

OIL MARKET

WEAK ECONOMIC ACTIVITY WEIGHS ON OIL PRICES

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SUMMARY

- > Global oil supply has continued to increase over the past three months (by 1.6mbd).
- > Meanwhile, the global economic slowdown has depressed oil demand (-2mbd in the last five months).
- > As a result, the global oil market has remained in slight oversupply (+0.4mbd on average in 2022).
- > As we expect economic activity in advanced economies to ease further during the rest of the year and the Chinese economy is likely to continue to be dragged down by its property sectors and zero-covid policy, the growth in oil demand should remain modest in the months ahead, helping dampen oil prices. The barrel of Brent could temporarily test the USD75-USD90 range.
- > If weak demand lasts, OPEC+ is likely to act swiftly to curtail supply. As a result, we expect oil prices to rebound after a temporary bout of weakness. We are revising our year-end forecast for Brent to USD100 per barrel from USD110 previously.

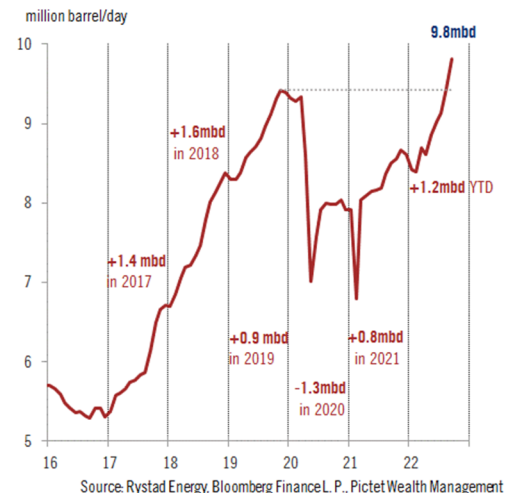
Steady increases of global oil supply

A sustained increase in global oil supply continues. In the last three months, an extra 1.6 million barrels per day (mbd) have been added. We are now back to the 2019 average (100.3mbd), with the three largest oil suppliers, US, Saudi Arabia and Russia, each contributing to this increase. US shale oil production reached a new all-time high in August of 9.8mbd. Saudi Arabia is no longer putting a brake on supply, as it did during the post-covid period. Supply from this quarter has jumped to 10.6mbd from 8.2mbd in early 2021, and is fully in line with the announced quotas.

CHART 1: WORLD CRUDE OIL AND LIQUID FUELS SUPPLY



CHART 2: US SHALE OIL PRODUCTION

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Russian data have to be taken with a pinch of salt. However, according to the US Energy Information Administration, sanctions had an initial impact on Russian supply, which dropped by 1mbd in April. However, Russia is back to producing 11mbd now, close to pre-war levels (11.3mbd).

Meanwhile, other non-OPEC+ producers are already supplying at above pre-pandemic levels. Canada is producing 0.3mbd above its 2019 average, and both Norway and Brazil 0.2mbd above.

Further increases of this order in the months to come are unlikely as spare capacity and supply elasticity are limited. In particular, the 1.2mbd increase in US shale oil production year-to-date has been helped by the large number of drilled-but-uncompleted wells (DUCs) accumulated until the covid-19 shutdowns. In order to sustain this pace of expansion, companies will have to increase drilling activity-- but so far industry executives seem reluctant to do that and remained focused on investment discipline and shareholder returns.

On top of this, inflows from the US's strategic petroleum reserve are likely to end around November, by which time 200mb will have been released this year. All in all, global oil supply is expected to stabilise close to current levels in H2.

CHART 3: US SHALE OIL WELLS

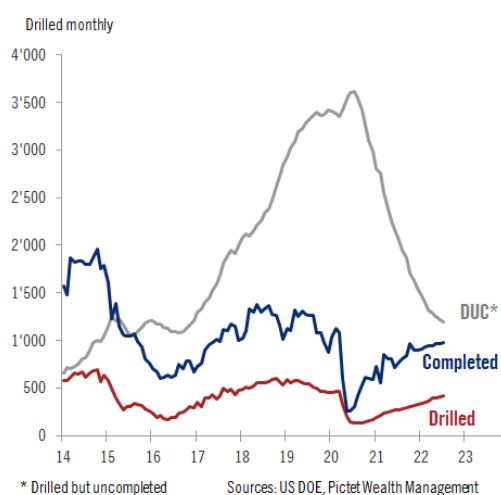
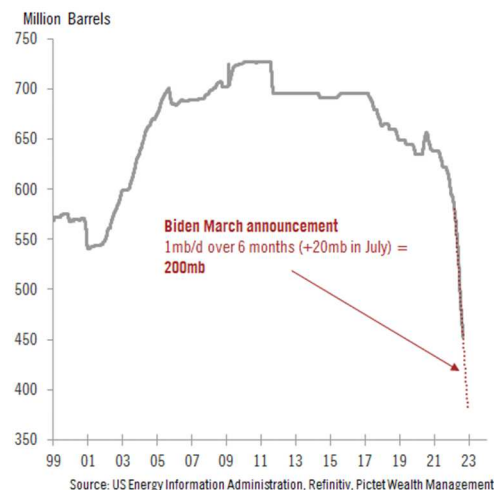


