January 2024 Oil Report

In the fourth quarter of 2023, global oil demand growth experienced a notable deceleration, registering at 1.7 million barrels per day (mb/d) year-on-year, a significant drop from the 3.2 mb/d rate observed in the preceding quarters (2Q23-3Q23). This slowdown reflects the adjustment of China's post-pandemic surge in travel demand. Projections indicate a further easing of growth from 2.3 mb/d in 2023 to 1.2 mb/d in 2024. This deceleration is attributed to macroeconomic challenges, stricter efficiency standards, and an expanding electric vehicle fleet compounding the baseline effect.

The outlook for world oil supply anticipates a 1.5 mb/d increase, reaching a new high of 103.5 mb/d. This surge is driven by record-setting output from the United States, Brazil, Guyana, and Canada. Non-OPEC+ production is expected to dominate growth, accounting for nearly 1.5 mb/d. In contrast, OPEC+ supply is projected to remain relatively stable compared to the previous year, assuming the gradual phase-out of voluntary cuts initiated in the second quarter of 2024.

Regional variations in refinery profitability converged in December, with margins weakening in the Atlantic Basin but strengthening in Singapore. Refinery crude throughputs are forecasted to average 83.3 mb/d in 2024, surpassing the 2018 record of 82.5 mb/d. However, the gap between OECD and non-OECD runs is expected to widen due to new capacity additions in the Middle East, Africa, and China.

Russian oil exports experienced a significant increase in December, reaching a nine-month high of 7.8 mb/d. Crude shipments rose by 240 kb/d month-on-month to 5 mb/d, while product flows increased by 260 kb/d. Despite the rise in exports, estimated revenues declined to a six-month low of $14.4 billion, influenced by increased Russian oil price discounts and a decrease in benchmark oil prices.

Global observed oil inventories decreased by 8.4 mb in November, reaching their lowest level since July 2022. Crude oil and middle distillates were particularly tight, with a decline in oil on water (-12 mb) partially offset by on-land stock builds (+3.6 mb). Preliminary data suggest that global inventories increased in December, driven by a surge in oil on water.

Benchmark crude oil futures rebounded by approximately $4/bbl from mid-December lows due to renewed geopolitical concerns in the Red Sea. However, prices had declined the previous month, influenced by comfortable physical balances and record US oil supply entering the Atlantic Basin. At the time of writing, Brent futures were trading at $77/bbl.

In early 2024, escalating geopolitical tensions in the Middle East, responsible for one-third of the world's seaborne oil trade, heightened market apprehensions. US and UK airstrikes on Houthi targets in Yemen in response to Red Sea tanker attacks by the Iran-backed group raised concerns about potential oil flow disruptions. Despite no impact on oil and LNG production, an increasing number of ship owners diverted cargoes away from the Red Sea. Brent futures were slightly above $77/bbl, and WTI was around $72/bbl.

Unless significant disruptions occur, the oil market appears well-supplied in 2024, with higher-than-expected non-OPEC+ production surpassing oil demand growth. While OPEC+ supply management policies may result in a small deficit early in the year, robust growth from non-OPEC+ producers could lead to a substantial surplus if the OPEC+ group's voluntary cuts are phased out in 2Q24.

Anticipated increases in global oil supply are projected to be 1.5 mb/d in 2024, with the Americas, led by the United States, Brazil, Guyana, and Canada, dominating gains. Following a steep rise in output in 4Q23, global oil supply is expected to decline in the current month due to adverse weather conditions in the United States and Canada affecting oil operations.

The growth in global oil demand is set to halve from 2.3 mb/d in 2023 to 1.2 mb/d in 2024. The post-Covid recovery is nearly complete, GDP growth in major economies is below trend, and energy efficiency improvements and vehicle electrification are curbing oil use. Outside of China, the pace of demand growth slowed significantly in 2023, averaging around 300 kb/d in 2H23. China is expected to continue leading oil demand growth in 2024, with its expanding petrochemical sector gaining a larger share.

At the beginning of 2024, the risk of global oil supply disruptions due to the Middle East conflict remains elevated, especially for oil flows via the Red Sea and the critical Suez Canal. In 2023, approximately 10% of the world's seaborne oil trade, equivalent to around 7.2 mb/d of crude and oil products, and 8% of global LNG trade, passed through this major trade route. The main alternative shipping route around Africa's Cape of Good Hope extends voyages by up to two weeks, putting pressure on global supply chains and increasing freight and insurance costs.

As a precaution, the IEA stands ready to respond decisively in the event of a supply disruption, ensuring additional barrels are available if needed. IEA member countries collectively hold stocks of around 4 billion barrels, including 1.2 billion barrels of government-controlled stocks exclusively reserved for emergencies. This buffer is intended to alleviate market concerns and reassure governments, industries, and energy consumers.

IEA (2024), Oil Market Report - January 2024, IEA, Paris https://www.iea.org/reports/oil-market-report-january-2024