Oil Market Report - June 2024

Slowing Demand Growth

World oil demand is projected to grow by 960 kb/d in 2024, which is 100 kb/d less than the previous forecast. In March, a decline in OECD deliveries resulted in a narrow year-on-year contraction in global demand. The forecast for 2025 anticipates a modest growth of 1 mb/d, constrained by a weak economic outlook and the increasing adoption of clean energy technologies.

Rising Global Oil Supply

In May, global oil supply increased by 520 kb/d, reaching 102.5 mb/d, with a significant boost from Brazilian ethanol production. Annual production is expected to grow by 690 kb/d, driven primarily by a 1.4 mb/d increase from non-OPEC+ countries. Meanwhile, OPEC+ output is set to decline by 740 kb/d if current voluntary cuts persist. For 2025, global supply is forecast to rise by 1.8 mb/d, largely due to a 1.5 mb/d increase from non-OPEC+ sources.

Refining Margins and Crude Runs

May saw Asian refining margins fall to their lowest in three years, nearing levels that may trigger production cuts. The US Gulf Coast's refining profitability hit a six-month low, though it still outperformed European margins. Projections for crude runs in 2024 and 2025 have been revised upwards by 100 kb/d to 83.5 mb/d and 84.2 mb/d, respectively. This increase is attributed to stronger-than-expected throughputs in the OECD during the second quarter of 2024, despite Chinese runs dropping to pandemic-era lows in April.

Inventory Trends

April witnessed a build-up of global observed oil inventories by 19.3 mb. Onshore stocks surged by 83.5 mb after eight months of draws, while offshore inventories dropped by 64.2 mb following substantial increases in the previous two months. OECD industry stocks rose by 32.1 mb in April, marking their first increase since October. Preliminary data suggests an additional 48.2 mb build in May.

Brent Crude Prices

Brent crude futures declined by $6/bbl in May due to inventory builds, indicating a well-supplied Atlantic Basin market. Prices fell by another $4/bbl following the OPEC+ meeting on June 2, where traders reacted negatively to the planned gradual rollback of voluntary output cuts. Although prices dipped to a low of around $77.50/bbl, they rebounded to $81.50/bbl by the time of writing, still $11/bbl below the highs of early April 2024.

Adjusting Supply Expectations

Brent crude futures continued their decline into early June, influenced by slowing demand growth and rising inventories. After OPEC+ announced plans to unwind extra voluntary output cuts starting in 4Q24, the market's response was bearish, pushing prices down to around $77.50/bbl. However, OPEC+ clarified that the rollback would depend on market conditions, leading to a rebound to $81.50/bbl.

In May, onshore oil inventories increased for the second consecutive month as weak demand met robust supply. Preliminary data indicated a 48.2 mb rise in oil stocks, driven by increases in the United States and China. This followed a 19.3 mb build in April, where onshore stocks had surged by 83.5 mb after eight months of draws, and offshore inventories had dropped by 64.2 mb. OECD industry stocks increased by 32.1 mb in April, aligning with seasonal trends but remaining 94.7 mb below the five-year average.

Demand and Refining Trends

Oil demand continued to slow in key markets, especially within the OECD. In March, non-OECD countries saw annual gains of 650 kb/d, but this was offset by an 815 kb/d contraction in the OECD, leading to an overall decline of 165 kb/d year-on-year. Preliminary data for April and May indicated further weakness, with Chinese demand growth plummeting from 800 kb/d in the first quarter of 2024 to just 95 kb/d in April. Consequently, the forecast for 2024 global oil demand growth was lowered by another 100 kb/d to 960 kb/d. The subdued outlook is expected to persist into 2025, with only a modest increase of 1 mb/d due to sluggish economic growth, a growing electric vehicle fleet, and improvements in vehicle efficiency.

Refining Margins and Supply Outlook

The latest dip in demand has impacted refining margins in Asia and the US, which fell to three-year lows in May. Margins in Singapore are near run cut territory, particularly for gasoline. In contrast, European margins have held up better, supported by stronger jet/kerosene cracks. Chinese refinery runs dropped to pandemic-era levels in April, and an 8.7% year-on-year decline in Chinese crude oil imports in May suggests continued weak runs.

OPEC+ has outlined a plan to gradually unwind up to 2.2 mb/d of extra voluntary supply reductions from 4Q24 through 3Q25. The group has stated that these increases can be paused or reversed depending on market conditions, so supply forecasts will be adjusted accordingly when decisions are confirmed. This year, global oil supply is expected to rise by 690 kb/d on average, led by a 1.4 mb/d increase from non-OPEC+ countries. In 2025, total supply could grow by 1.8 mb/d, with non-OPEC+ contributing 1.5 mb/d and OPEC+ adding 320 kb/d. Given the anticipated weak demand, supply adjustments might need to be downward rather than upward next year.