Oil Market Report - August 2024

Global oil demand increased by 870 kb/d in Q2 2024, though gains were tempered by weaker demand in China. Projections for demand growth remain under 1 mb/d for both 2024 and 2025, consistent with last month's forecast, and far below the 2.1 mb/d growth seen last year as softer macroeconomic conditions come into play.

In July, world oil supply rose by 230 kb/d to reach 103.4 mb/d, with a significant increase from OPEC+ offsetting non-OPEC+ losses. Annual growth is expected to accelerate from 730 kb/d in 2024 to 1.9 mb/d in 2025. Non-OPEC+ output is forecasted to rise by 1.5 mb/d this year and next, while OPEC+ production may decline by 760 kb/d in 2024 before potentially increasing by 400 kb/d in 2025, assuming voluntary cuts remain in effect.

Refinery throughputs worldwide are anticipated to grow by 840 kb/d to 83.3 mb/d in 2024 and by 600 kb/d to 83.9 mb/d in 2025. However, margin weakness continues to weigh on processing rates, particularly in China, where refinery runs are expected to decline year-over-year. In July, refining margins weakened further in Europe, while margins in Singapore and the US Gulf Coast improved, driven by stronger naphtha and gasoline cracks.

Global observed oil inventories dropped by 26.2 mb in June, following four consecutive months of builds totaling 157.5 mb. OECD onshore stocks fell by 19.5 mb, partially offset by a 17.5 mb increase in non-OECD inventories. Oil on water decreased for the third month in a row, dropping by 24.2 mb. OECD industry inventories were down by 21 mb, aligning with seasonal norms.

Brent crude futures experienced a sharp decline of $6 per barrel in July, as weak macroeconomic data sparked a broad risk-off sentiment across financial markets, despite ongoing tensions in the Middle East. Despite falling flat prices, front-month time spreads remained strong, reflecting tight conditions in the Atlantic Basin. At the time of writing, Brent was trading around $80 per barrel.

Market volatility in recent weeks has been intense. Benchmark crude prices plummeted in July and early August as unexpected economic data destabilized the market. Concerns about global economic health resurfaced due to Japan's rate hikes, a deteriorating Chinese outlook, and slower US job growth in July. However, ongoing geopolitical tensions and some relatively positive economic data helped to support oil futures, which rebounded in mid-August. OPEC+ cuts have also tightened physical markets, pushing North Sea Dated to a $2 per barrel premium against front-month ICE contracts. At the time of writing, ICE Brent futures were trading around $80 per barrel, a decline of over $6 per barrel since early July.

The global oil demand outlook remains largely unchanged from last month, with expected growth of just under 1 mb/d in both 2024 and 2025. However, significant shifts in demand drivers are emerging. Chinese oil demand contracted for the third straight month in June, driven by declining industrial demand, particularly in the petrochemical sector. Preliminary trade data from July suggest further weakness, with crude oil imports falling to their lowest levels since the strict lockdowns of September 2022. Conversely, demand in advanced economies, particularly for US gasoline, has shown signs of strength. The US economy, which accounts for a third of global gasoline consumption, has outperformed expectations, with a robust service sector driving increased miles traveled. As a result, OECD oil consumption shifted from a 300 kb/d annual decline in Q1 2024 to growth of 190 kb/d in Q2.

Despite the slowdown in Chinese oil demand, OPEC+ has yet to alter its plan to gradually unwind voluntary production cuts beginning in Q4. On August 1, the Joint Ministerial Monitoring Committee (JMMC) reaffirmed that the group could pause or reverse its decision based on market conditions. Current projections suggest that, even with the cuts in place, global inventories could increase by an average of 860 kb/d in 2025 as non-OPEC+ supply rises by around 1.5 mb/d in both 2024 and 2025, outpacing expected demand growth. The US, Guyana, Canada, and Brazil are expected to contribute about three-quarters (1.1 mb/d) of the non-OPEC+ supply increases in each of the next two years.

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.