October Oil Report

Signs of a decline in oil demand are emerging as preliminary data for September reveals a sharp drop in U.S. gasoline consumption, hitting levels not seen in two decades. However, strong demand growth in countries like China, India, and Brazil continues to support an overall increase of 2.3 million barrels per day (mb/d) to reach 101.9 mb/d in 2023, with China accounting for the majority of this growth at 77%. This growth is expected to slow to 900,000 barrels per day in 2024 due to increasing efficiency and a deteriorating economic climate affecting oil usage.

In September, global oil output increased by 270,000 barrels per day, primarily driven by higher production in Nigeria and Kazakhstan. Notably, the Israel-Hamas conflict did not have a direct impact on oil supply. Non-OPEC+ countries are expected to contribute significantly to global oil output, with an increase of 1.5 mb/d and 1.7 mb/d in 2023 and 2024, respectively, reaching record highs. Overall, OPEC+ output is projected to decrease in 2023, but Iran may become the world's second-largest source of growth after the United States.

Refinery margins experienced a sharp decline from near-record levels during September and into October, primarily due to falling gasoline and fuel oil prices, but they remained above seasonal averages. Global refinery throughput rates peaked at 83.6 mb/d in August, boosted by record runs in China. Refinery crude runs are expected to increase by 1.7 mb/d in 2023 and 1 mb/d the following year.

Global observed oil inventories saw a significant decrease in August, with a substantial draw of 102.3 million barrels in crude oil stocks. Preliminary data indicates that land inventories continued to decrease in September, while oil on water rebounded as exports recovered. OECD industry stocks fell by 6.5 million barrels in August to 2,816 million barrels, which is notably 105.3 million barrels below the five-year average.

In September, Russian oil export revenues surged by $1.8 billion to $18.8 billion, the highest since July 2022. Total oil exports increased by 460,000 barrels per day, with crude oil accounting for 250,000 barrels of the increase. The weighted average crude export price rose by $8 per barrel to $81.80 per barrel, narrowing its discount to North Sea Dated to $12.20 per barrel, the lowest since March 2022.

Geopolitical risks in the Middle East, which accounts for more than one-third of the world's seaborne oil trade, have intensified, particularly following the surprise attack by Hamas on Israel on October 7. This prompted traders to factor in a $3-4 per barrel risk premium when markets opened. As of the latest update, Brent futures are trading at approximately $87 per barrel. While there hasn't been a direct impact on physical oil supply, market participants remain watchful as the crisis unfolds.

Oil prices had previously surged to nearly $98 per barrel in mid-September after Saudi Arabia and Russia extended their voluntary production cuts through year-end and as crude oil and distillate inventories reached exceptionally low levels. However, prices later decreased by more than $12 per barrel to $84 per barrel in early October due to concerns about deteriorating macroeconomic indicators and evidence of demand reduction in the United States, particularly in gasoline deliveries.

Demand reduction has also affected emerging markets, where currency fluctuations and subsidy reductions have amplified the increase in fuel prices. Nonetheless, China, India, and Brazil continue to experience growth, supporting a projected global oil demand increase of approximately 2.3 mb/d for this year, with China being the major contributor at 77%. Global oil demand growth is anticipated to slow to 900,000 barrels per day in 2024 as the post-COVID rebound loses momentum, and economic expansion decelerates, while energy efficiency improvements further impact oil consumption.

Non-OPEC+ producers dominate supply growth in 2023 and 2024, with an anticipated increase of 1.5 mb/d and 1.7 mb/d, respectively. However, the OPEC+ bloc is expected to experience supply contraction this year, with Iran potentially becoming the world's second-largest source of growth after the United States. Voluntary cuts are likely to keep the oil market in a deficit, as OPEC+ may produce 1.3 mb/d less than the demand for its crude in the fourth quarter of 2023. If additional cuts are lifted in January, the market balance could shift to a surplus, aiding the replenishment of depleted inventories. In August, observed global oil stocks decreased by 63.9 million barrels, with a substantial draw of 102.3 million barrels in crude oil.

As the Northern Hemisphere winter approaches, middle distillate markets are facing tight conditions. Ten months after the EU imposed an embargo on Russian crude, European refiners still struggle to increase processing rates and diesel production. Sustained high gasoil imports will be necessary, but strict winter quality standards limit the available supply. Weather conditions may play a crucial role in avoiding shortages.

The Middle East conflict remains highly uncertain and rapidly evolving. Given the consistently tight balance in oil markets, the international community will remain vigilant about risks to the region's oil flows.

IEA (2023), Oil Market Report - October 2023, IEA, Paris https://www.iea.org/reports/oil-market-report-october-2023