Oil Market Report - July 2023

In the latest Oil Market Report for July 2023, it is projected that global oil demand will reach a record high of 102.1 million barrels per day (mb/d), reflecting a significant increase of 2.2 mb/d. Despite this optimistic outlook, the presence of ongoing macroeconomic headwinds, particularly evident in a deepening manufacturing slump, has prompted a revision of the 2023 growth estimate. For the first time this year, the estimate has been adjusted downward by 220 kb/d.

The growth in global oil demand is expected to be primarily driven by China, which will account for approximately 70% of the overall gains. However, in contrast to this strong growth, consumption in OECD countries remains lackluster. As a result, the projected growth rate is anticipated to decelerate to 1.1 mb/d in 2024.

On the supply side, global oil production experienced a modest increase of 480 kb/d in June, reaching 101.8 mb/d. However, this trend is expected to be reversed in the current month, as Saudi Arabia has implemented a voluntary output cut of 1 mb/d. Looking ahead, global production for 2023 is forecasted to increase by 1.6 mb/d to 101.5 mb/d, with non-OPEC+ countries contributing to a 1.9 mb/d expansion. In 2024, global supply is set to rise by 1.2 mb/d, reaching a new record of 102.8 mb/d, with non-OPEC+ countries accounting for the entire increase.

Estimates for refinery crude throughput have been adjusted upwards, with expectations of 82.5 mb/d in 2023 and 83.5 mb/d in 2024. This upward revision is supported by higher Russian crude runs and the commencement of new refining capacities. The refining margins remain robust, as strong Atlantic Basin gasoline cracks and significant gains in diesel, jet fuel, and fuel oil outweigh weak naphtha cracks.

In June, Russian oil exports experienced a decline of 600 kb/d, reaching 7.3 mb/d, the lowest level since March 2021. Export revenues also took a hit, plummeting by $1.5 billion to $11.8 billion, nearly half of the previous year's figures. To counter declining prices and revenues, Moscow has pledged an additional 500 kb/d cut in exports starting from August. However, it may maintain steady production levels to meet the rising seasonal domestic oil demand.

Notably, non-OECD countries witnessed a substantial inventory build of 44.2 mb, primarily driven by a surge in China. Consequently, global observed oil inventories rose by 19.4 mb in May, reaching their highest level since September 2021. Conversely, OECD oil stocks experienced a marginal drawdown of 1.8 mb. Seaborne oil exports fell to their lowest level since January, as additional OPEC+ output cuts were implemented, resulting in a decline of 23 mb in oil on water. Preliminary data indicates a 9.2 mb draw in June.

Amidst range-bound trading, ICE Brent futures experienced a month-on-month decline of $1/bbl in June, settling at $75/bbl. Despite additional voluntary cuts by select OPEC members and a weaker US dollar, the market sentiment remained dampened due to hawkish central bank policies and prevailing macroeconomic concerns. Asian crude benchmark Dubai outperformed WTI and Brent, supported by a tight East of Suez sour crude market, in stark contrast to the comfortably supplied Atlantic Basin. At the time of reporting, Brent crude was trading at approximately $78/bbl.
Overall, the oil market in July continues to grapple with economic challenges, leading to subdued oil demand growth. While China's reopening has been anticipated, its economic recovery has lost momentum, with limited progress observed beyond the travel and services sectors. North Sea Dated crude prices remained relatively stable around $75/bbl, slightly below May levels and significantly lower than the previous year's price of $124/bbl. However, there has been a recent uptick to $80/bbl in the North Sea benchmark.

The production cuts implemented by Saudi Arabia and core OPEC+ members since November 2022 have been partially offset by increased output from other oil-producing countries. In June, global oil supply remained merely 70 kb/d below October 2022 levels, just before the initial round of OPEC+ cuts came into effect. Notably, Iran, exempt from production cuts due to sanctions, witnessed a production increase of 530 kb/d, reaching a five-year high. Additionally, Kazakhstan and Nigeria observed output recoveries. Outside of the OPEC+ alliance, the United States recorded a production increase of 610 kb/d, driven by record-high natural gas liquids output and seasonal growth in biofuels. However, as Saudi Arabia implements deeper cuts, global supply is expected to decline by over 1 mb/d in July, with the Kingdom's crude output reaching a two-year low of around 9 mb/d, trailing behind Russia as the leading crude producer within the bloc.

In conclusion, the challenging economic environment continues to exert pressure on global oil demand, particularly due to the tightening monetary policies adopted by advanced and developing nations over the past year. Consequently, the growth forecast for 2023 has been revised downward to 2.2 mb/d from the previously expected 2.4 mb/d. China remains a significant driver of demand growth, albeit with some concerns arising from a surge in domestic petrochemical activity impacting steam cracker margins. The OECD countries, especially Europe, are experiencing sluggish demand due to a slowdown in industrial activity. African nations have witnessed a decline in imports and demand due to higher retail fuel prices following the dismantling of subsidies. Nonetheless, global oil demand is anticipated to rise seasonally by 1.6 mb/d from the second to the third quarter of 2023, averaging 102.1 mb/d for the year as a whole. However, growth is projected to slow to 1.1 mb/d in 2024 as the recovery loses momentum and vehicle fleet electrification and efficiency measures continue to take hold.

Although global observed oil inventories appear relatively comfortable and have recovered to their highest levels since September 2021, the presence of surplus primarily in Chinese crude and US LPG tanks, coupled with ongoing draws in oil on water and deeper supply cuts, suggests that the oil market may soon witness renewed volatility.

Disclaimer: The information provided in this report is based on available data and market analysis. Any projections or forecasts should be considered as estimates and subject to change as new information becomes available.

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