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Oil market update

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Market surplus is in the horizon for 2025

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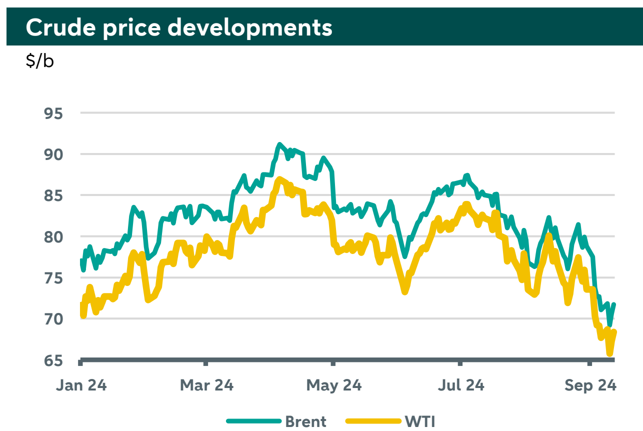
- **The weakness in Chinese demand and the higher supply by Non-OPEC+ producers have pushed oil prices lower**
- **The geopolitical premium has also diminished as fears for escalation in the Middle-East have eased**
- **OPEC+ postponed its plan to revive production until December, but it was not enough to reverse the trend**
- **We revisit our outlook for Brent downward to average 73 $/b in Q4 as the market surplus widens**
- **Over time, the expectation of a recovery in demand on the back of central bank rate cuts should firm oil prices**

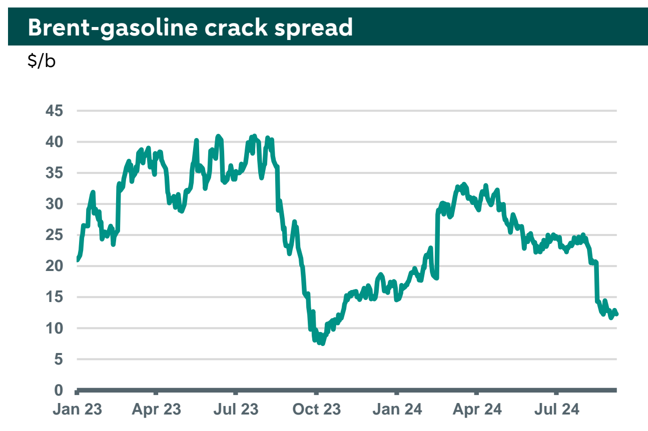
Oil prices have been witnessing a downward trend since August, with an average for Brent of 78.8 $/b in August. Multiple factors lead to a decrease in prices, which reached a 14-month low of 70.6 $/b in September. First, the disappointing activity data for the Chinese economy and demand outlook as well as fears of a hard landing for the US economy. Second, the increase in the supply by non-OPEC countries, especially the US, Guyana, and Brazil. Finally, the perceived easing of geopolitical tensions as fears for escalation in the Middle-East eased. Brent prices were trading around 71.7 $/b at the time of writing.

Crude price developments



Source: Bloomberg, ABN AMRO Group Economics

Brent-gasoline crack spread



Source: Bloomberg, ABN AMRO Group Economics

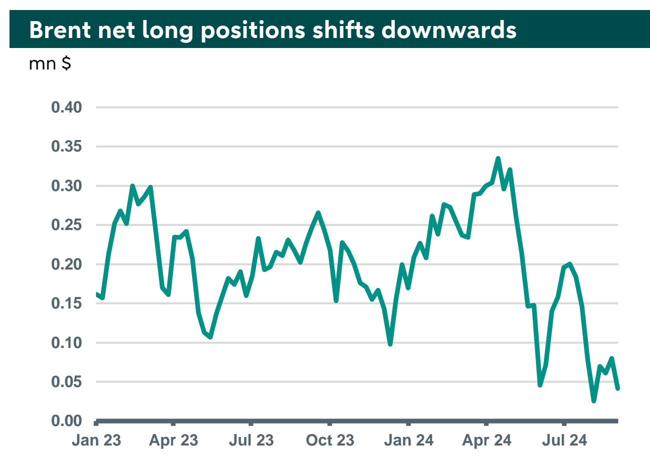
Oil market drivers

From the supply side, as communicated in our last update (see here), OPEC+ announced a phasing out of their voluntary cuts over the period of a year starting in October 2024. However, the cartel emphasized that this plan is conditional on market conditions. Following an online meeting between representatives of the countries with the voluntary cuts, and motivated by adverse market conditions, OPEC+ announced in a statement last week the postponement of their plans to restore output for two months. Noting that the schedule of reproduction remains intact but pushed forward in time. That is, the revive of supply will start in December instead of October by almost 180,000 b/d. We note that some members such as Iraq, Kazakhstan, and Russia are still struggling to deliver their compensation for exceeding the quotas during past months.

