THE OXFORD INSTITUTE FOR ENERGY STUDIES

Short-Term Outlook

OIES Oil Monthly

OIES OM: 01

February 2021

Saudi Arabia's surprise output cut

Bassam Fattouh and Andreas Economou argue that Saudi Arabia's decision to cut production was not political – as some have suggested – but rather based on its reading of market dynamics. In fact, this move offers Saudi Arabia greater flexibility in its future choices and shows its willingness to act independently when market conditions require. Rather than weaken OPEC+ cohesion, Saudi Arabia's surprise cut could end up enhancing it.

Saudi Arabia took the market by surprise. While the consensus expectation was for OPEC+ to release the remaining 1.5 million b/d (mb/d) of the tapered cuts to the market by April 2021, the Kingdom instead announced an output cut of 1 mb/d effective February and March (**Figure 1**). Since the announcement of the cut, the oil price rallied, despite the reintroduction of lockdowns in many parts of the globe, with Brent trading at above $55/b at the time of writing and the term structure shifting into a deeper backwardation.

Some observers considered Saudi Arabia's latest decision as political rather than 'technical'.[1] Others argued that the decision 'looks more like a capitulation to a Russian oil ministry that drove a hard bargain' and which now dictates all the shots within OPEC+.[2] Commentators have also suggested that Saudi Arabia implemented the cut to boost its 'credentials as a responsible market manager, at a crucial moment when the Kingdom needs to build an effective diplomatic relationship with the incoming Biden administration in the United States'.[3] Finally, some have suggested that the latest Saudi move would result in loss of revenues, even though this could also be seen as an insurance premium against a potential fall in oil prices.[4]

Could there be alternative and more straightforward—albeit less exciting—explanations and interpretations? A few observations.

First, in an uncertain environment where restrictions are being reimposed in many parts of the world, prudence and flexibility are key. If demand falls as a result of renewed restrictions, then the cut would help keep the market balanced and the stock-build in check. If demand were to fare better than expected, then this move would help draw down stocks which remain elevated compared to the five-year (2015-2019) average. In other words, the Saudi cut could help bring forward the rebalancing process by a few months if demand turned out to be stronger than feared. Reducing overground stocks allows Saudi Arabia more flexibility in responding to demand uncertainties. It also helps maintain the market structure in backwardation, discouraging stock building and hedging by US shale producers.

Second, Saudi Arabia's decision to cut also asserts the Kingdom's leadership and its willingness to act independently when market conditions require. It is becoming increasingly clear that Russia and Saudi Arabia have different perspectives on market dynamics: Russia prefers to restore output and keep prices within the $45/b-$55/b price range.[5] Its views on US shale are also fundamentally different from the market consensus: Russia expects a strong rebound in US shale production as prices recover above $50/b and views with unease the increasing share of US crude exports to Europe as it has been the top destination for Russian crude — absorbing 76% of Russia's total exports between 2013-2016. Between 2016 and 2020, Russia's exports to Europe declined by an average of 282,000 b/d, while during the same period, US exports surged by 349,000 b/d from a mere 23,000 b/d back in 2016 (**Figure 2**). Although under the latest agreement Russia's quota was increased by 65,000 b/d, its Urals exports are projected to decline in February (with the decline probably extending into March) allowing the US to gain market share in Europe during the next few weeks, depending on demand.[6] Russia also seems to be less concerned with high levels of commercial stocks.

