Oil Market Report - December 2023

In 2023, global oil demand is anticipated to climb by 2.3 million barrels per day (mb/d) to reach 101.7 mb/d, although this projection conceals the potential repercussions of a further deterioration in the overall economic landscape. Recent adjustments have trimmed global demand growth in the fourth quarter of 2023 by almost 400 kb/d, with Europe contributing more than half of this decline. The deceleration is expected to persist into 2024, with worldwide gains halving to 1.1 mb/d, as major economies grapple with subpar GDP growth. The advancement of electric vehicles and enhanced efficiency measures are also acting as drags on oil demand.

Contrary to expectations, U.S. oil supply is exceeding projections, surpassing the 20 mb/d milestone. This, coupled with record production from Brazil and Guyana, as well as surging Iranian flows, is poised to elevate global output by 1.8 mb/d to 101.9 mb/d in 2023. Non-OPEC+ nations are projected to spearhead global gains in 2024, with an estimated increase of 1.2 mb/d after OPEC+ intensifies its voluntary oil cuts.

Russian crude export prices experienced a sharp decline in November, with Urals dropping below the $60/bbl price ceiling on December 6. The diminished prices, coupled with a 200 kb/d reduction in oil shipments, resulted in a 17% month-on-month decline in November export revenues for crude and products, reaching $15.2 billion—a level not observed since July 2023. Crude revenues witnessed a steeper decline (-$2.4 billion month-on-month) compared to products (-$800 million).

Refinery margins in Europe and Singapore showed marginal improvement in November, while the U.S. Gulf Coast continued to underperform for the third consecutive month. Weakness in diesel and gasoline cracks primarily contributed to the decline in the U.S. hub. Global crude runs in the fourth quarter of 2023 are anticipated to be considerably weaker than previously estimated due to extended and more extensive refinery turnarounds. The runs fell by 3.6 mb/d month-on-month in October and are expected to slowly recover, reaching a seasonal peak of 84.2 mb/d by December 2023.

Observing global oil inventories, there was a decline of 19.6 mb in October. Although crude oil inventories remained largely unchanged, oil product stocks experienced their first decline in four months, reversing the trend observed in the third quarter of 2023 when oil product stocks rose by 1.3 mb/d, while crude drew by an average of 1.6 mb/d. On-land stocks in OECD and non-OECD regions fell by 18.9 mb and 24.2 mb, respectively, while oil on water increased by 23.5 mb.

In November, ICE Brent futures continued their descent, falling by $5/bbl to $83/bbl. Increased U.S. crude exports and weakened global demand growth exerted pressure on the prompt crude price structure. The WTI contango deepened, and as of early December, Brent prices were approximately $25/bbl below the annual high in September.

Key Highlights:
Oil market sentiment took a distinctly bearish turn in November and early December due to the confluence of robust non-OPEC+ supply and a deceleration in global oil demand growth. The extension of OPEC+ output cuts through the first quarter of 2024 failed to bolster oil prices, which, by early December, had plummeted by around $25/bbl from the September highs—reaching their lowest levels in six months. As of the latest update, Brent futures were trading at approximately $74/bbl, with WTI close to $69/bbl.

The United States, Brazil, and Guyana achieved record-breaking oil supply, coupled with a notable increase in Iranian oil production, contributing to a more extensive 1.8 mb/d rise in global output to 101.9 mb/d in 2023. While non-OPEC+ supply growth is expected to lose momentum in 2024, the projected gains of 1.2 mb/d may still outpace the increase in global oil demand.

There is mounting evidence of a slowdown in oil demand, with the pace of expansion anticipated to ease from 2.8 mb/d year-on-year in the third quarter of 2023 to 1.9 mb/d in the fourth quarter. A revision in the global oil consumption growth forecast for the final three months of the year reflects a downward adjustment of nearly 400 kb/d. Factors contributing to this deceleration include a weakening macroeconomic outlook, higher interest rates impacting the real economy, and a shift in petrochemical activity to China, particularly affecting Europe amid a broader manufacturing and industrial slump. Additionally, tighter efficiency standards and the growing prevalence of electric vehicles continue to curb oil usage. The revised estimate for world oil demand growth in 2023 is now 2.3 mb/d, with China accounting for 78% of this year's increase. A significant easing of oil consumption growth is anticipated in 2024, projected at 1.1 mb/d, as Covid-related distortions fade and demand baselines normalize.

The transformation in global oil supply dynamics—from key Middle Eastern producers to the United States and other Atlantic Basin countries—and the dominant influence of China and its thriving petrochemical sector on oil demand are reshaping global oil trade. The East of Suez markets have absorbed the majority of Russian flows and increasing Iranian exports following the Ukraine invasion. Now, adjustments are needed to accommodate rising volumes of Atlantic Basin crude and natural gas liquids. The ongoing increase in output and a slowdown in demand growth will complicate efforts by key producers to safeguard their market share and sustain elevated oil prices.