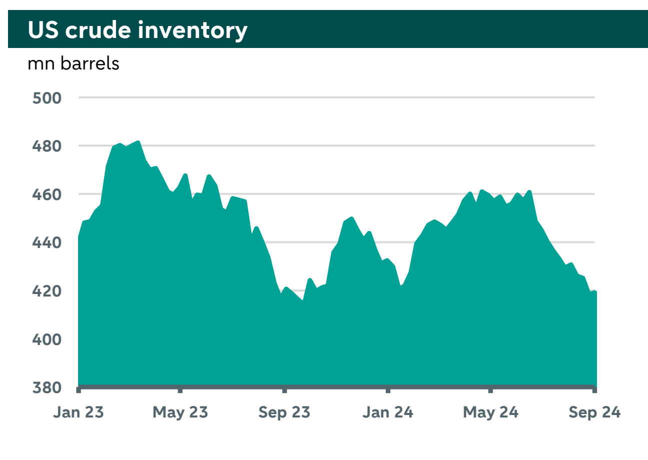
According to the IEA, global demand increased by only 0.8 mb/d in the first half of 2024, compared to 2.3 mb/d in the same period of 2023. This was the lowest growth since 2020. The IEA cites the slowdown in the Chinese economy as the main reason for this driven by a decrease in Chinese consumption, along with the ongoing real-estate crisis and the high unemployment. Accordingly, the IEA adjusted its expectations for oil demand in 2025 downwards towards 1 mb/d in 2025. In contrast, the OPEC forecast for global demand is around 2 mb/d after revising it downward by 130,000 b/d. The IEA cites high adoption rate and the proliferation of electric vehicles in China and advanced economies as a main driver for its outlook for low demand growth. Furthermore, markets have also built in some risk of a hard landing in the US, following softer labour market reports.

Meanwhile, supply from non-OPEC+ countries, especially from the US (with largest volumes of around 40%), Guyana, Canada and Brazil has been rising, and is anticipated to stay high in the coming months, which has added to the downward pressure on prices.

A similar picture is reflected by a number of key indicators, such as the Brent-gasoline crack spread, which maintained its downward trend that started in August, revealing the weakness of oil product cracks across the barrel, which in turn strengthens the bearish impact on prices (see right hand chart above). US crude inventories kept their decreasing trend in August and September (see right hand side chart below). However, inventories are set to build up in 2025 with a supply surplus widely expected in 2025. Net long positions are still at their lowest level in months, with bearish sentiment continuing to spread among market participants.



Source: Bloomberg, ABN AMRO Group Economics



Source: Bloomberg, ABN AMRO Group Economics

From the demand side, there are no signs of strong recovery from main markets yet. Data on crude demand from China in the first half of the year was lower than expected. Moreover, Chinese slower demand is expected to extend to the second half of 2024. Chinese imports from the fuel have diminished to the weakest pace in almost two years following the weakness in economic growth and the efforts to reduce reliance on fossil fuels across a number of key sectors.

Furthermore, the geopolitical premium is no longer in play as most of the fears of supply disruptions eased following a perceived de-escalation of geopolitical tensions in the Middle-East and the contamination of the conflict in Libya which threatened its oil output earlier this month.

Outlook

Given lackluste global demand and the strong supply from non-OPEC countries, we foresee the surplus in the market in the coming months. We think that OPEC+ will delay its tapering even further towards 2025. We also think that the economic recovery in main markets, following cuts in interest rates, would only gain momentum in 2025. Accordingly, we revisit our outlook for Brent downwards to average 73 $/b (was 85$) in Q4 of 2024. We further think these price levels will extend to the first quarter of 2025. However, we expect oil prices to gradually firm during the course of next year as the recovery in demand starts to bring the market into better balance. Below is a summary of our Brent outlook.

$/b	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
Outlook	73	75	77	80	80

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