Fig 1: Saudi Arabia oil production

Source: IEA, OIES

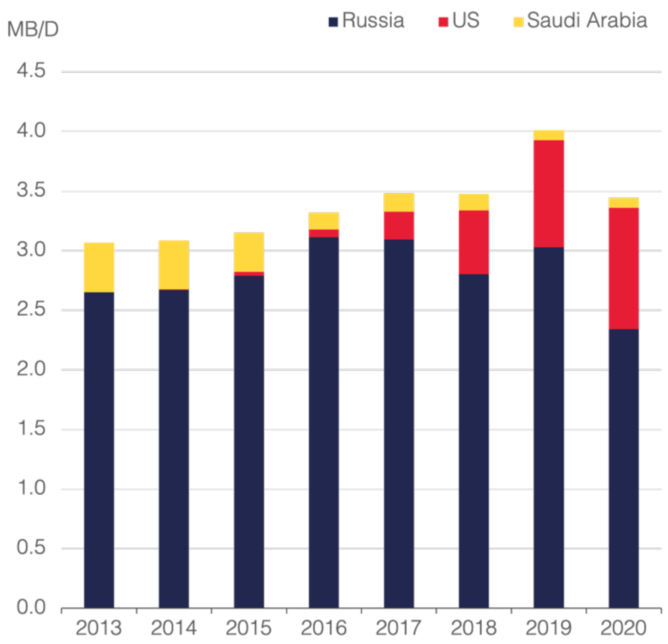
In contrast, Saudi Arabia has a different understanding of these dynamics and believes that increasing output at this point, in line with Russia's desire, would undermine some of its own objectives of acting pre-emptively, not risking the rebalancing process and attempting to bring stocks down. By Saudi Arabia cutting its output, Russia and Kazakhstan limiting their increase to a few thousand barrels a day (75,000 b/d), and the rest of OPEC+ holding off any increase in output of 1 mb/d and still targeting nearly 1.5 mb/d of compensation cuts in February and March, the latest OPEC+ decision can be seen as a sort of 'compromise'. After all, given the diversity of the group, OPEC decisions are subject to 'constrained optimisation', with OPEC+ cohesion acting as a binding constraint.

Third, one of the key points missing in the commentary is that the latest policy move increases Saudi Arabia's flexibility and widens its policy choices. If demand rises sharply as vaccines are rolled out, then Saudi Arabia can capture a big part of this demand increase by ramping up its output from a relatively low base (**Figure 3**). If in contrast, demand turns out to be weaker (*delayed recovery scenario*), then Saudi Arabia can gradually return these barrels to the market, for instance on the condition that other OPEC+ members agree to hold their output. In this *OPEC+ extension scenario*, Saudi Arabia will be able to maintain progress on market rebalancing and price recovery: it can sustain annual Brent above $50/b and eliminate the $3.1/b negative price impact on prices due to weaker demand to a mere $0.1/b in annual terms (see **Figure 4**). Thus, as a result of the latest move, the range of options facing OPEC+ has widened. This will make it more difficult to predict the group's next move and may discourage some shorts from entering the market. After all, in the last few months, Saudi Arabia has been successful in surprising the market and has been willing to take big actions (such as the 1 mb/d cut) to have the maximum impact on the market and expectations.

Lastly, in terms of revenues, there has been some debate on the potential revenue loss that the Kingdom could incur as a result of the cut.[7] But losses are not the only potential outcome:

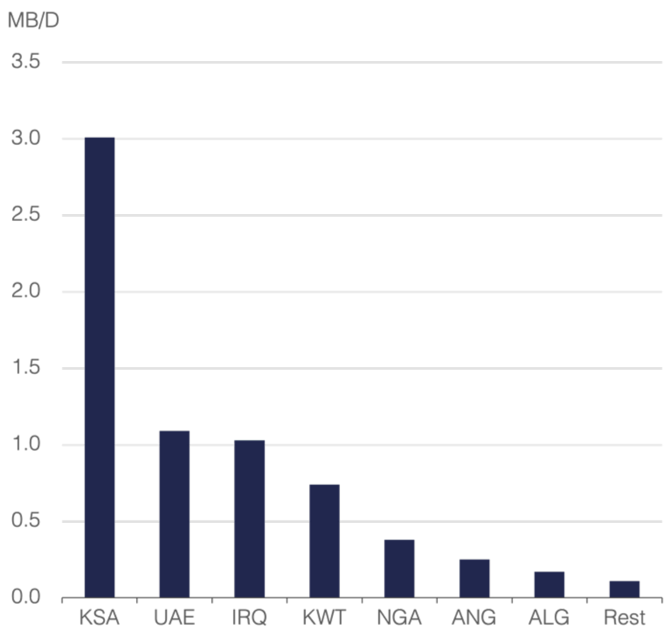
- In order to calculate gains or losses in revenue, one should compare (a) what prices would have been in the absence of the Saudi cut with (b) OPEC+ adding 500,000 b/d of supply in February and March. If OPEC+ had gone for the latter option, prices would have taken a hit and fallen below $50/b, given the high level of uncertainty on the demand side.
- At the same time, with Saudi Arabia announcing the cut in January with actual cuts taking effect in February and March, Saudi Arabia has achieved a higher price for its January sales. In fact, our daily price model—based on a decomposed market sentiment index—suggests that the Saudi announcement on Jan 5, 2021 accounted for

