Oil Market Report - October 2024

Global oil demand is projected to rise by nearly 900,000 barrels per day (kb/d) in 2024 and approximately 1 million barrels per day (mb/d) in 2025, a notable slowdown from the roughly 2 mb/d growth experienced during the post-pandemic recovery in 2022-2023. China is playing a key role in this deceleration, contributing around 20% of global demand growth in both 2024 and 2025, down from nearly 70% in 2023.

In September, global oil supply dropped by 640 kb/d to 102.8 mb/d, largely due to Libya's political instability, which disrupted its oil production and exports, as well as maintenance work in oil fields in Kazakhstan and Norway. The Americas are driving non-OPEC+ supply growth, contributing around 1.5 mb/d both this year and next, with the region responsible for 80% of those gains.

Refining margins weakened further in September as cracks for gasoline, jet fuel, and diesel worsened, even as crude prices increased due to a relatively tighter market. As a result, estimates for global crude runs were lowered by 180 kb/d to 82.8 mb/d for 2024 and by 210 kb/d to 83.4 mb/d for 2025, reflecting yearly increases of 540 kb/d and 610 kb/d, respectively.

In August, observed global oil inventories fell by 22.3 million barrels (mb), driven by a 16.5 mb decline in crude oil stocks. Industry stocks within the OECD countries dropped by 13.4 mb to 2,811 mb, 102.7 mb below the five-year average, defying seasonal trends. Preliminary data suggests further stock declines in September. Since May, crude stocks have drawn down by 135 mb, supported by strong refining activity and OPEC+ supply cuts, while product stocks increased by 35 mb over the same period.

Brent crude futures surged by $8 per barrel in early October, as markets remained uneasy over Israel's response to Iran's missile strikes. A significant reversal of ultra-bearish investor positions also contributed to the price rebound. Brent crude had hit multi-year lows in September due to expectations of a well-supplied market in 2025, but at the time of writing, it was trading around $78 per barrel.

Focus on Oil Security Benchmark oil prices saw a sharp rise in early October as concerns over potential disruptions to oil supplies took center stage. Heightened tensions between Israel and Iran have raised fears of broader conflict in the Middle East, particularly over the possibility of interruptions to Iranian exports. However, a political agreement in Libya has helped restore oil exports there after a temporary halt, while production losses from hurricanes in the U.S. Gulf Coast have been relatively modest, and weak end-user demand has further stabilized markets. At the time of writing, Brent crude futures were around $78 per barrel, up $8 from the previous month but still over $10 below the price from a year earlier.

Earlier this month, prices spiked as markets braced for Israel's next actions, amid concerns that key Iranian energy infrastructure, including the Kharg Island export terminal, could become a target. Kharg Island, which handles 1.6 mb/d of crude—mainly destined for China—is a significant focal point, as is the potential risk to the vital Strait of Hormuz. Although oil exports from Iran and neighboring countries remain unaffected for now, market participants are on edge, anticipating the next developments. Meanwhile, Libyan oil shipments have resumed following a hard-won agreement that resolved the political deadlock that had disrupted the country's exports. Additionally, the U.S. hurricane season, which has been particularly active, still has several weeks remaining.

These supply concerns come against the backdrop of a global oil market that appears adequately supplied. Demand growth is projected to slow to around 900 kb/d in 2024 and 1 mb/d in 2025, a significant drop from the 2 mb/d rise in 2023. Chinese oil demand has been particularly weak, with consumption in August falling by 500 kb/d year-on-year, marking the fourth straight month of declines. Non-OPEC+ producers, led by countries in the Americas, continue to show strong supply growth, with output from the United States, Brazil, Guyana, and Canada expected to increase by over 1 mb/d in both 2024 and 2025, more than offsetting the demand growth.

OPEC+ spare production capacity remains at historic highs, excluding the exceptional levels seen during the Covid-19 pandemic. In September, spare capacity, excluding Libya, Iran, and Russia, exceeded 5 mb/d. Although global crude oil inventories have drawn down by 135 mb over the past four months, bringing them to their lowest levels since at least 2017, global refined product stocks have risen to their highest levels in three years, placing pressure on refining margins across major hubs.

As the situation evolves, the International Energy Agency (IEA) is prepared to act if necessary, as it demonstrated in 2022 when collective action was quickly mobilized. IEA member countries hold over 1.2 billion barrels in public stocks, with another 500 million barrels in industry reserves. China's crude oil stockpile, which totals around 1.1 billion barrels, could cover 75 days of domestic refinery operations at current rates. For the moment, oil supplies remain steady, but without major disruptions, the market is expected to face a significant surplus in the coming year.

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