CHART 4: US STRATEGIC PETROLEUM RESERVES (SPR)



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World economic slowdown weighs on oil consumption

Meanwhile, global oil demand has remained weak, falling 2mbd in the last five months. The ongoing global economic slowdown appears to be the major cause for this. Oil demand has been particularly weak in advanced economies (-2.7mbd year to date (ytd)) but has also softened in emerging economies recently (-0.9mbd ytd) as China's economy (-0.8mbd ytd) has stuttered.

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CHART 5: WORLD CRUDE OIL AND LIQUID FUELS CONS.

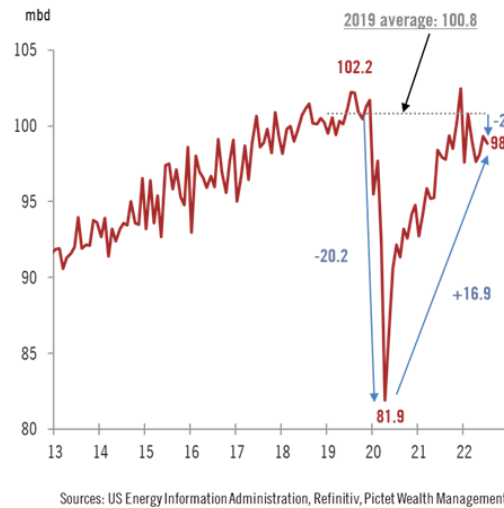
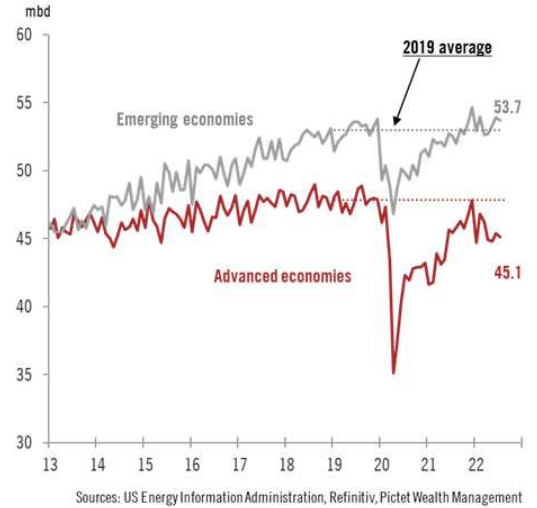


CHART 6: WORLD CRUDE OIL AND LIQUID FUELS CONS.

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Gloomy outlook for rest of the year

This situation is unlikely to change soon as the US economy is expected to weaken. The outlook for Europe appears even worse because of the ongoing energy crisis and tighter financial conditions. In China, the crisis in the property sector is still a major drag while a change in the zero-covid policy does not appear imminent.

CHART 7: WORLD REAL GDP GROWTH AND GLOBAL OIL CONSUMPTION

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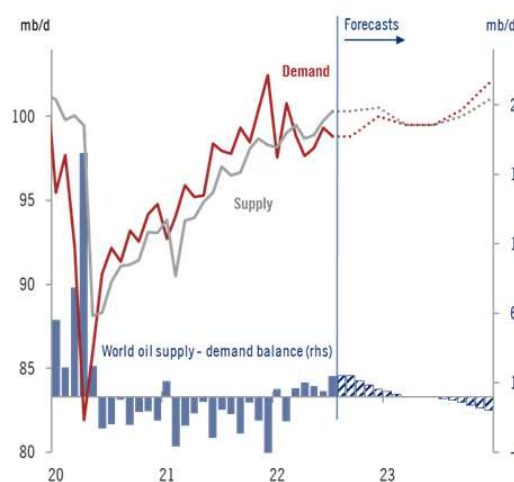
WEAK ECONOMIC ACTIVITY WEIGHTS ON OIL PRICES

For these reasons, we have decided to revise down our forecast for world growth to 2.9% this year (from a previous forecast of 3.3%) and to 2.7% in 2023 (from 3.0%). This implies weak oil demand in the months ahead (barring a temporary pickup due to a progressive shift in European power plants from gas to oil).