Fig 2: EU crude imports by origin



Source: Kpler, OIES

Fig 3: OPEC(10) spare capacity



Source: OIES

almost the entire $4.9/b price increase in the week ending Jan 8 (by $4.73/b), pushing and sustaining prices near $55/b on average for the remainder of the month (**Figure 5**). Therefore, the period for calculating the change in revenues should not be February and March only; it should also include January.

- Also, the benefits of the cut may not only be limited to March. Depending on how much stocks fall and on OPEC+'s next step, the benefits could extend beyond March to the rest of the year.

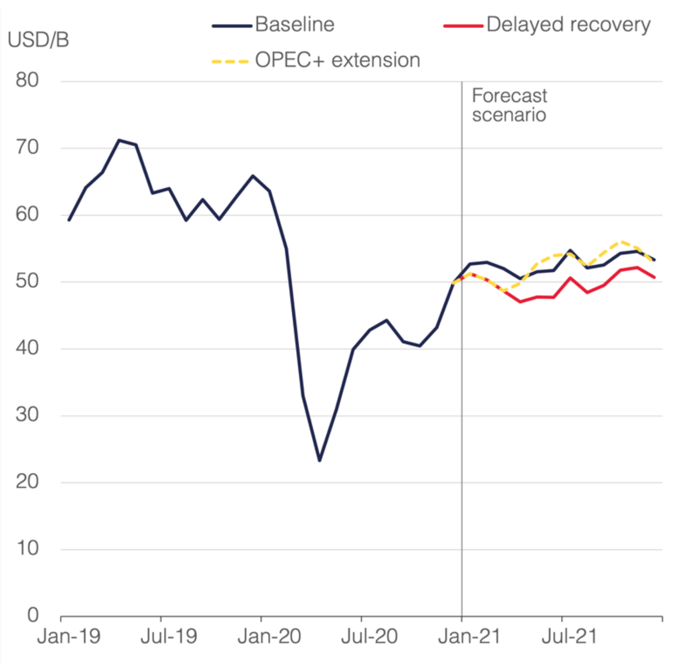
To empirically assess the above points, we estimate the Saudi gross oil revenues based on two scenarios: (1) current OPEC+ and Saudi policy, assuming that Saudi Arabia returns the withheld 1 mb/d in April and OPEC+ collectively return the remaining 1.5 mb/d by June 2021 (*KSA cut scenario*); and (2) Saudi Arabia and the OPEC+ return the remaining 1.5 mb/d back into the market between February and April 2021, signaling their intention from January 2021 (*tapering scenario*). Results show that while under the current deal Saudi Arabia is expected to post a loss of $0.70 billion in Q1 2021 compared to the tapering scenario – revenue losses that are confined to February and March – the boost in oil prices will more than offset these losses in Q2 (+$1.48 billion) and Q3 (+$0.54 billion) to end the year $0.68 billion higher than the tapering scenario (see **Figure 6**). In short, the revenue loss is not a forgone conclusion and one can easily show that under certain assumptions, the revenues could indeed turn out to be higher than the alternative scenario of OPEC+ increasing output by 500,000 b/d.

