OPEC+ policy key for oil outlook

The outlook for the oil market largely depends on OPEC+ policy. The group continues to hold a large amount of supply from the market in order to support prices. We believe this will continue in 2024, but there are clear risks

Tighter oil market in the second half of next year

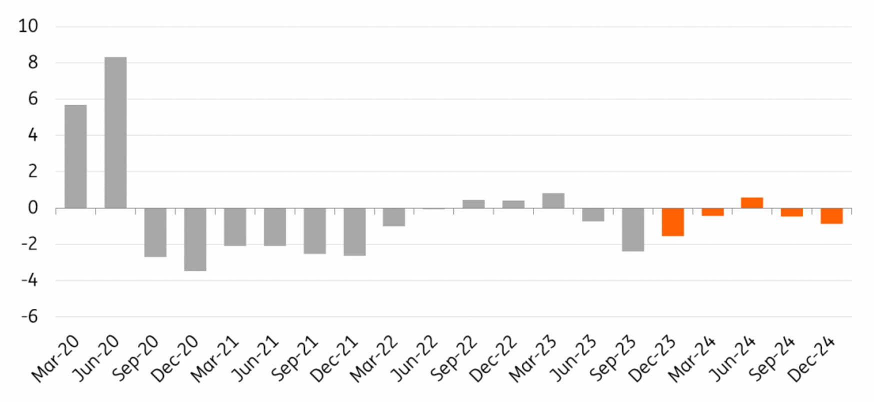
Going into 2024, the market has been concerned about a looming surplus in the first quarter of next year, driven by seasonally weaker demand. However, at their last meeting, OPEC+ took action to erase this expected surplus. Saudi Arabia and Russia will roll over voluntary additional supply cuts through until the end of 1Q24, whilst a handful of other members have announced their own additional voluntary supply cuts. In total, these cuts amount to a little less than 2.2MMbbls/d. However, the amount that is actually included in the new additional cuts is 900Mbbls/d.

These supply cuts should be enough to remove the surplus in 1Q24 and, in fact, leave the market in a small deficit early next year. However, our balance still shows a small surplus in 2Q24, which means that the market is largely balanced over 1H24. This could and will likely change depending on how OPEC+ members go about unwinding these voluntary cuts.

Given that balanced market, we expect ICE Brent to remain trading in the low $80s in the early part of next year.

The second half of 2024 will see the market return to deficit, which suggests we see prices moving higher in 2H24. We forecast Brent to average US$91/bbl over the last six months of 2024.

Global oil balance (MMbbls/d)



Source: IEA, EIA, OPEC, ING Research

OPEC+ policy is key

OPEC+ has been very active over the last year in an attempt to support the market. Saudi Arabia has led the way in pushing for deep cuts, and this is evident with the voluntary cuts we are seeing from the Kingdom. Saudi Arabia has a fiscal breakeven oil price of a little over US$80/bbl, so they are keen to ensure that oil prices remain mostly above this level.

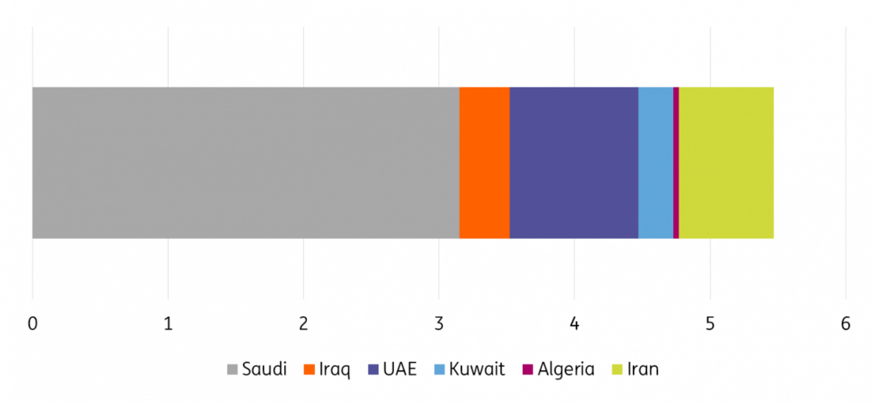
The view that US supply growth is slowing has also given OPEC+ confidence in cutting supply without the risk of losing market share. While US supply growth has surprised to the upside this year, it is expected to slow substantially next year, which suggests that the Saudis will remain comfortable holding supply from the market.

However, the latest OPEC+ meeting has highlighted some key issues within the group. Firstly, some members (Angola specifically) are not happy with their production quotas for 2024 and have already said that they will reject their quota level for next year. However, from a supply point of view, given the pressure we have seen on Angolan output this is unlikely to move the needle much.

