Oil Market Report - May 2024

Global oil demand is forecasted to increase by 1.1 million barrels per day (mb/d) in 2024, which is 140 thousand barrels per day (kb/d) lower than the previous month's estimate. This reduction is mainly due to weak deliveries, especially in Europe, which caused first-quarter OECD demand to contract. The outlook for 2025 remains nearly the same, with a slightly higher growth rate of 1.2 mb/d.

World oil supply is projected to grow by 580 kb/d this year, reaching a record high of 102.7 mb/d. This increase is driven by a 1.4 mb/d rise in non-OPEC+ production, while OPEC+ output is expected to drop by 840 kb/d, assuming voluntary cuts continue. In 2025, global oil supply is anticipated to increase by 1.8 mb/d, with non-OPEC+ contributing an additional 1.4 mb/d. In April, world oil supply fell by 200 kb/d to 102 mb/d.

Refinery margins globally decreased in April due to lower-than-expected demand growth, leading to a drop in middle distillate cracks and reduced throughput levels. Refinery activity is expected to increase from just above zero in the first quarter of 2024 to 500 kb/d in the second quarter and to 1.8 mb/d in the second half of 2024.

Global oil inventories surged by 34.6 million barrels (mb) in March, as oil on water reached a post-pandemic high. Meanwhile, on-land stocks fell by 5.1 mb to their lowest level since at least 2016. OECD stocks decreased by 8.8 mb to a 20-year low, while non-OECD inventories rose for the first time since November. Preliminary data indicates further increases in global oil stocks in April.

Brent futures declined from a six-month high of over $91 per barrel (bbl) in early April to around $83/bbl, driven by reduced concerns about a broader Middle East conflict and weaker macroeconomic sentiment. Heavy investor selling and weak demand led to a decline in middle distillates, with the diesel forward curve moving into contango and cracks dropping to one-year lows.

The spring sell-off significantly impacted middle distillate markets, with diesel and jet fuel cracks collapsing and the NYMEX ULSD front-month contract shifting into contango. This caused global refinery margins to drop to nearly two-year lows, prompting discussions about potential run cuts that could affect the seasonal increase in throughput rates. European refinery margins in April declined more sharply than those in the US Gulf Coast and Singapore, due to Europe's heavy reliance on diesel output and weak regional demand.

Poor industrial activity and another mild winter have reduced gasoil consumption, particularly in Europe, where the declining share of diesel cars has further decreased consumption. Following a 210 kb/d annual contraction in 2023, European gasoil demand fell by another 140 kb/d year-over-year in the first quarter of 2024. Combined with weak diesel deliveries in the United States at the beginning of the year, this led to a contraction in OECD oil demand in the first quarter. Global oil demand is now expected to rise by 1.1 mb/d in 2024, 140 kb/d less than previously projected. The outlook for 2025 remains largely unchanged, with a slight increase in the growth rate to 1.2 mb/d.

The health of global oil demand will be a key topic at the OPEC+ meeting in Vienna on June 1, where ministers will discuss production policy for the rest of the year. Despite recent weaknesses, current balances indicate the call on OPEC+ crude oil will be around 42 mb/d in the second half of the year, about 700 kb/d above April's output.

Next year, the market is expected to be more balanced. Even if OPEC+ maintains voluntary production cuts, global oil supply could rise by 1.8 mb/d, compared to this year's modest increase of 580 kb/d. Non-OPEC+ output is projected to grow by 1.4 mb/d in both years, while OPEC+ output is expected to shift from an 840 kb/d decline this year to a 330 kb/d increase in 2025. The United States, Guyana, Canada, and Brazil will continue to lead these gains, despite a slowdown in the US supply expansion.

The June meeting will also likely focus on global oil inventories as a measure of the balance between world oil demand and supply. Preliminary data shows further stock builds in April as onshore inventories surged after oil on water was discharged. Increased trade dislocations had pushed oil on water to a post-pandemic high in March, while onshore stocks were at their lowest since at least 2016. Returning to historical average stock levels will be crucial to avoiding renewed market volatility.

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