Some potential risks

That said, there are risks associated with the recent cut. As pointed out by many observers, the unilateral cut may distort the incentive for the other OPEC+ producers to comply with their quotas. Also, by offering Russia some sort of 'special' treatment, it could weaken the cohesion within OPEC+. The recent rise in oil prices may also spark an increase in rig activity and a quick rebound in US shale production. In this case, the cut could be fully or partially offset by other producers, eroding any gains over time. Some have argued that the Kingdom also abandoned a key principle of not acting unliterally and that any cut should be implemented collectively with other producers. A related point often made is that Saudi Arabia has reasserted its role as the swing producer, a role it stopped playing in 1986.[8] It is worth highlighting a number of points:

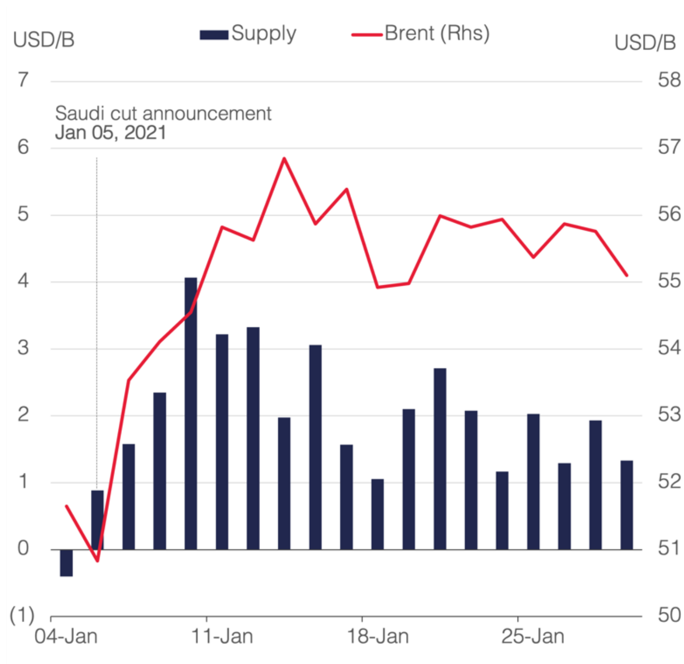
- The cut is limited in its duration. It is important to note that Saudi Arabia (with Kuwait and the UAE) offered a similar voluntary cut in June 2020 without having much impact on OPEC+ compliance. Between May and December 2020, compliance has been exceptionally high (close to 100% for OPEC+). It is also offered in a specific context where uncertainties due to the spread of the virus are exceptionally high. Thus, extending the concept of a

Fig 4: OPEC+ options forecast scenario



Notes: Brent price. Source: OIES

Fig 5: Supply signal contribution on daily Brent

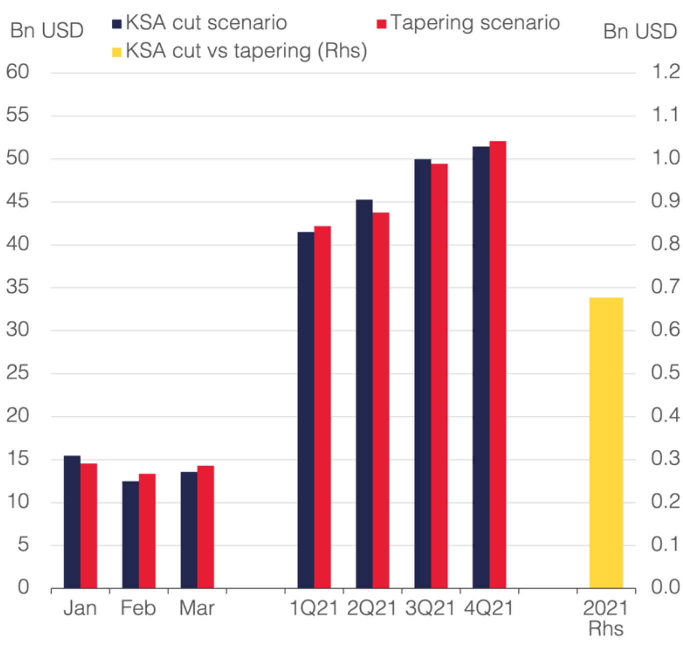


Source: OIES

limited cut to that of a swing producer is a step too far, especially given that Saudi Arabia insists it will not play this role again. For a swing producer to be effective, it needs to swing all the time in response to changing market conditions; it needs to swing in all directions; and it needs to send a credible signal to the market that it is willing to play this role under all market circumstances. None of these conditions are currently met.

