Oil Market Report - September 2024

Global oil demand growth is experiencing a notable slowdown, with an increase of only 800 kb/d year-on-year during the first half of 2024, the smallest gain since 2020. This decline is primarily attributed to a significant contraction in China, where oil consumption decreased for the fourth consecutive month in July, falling by 280 kb/d. Projections suggest that annual demand will rise by 900 kb/d in 2024, a stark contrast to last year's surge of 2.1 mb/d, bringing total consumption close to 103 mb/d. The forecast for 2025 indicates another modest rise of 950 kb/d.

On the supply side, global oil production saw a slight uptick of 80 kb/d in August, reaching 103.5 mb/d. This increase was supported by higher output from Guyana, Brazil, and other regions, which mitigated the impact of outages due to political instability in Libya and maintenance work in Norway and Kazakhstan. Annual supply growth is set to strengthen from 660 kb/d this year to 2.1 mb/d in 2025. Non-OPEC+ nations are expected to contribute an increase of 1.5 mb/d over the next two years, while OPEC+ may face a decrease of 810 kb/d in 2024, with a potential recovery of 540 kb/d in 2025 if voluntary production cuts are sustained.

Refinery throughput is anticipated to rise by 440 kb/d to 83 mb/d in 2024, followed by a further increase of 630 kb/d to 83.7 mb/d in 2025. Nonetheless, forecasts are clouded by disappointing Chinese refining figures from July and a further decline in margins, with European and Singaporean cracking margins briefly turning negative. In the US Gulf Coast, while margins remain more resilient, they have dropped to two-thirds of what they were a year ago.

In July, global observed oil stocks decreased by 47.1 mb, primarily in crude oil, NGLs, and feedstocks, which saw a reduction of 75.5 mb. In contrast, oil product inventories reached their highest levels since January 2021. OECD industry stocks also fell unexpectedly in July, down by 12.3 mb, remaining 78.5 mb below the five-year average. Early data indicates continued declines in stock levels into August.

Oil prices faced significant declines in August and early September, with ICE Brent futures plummeting around $10/bbl, driven by weak Chinese demand and growing economic uncertainties that raised concerns of oversupply. Investor sentiment turned bearish, with net speculative holdings dropping to multi-year lows. As of mid-September, Brent was trading near $70/bbl, its lowest since late 2021, down $20/bbl from the April 2024 high.

The rapid downturn in global oil demand growth, especially stemming from China, has led to a dramatic sell-off in the oil markets. Brent crude futures fell from over $82/bbl in early August to just below $70/bbl by September 11, despite ongoing supply losses in Libya and continued draws on crude inventories.

The current slowdown in China's oil consumption, which saw a decline of 280 kb/d year-on-year in July, contrasts sharply with an average growth of 1 mb/d over the previous year and a post-Covid surge of 1.5 mb/d in 2023. Demand in China is now projected to increase by a mere 180 kb/d in 2024, influenced by a broad economic downturn and a shift toward alternative fuels. Rising sales of electric vehicles (EVs) are diminishing road fuel demand, while an extensive high-speed rail network is limiting growth in domestic air travel. The implications of these changes in China's economic landscape and transport dynamics are elaborated in recent reports like Oil 2024 and World Energy Outlook 2023.

Outside of China, oil demand growth remains sluggish. In the United States, gasoline deliveries plummeted in June following unexpected strength in May, resulting in a year-on-year decline in gasoline use for five of the first six months of 2024. Structural challenges and slow economic growth continue to suppress deliveries in several advanced economies, which could see oil consumption nearly 2 mb/d below pre-pandemic levels. As Chinese oil demand growth appears to be waning, and with only modest increases or declines elsewhere, there is a growing expectation that global demand may plateau by the end of this decade.

In a bid to address the rapid decline in oil prices, Saudi Arabia and its OPEC+ allies announced in early September a two-month postponement of their planned reduction of additional voluntary production cuts. This delay aims to provide the alliance with time to further assess demand outlooks for the following year, as well as the ramifications of outages in Libya and plans to phase out an extra 2.2 mb/d of cuts by the end of next year. However, with non-OPEC+ supply projected to grow faster than demand—unless there is a prolonged crisis in Libya—OPEC+ could be facing a significant surplus, even if additional cuts remain in effect. In this rapidly changing market landscape, reliable energy data and impartial market analysis will become increasingly vital.

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