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Oil Prices Drop Despite OPEC+ Production Cuts

Oil prices have continued to slump over concerns about the economy as politicians in the United States continue to debate over ways to avoid a debt default. Prices will likely continue to fall despite multiple cuts in production implemented by counties in OPEC+. OPEC+ made these cuts in production in an attempt to get out ahead of the economic uncertainty, but so far it appears to have been ineffective. These voluntary cuts, which amount to about 1.16 million barrels a day, went into effect at the beginning of May. They will last till the end of the year.

The main contributing factors to the fall in prices are China's unexpected dip in manufacturing activity and the possibility that the United States Federal Reserve may raise the interest rate again. Recent bank failures have also fed continued fear of an upcoming economic decline. Concerns about diesel demands in recent months have also contributed to the dip. Prices have fallen by nearly 5% dipping below $70 per barrel.

OPEC+ has been cutting its output frequently in the past year. The most contentious of which took place last October, when the group agreed to cut 2 million barrels per day. This move angered Washington as a tighter supply raises oil prices. The United States argues that oil prices need to remain low to prevent Russia from earning more revenue to continue to fund its invasion of Ukraine. There is also a domestic element, as a difficult election cycle grows near for Democrats, lower gas prices will likely cast the Biden administration and the Democrats in a more favorable light.

It will remain to be seen how long this dip lasts, as OPEC+ is likely to continue to decrease supply to bring prices back up. However, this will be a difficult balancing act, as many member countries' economies depend heavily on oil production. If the production is cut too low, it could have dramatic consequences for member states. Economic consequences lead to a whole range of problems for member countries, as economic crises often lead to public unrest. Poor economic conditions were a major catalyst for the Arab Spring and many other revolutions around the world.

Some oil-producing nations, like Iran, are increasing production, recently surpassing 3 million barrels a day. Russia pledged to cut its production by 500,000 barrels a day, but there has been no substantial drop in production yet. These breaks from the agreed-upon reduction in production could indicate a potential rift in OPEC+, which could have political implications. Past disputes between members of OPEC have caused oil prices to fluctuate drastically and caused harm to some members' economies. The fallout from this type of behavior is rarely limited to economics. Countries are often punished politically if they do not fall in line with OPEC's wishes.

This situation must be monitored closely by analysts in the United States. The United States is the second largest consumer of oil in the world, only being between out by China. Any disruption to that supply or drastic change to the price could send shockwaves through the global economy, affecting people around the world.