- It is in the interest of the rest of OPEC+ to ensure that they retain high compliance, especially in February and March. Over the years, Saudi Arabia has shown its willingness to shift policy and maximise output if compliance falls and/or if the perceived costs of cooperation exceed the perceived benefits.[9] Thus, Saudi Arabia can easily swing in the opposite direction in response to low compliance and given the relatively low level of Saudi production, the size of the upward swing could be quite substantial, as was the case in April 2020. The possibility of a shift in Saudi policy would help align the interests of OPEC+ and encourage compliance. This is because the expected gains from sticking to the agreement and achieving extra benefits from the Saudi cut exceed the losses resulting from a collapse of the agreement and the ensuing fall in oil prices and shift in market sentiment.

Fig 6: Saudi Arabia gross oil revenues



Source: OIES

The full impact of Saudi Arabia's latest decision is yet to be determined, as will be shaped by a large number of factors including the pace of demand recovery, the cohesion within OPEC+, OPEC+'s next move, and US shale response, to mention a few. But the above analysis shows that Saudi Arabia's latest decision should be analyzed in terms of market factors without resorting to political explanations. It also shows that OPEC+ decisions are the outcome of a 'constrained' optimisation. One of the key advantages of the latest decision is that it has widened OPEC+ policy options, and this, rather than weakening OPEC+ cohesion, should enhance it in very challenging times.

Footnotes:

1 See Sylvia Westall, Javier Blas, and Fiona MacDonald, 'Saudi Prince Hits a New Year Reset by Making Allies, Not Enemies', Bloomberg January 8, 2021.

2 Ellen R. Wald 'With Surprise Oil Production Cut, The Saudis Revisit Role As 'Swing' Producer', Forbes January 5, 2021.

3 John Kemp. 'Swinging again, Saudi Arabia sacrifices market share to protect oil price: Kemp', Reuters, January 6, 2021.

4 Julian Lee, 'The Real Price of Saudi Arabia's Surprise Oil Cuts', Bloomberg January 7, 2021.

5 Tass, 'Russian government considers $45-55 per barrel oil price range optimum', 25 December 2020.

6 Olga Tanas, Dina Khrennikova and Elena Mazneva, 'Russia Keeps Crude at Home to Tackle Domestic Fuel Price Surge', Bloomberg January 26, 2021.

7 Julian Lee, 'The Real Price of Saudi Arabia's Surprise Oil Cuts', Bloomberg January 7, 2021.

8 John Kemp. 'Swinging again, Saudi Arabia sacrifices market share to protect oil price: Kemp', Reuters, January 6, 2021.

9 See Bassam Fattouh, 'Saudi Oil Policy: Continuity and Change in the Era of the Energy Transition'. Oxford Institute for Energy Studies, 2021.

Bassam Fattouh

Dr. Bassam Fattouh is the Director of the Oxford Institute for Energy Studies and specializes in international oil pricing systems, OPEC pricing power, security of Middle Eastern oil supplies, and the dynamics of oil prices and oil price differentials.

Andreas Economou

Andreas Economou is a Senior Research Fellow at the Oxford Institute for Energy Studies and specializes on the empirical analysis of crude oil markets and oil price shocks, the real-time analysis of oil price risks and OPEC behaviour.

Outlook

Key insights

- **Our reference forecast for Brent in 2021 and 2022 stands at $55.4/b and $63.5/b, respectively.** After surging by more than $10/b since November 2020 to average $54.6/b in January 2021, we expect prices to hold in the $50/b-$60/b range in 2021 and push towards the $60/b in the second half of the year. The Brent Prospect that takes into account the uncertainty underlying the outlook holds above $50/b in both years.

