to do what to whom."

"If we don't get cuts obviously the danger is that the oil market lurches down very quickly…but they're [Saudi Arabia] not going to be the ones to switch everything off and let everyone else cheat the quotas," he added.

Citi's analysts expected there to be "some sort of a cut" decided upon at Thursday's meeting, "or at least a renewed commitment to observe the overall group's 30 million barrels a day (b/d) production ceiling in place since late-2011."

But they said Citi "remains very sceptical" that the members will be able to overcome disagreements and forge a convincing cut on the order of magnitude required to remove the oversupply currently hanging over the market. They also expected increase in that overhang in 2015. "Absent a convincing cut, Citi expects oil prices to resume their slide," they warned.

In the face of competition from the U.S., the global oil market needs clarification on Saudi Arabia's position and intentions, according to oil analysts at UBS, William A. Featherston and Jon Rigby.

"If OPEC does not cut its quota, we expect another slide in oil prices as markets interpret it as Saudi's desire to either defend market share or punish non-OPEC producers (Russia, U.S. shale)," they said in a note on Tuesday. "Although the current over-supply is clear, the OPEC meeting outcome is not."

- *By CNBC's Holly Ellyatt, follow her on Twitter @HollyEllyatt*