A bigger concern for OPEC+ should be the fact that they have been unable to agree on group-wide cuts. Instead, we are seeing voluntary cuts from a handful of members. Clearly, given the scale of cuts we are already seeing from the group, it is becoming increasingly more difficult for some members to stomach further cuts.

Also, given the scale of cuts we are seeing, OPEC is sitting on a substantial amount of spare capacity. If we include Iran, OPEC has around 5.5MMbbls/d of spare capacity. And this will only increase over 1Q24 following the latest announced reductions. 58% of this sits with Saudi Arabia. This spare capacity should also offer some comfort to markets given that should we see significant price strength, one would expect this capacity to start to return to the market.

OPEC spare capacity (MMbbls/d)



Source: IEA, ING Research

Sanction risk

Sanctions leave a lot of supply risk in the market next year. And this is particularly the case for Iran and Venezuela. The US also appears to be enforcing the G-7 price cap on Russian oil more strictly in recent months.

Iran has increased its supply significantly over 2023, rising from around 2.5MMbbls/d at the beginning of the year to around 3.1MMbbls/d currently. This has happened despite US sanctions remaining in place against the country. The US has been concerned about the high-price environment and supply risks facing the market since Russia's invasion of Ukraine and appears to have taken a softer stance against Iran.

However, following recent events in Israel and the possibility of Iranian involvement, there is the risk that the US will start to enforce sanctions more strictly in future. If this were to happen, we could see more than 500Mbbls/d of supply lost. For now, we are assuming Iranian flows will remain at around 3.1MMbbls/d in 2024.

As for Venezuela, the US has eased oil sanctions in return for fairer general elections in the country next year. However, if this does not happen, we could very well see these sanctions reintroduced against Venezuela. The supply at risk would be around 200Mbbls/d.

In recent months, the US Treasury has also been more active in sanctioning shipping companies which have transported Russian oil above the $60/bbl price cap. This move may drive many Western shipping companies away from transporting Russian oil altogether, given the sanction risk they face if it turns out the oil is priced above US$60/bbl. Therefore, going into next year, it might become more challenging to ship Russian oil using Western shipping services. Although, Russia has built up a sizeable fleet of its own tankers in order to get around the G-7 price cap.

US supply growth

US oil supply growth has surprised to the upside in 2023, with it estimated to grow by 1MMbbls/d to a record high of 12.9MMbbls/d.

However, drilling activity in the US has slowed significantly this year, which suggests that the US will see more modest supply growth in 2024, with it forecast to grow by 250Mbbls/d to

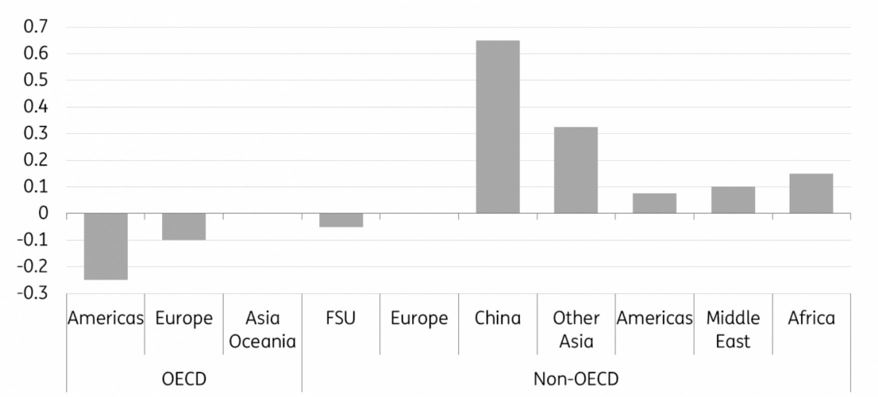
13.15MMbbls/d. A focus on shareholder returns, cost inflation, tighter credit conditions, and increased consolidation within the industry are some of the factors holding back drilling activity.

Global oil demand growth slows

There is plenty of uncertainty over oil demand in 2024, given the uncertainty over the macro picture next year.

Global oil demand is still expected to grow by around 1MMbbls/d next year, which would be down from around 2MMbbls/d of growth this year. It is largely Asia, and specifically China, which is expected to be behind the bulk of demand growth next year. Over 60% of oil demand growth is expected to come from the country next year. Meanwhile, Europe and the Americas are expected to see a small decline in demand next year amid weaker economic growth.

Global oil demand growth-2024 (MMbbls/d)



Source: IEA, ING Research

ING forecasts

	1Q24	2Q24	3Q24	4Q24	FY24
ICE Brent (US$/bbl)	82	86	90	92	**88**
NYMEX WTI (US$/bbl)	79	83	87	89	**85**

Source: ING Research

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