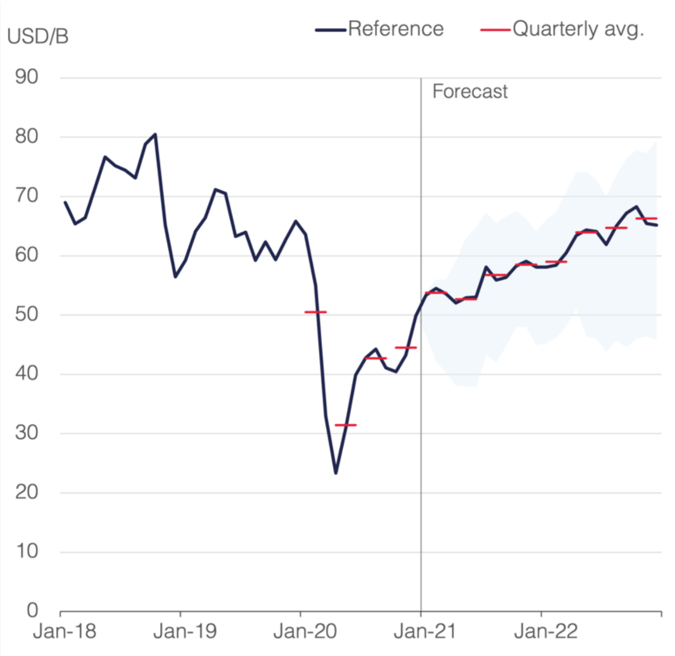
- **The balance of risks to our reference outlook remains skewed on the downside but continues to ease relative to previous months.** Near-term demand concerns over the virus resurgence weigh heavily in H1 2021 (-$8.5/b on average), but as vaccines reach the critical mass and the virus is contained while stimulus policy measures lift the global economy, we expect demand-side risks to balance in 2022 (-$0.9/b). In contrast, supply-driven risks associated with OPEC+ cohesion, the end of the OPEC+ deal and Iran's potential return build progressively towards 2022 to become the most prevalent downside risks (-$8.9/b) to the balance.

- **We estimate that global oil demand declined y/y by 8.6 mb/d in 2020 and expect growth to rebound by 5.5 mb/d in 2021 and by 2.5 mb/d in 2022.** The pace of demand recovery remains uneven across regions with Asian demand faring better to the outlook–particularly China and India–and transport consumption leading the growth in terms of products.

- **Global oil supply is seen contracting y/y by 6.6 mb/d in 2020 before returning to growth by 1.4 mb/d in 2021 and by 2.2 mb/d in 2022.** Non-OPEC supply growth is expected to remain modest into next year (+0.6 mb/d) as US crude supply is projected to contract further by 0.2 mb/d.

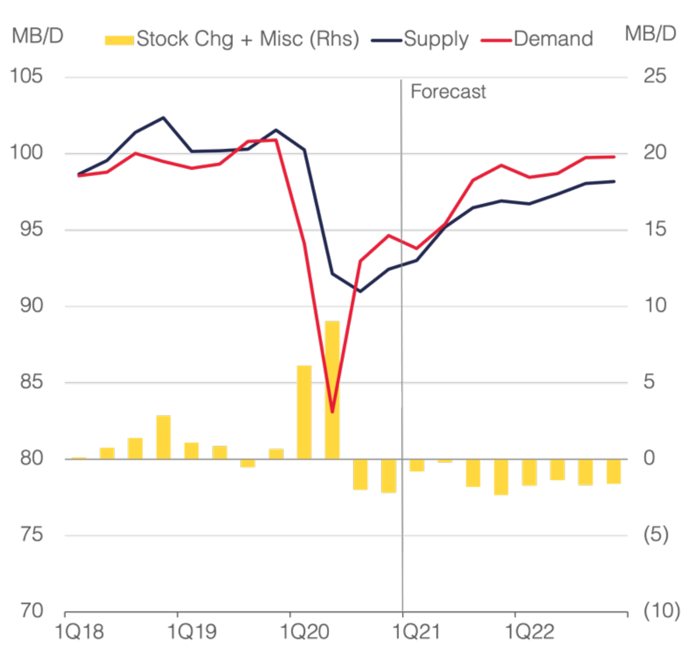
- **After a 2.7 mb/d surplus in 2020, for 2021 and 2022 we expect the market to fall into a 1.3 mb/d and 1.6 mb/d deficit respectively.** Considering the latest OPEC+ move and surprise Saudi cut we now see the first signs of surplus stocks clearing in 2022.