Oil market expected to remain oversupplied

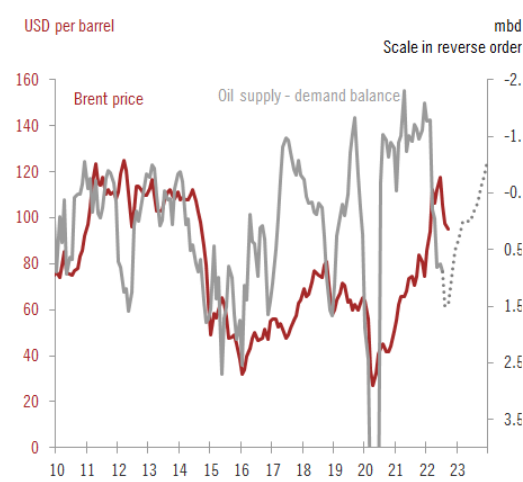
As a result, the oil market is likely to remain in slight oversupply for the rest of the year, weighing on prices. However, if oil demand remains weak for a protracted period, OPEC+ is likely to act swiftly by cutting oil supply, as hinted recently by the Saudi energy minister Abdulaziz bin Salman. Such a decision would be easy to adopt as most members are unable to fulfil their existing quotas. Only the biggest producers (Saudi Arabia, Iraq, UAE, Kuwait) would need to trim production.

CHART 8: GLOBAL OIL SUPPLY-DEMAND BALANCE



Sources: US Energy Information Administration, Refinitiv, Pictet Wealth Management

CHART 9: OIL PRICE AND GLOBAL OIL BALANCE



Sources: US Energy Information Administration, Refinitiv, Pictet Wealth Management

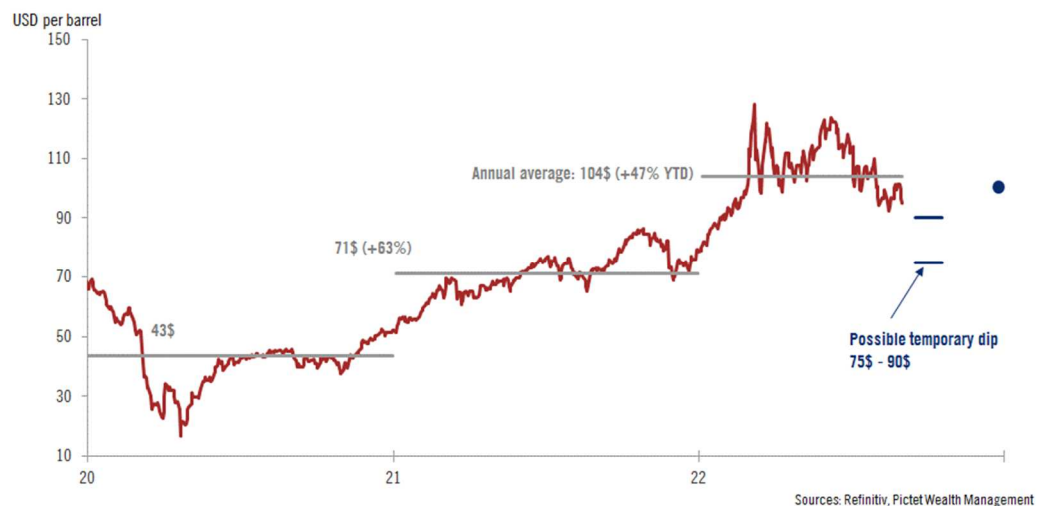
Oil prices: temporary weakness at short-term

This implies a bout of temporary weakness in the oil price in the months ahead (Brent could decline towards USD75-90), followed by a rebound due to possible OPEC+ supply cuts and the prospect that western economies start to recover in Q2 23. Nevertheless, the rebound could be modest, depending on the strength of the recovery. We are revising down our year-end forecast for Brent oil from USD110 to around USD100.

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CHART 8: BRENT PRICE FORECAST

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