Oil Market Report - March 2024

Forecasting for the first quarter of 2024 reveals a surprising uptick in global oil demand, expected to rise by 1.7 million barrels per day (mb/d) owing to improved prospects in the United States and heightened bunkering activities. While growth projections for 2024 have been adjusted upward by 110 kb/d from the previous month's report, the pace of expansion is anticipated to decelerate, moving from 2.3 mb/d in 2023 to 1.3 mb/d. This deceleration is attributed to demand growth aligning with historical trends, alongside efficiency enhancements and the increasing adoption of electric vehicles, which curtail oil consumption.

Projections indicate a decline in world oil production by 870 kb/d in the first quarter of 2024 compared to the fourth quarter of 2023. This decline is primarily due to adverse weather conditions causing production shutdowns and new restrictions imposed by the OPEC+ alliance. Subsequently, non-OPEC+ countries are anticipated to drive production increases from the second quarter onwards, particularly after certain OPEC+ members committed to extending voluntary production cuts to stabilize the market. Global oil supply for 2024 is anticipated to rise by 800 kb/d to reach 102.9 mb/d, factoring in adjustments to OPEC+ output.

Refinery operations are forecasted to rebound from a low of 81.4 mb/d in February to peak at 85.6 mb/d in August. Throughout the year, refinery throughputs are expected to increase by 1.2 mb/d on average, with significant contributions from regions such as the Middle East, Africa, and Asia. While refining margins experienced improvement until mid-February before retracting, notable gains were observed in regions like the US Midcontinent, Gulf Coast, and Europe.

Inventories of oil witnessed a notable surge of 47.1 mb in February, primarily driven by offshore stocks as seaborne exports reached record levels. Meanwhile, disruptions in shipping through the Red Sea led to significant volumes of oil being held up at sea, although onshore inventories experienced a decline. In January, global stocks saw a sharp reduction of 48.1 mb, with OECD industry stocks reaching a 16-month low.

ICE Brent futures saw a $2/bbl increase in February, attributed to ongoing Houthi attacks in the Red Sea, which maintained upward pressure on crude prices. The elongation of shipping routes around Africa contributed to tightening the Atlantic Basin market, leading to a deeper backwardation in crude's forward price structure. At the latest update, Brent was trading at $83/bbl.

Throughout early March, benchmark crude oil prices remained range-bound as the market had already factored in the extension of OPEC+ voluntary production cuts until the second quarter of 2024. North Sea Dated prices rose to $84.66/bbl in February due to continued tanker attacks in the Red Sea, prolonging supply routes and causing a decline in global on-land oil inventories for the seventh consecutive month, reaching their lowest levels since at least 2016.

Preliminary data suggests a further decline of 38 mb in global onshore oil stocks last month, accumulating a drawdown of 180 mb since July. Concurrently, oil on water witnessed a surge, attributed to trade disruptions caused by rerouting Russian barrels and recent unrest in the Middle East, resulting in an increase of 115 mb. In February alone, oil on water surged by 85 mb due to repeated tanker attacks in the Red Sea diverting cargoes around the Cape of Good Hope, reaching nearly 1.9 billion barrels by end-February, marking its second-highest level since the peak of the Covid-19 pandemic.

Trade disruptions also bolstered bunker fuel usage, with longer shipping routes and increased vessel speeds contributing to all-time highs in Singapore bunkering. Additionally, heightened demand for US ethane in the petrochemical sector led to a slight upward revision in global oil demand expectations for 2024 by 110 kb/d compared to the previous month's report. Consequently, world oil demand growth is now projected at 1.3 mb/d for 2024, a significant decrease from the 2.3 mb/d expansion observed last year.

The deceleration in growth, evident in recent data, indicates a reversion of oil consumption to its historical trend following several years of post-pandemic rebound-induced volatility. A subdued economic outlook, coupled with efficiency improvements and the burgeoning sales of electric vehicles, further moderates oil consumption. Moreover, growth remains heavily skewed towards non-OECD countries, even as China's dominance gradually wanes, with its oil demand growth projected to decrease from 1.7 mb/d in 2023 to 620 kb/d in 2024.

Similar to 2023, non-OPEC+ oil supply growth is anticipated to surpass oil demand expansion by a considerable margin. Led by the United States, non-OPEC+ production is forecasted to increase by 1.6 mb/d in 2024, compared to 2.4 mb/d in the previous year, when global oil output climbed by 2 mb/d to 102 mb/d. Substantial production gains are also expected from countries such as Guyana, Brazil, and Canada, all poised to achieve record-high production levels this year. Collectively, the non-OPEC+ Americas quartet is anticipated to add 1.3 mb/d of new oil production in 2024.

Iran, which ranked as the world's second-largest source of supply growth after the United States last year, is projected to increase production by an additional 280 kb/d in 2024. The output policy for the remaining OPEC+ bloc members will be reassessed during a meeting in Vienna on 1 June to review market conditions. In this report, OPEC+ voluntary cuts are expected to remain in place throughout 2024, with adjustments contingent on confirmation by the producer alliance. Consequently, the balance for the year shifts from a surplus to a slight deficit, although relief may be in sight as the massive volumes of oil on water reach their final destination.

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