Brent price outlook



Source: OIES

Global balance



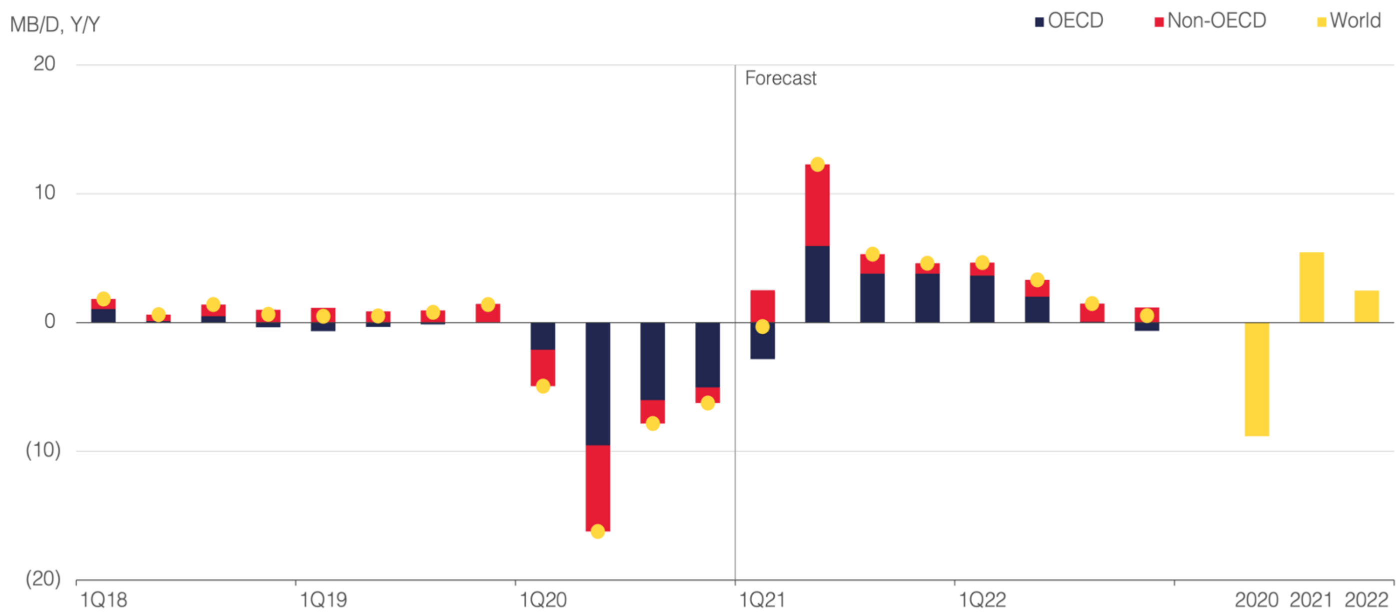
Source: OIES

Demand

Momentum wanes but strong growth still expected in 2021

Renewed virus concerns raise downside risks at the start of the year, but oil demand rebound is expected to regain speed as vaccines and fiscal support roll-out

Global oil demand



Source: OIES

Global oil demand MB/D	Total	Y/Y	vs 4Q19[1]
2020	91.2	(8.8)	(6.3)
2021	96.7	5.5	(1.7)
2022	99.2	2.5	(1.0)

[1] Compared to Q4 in each year.

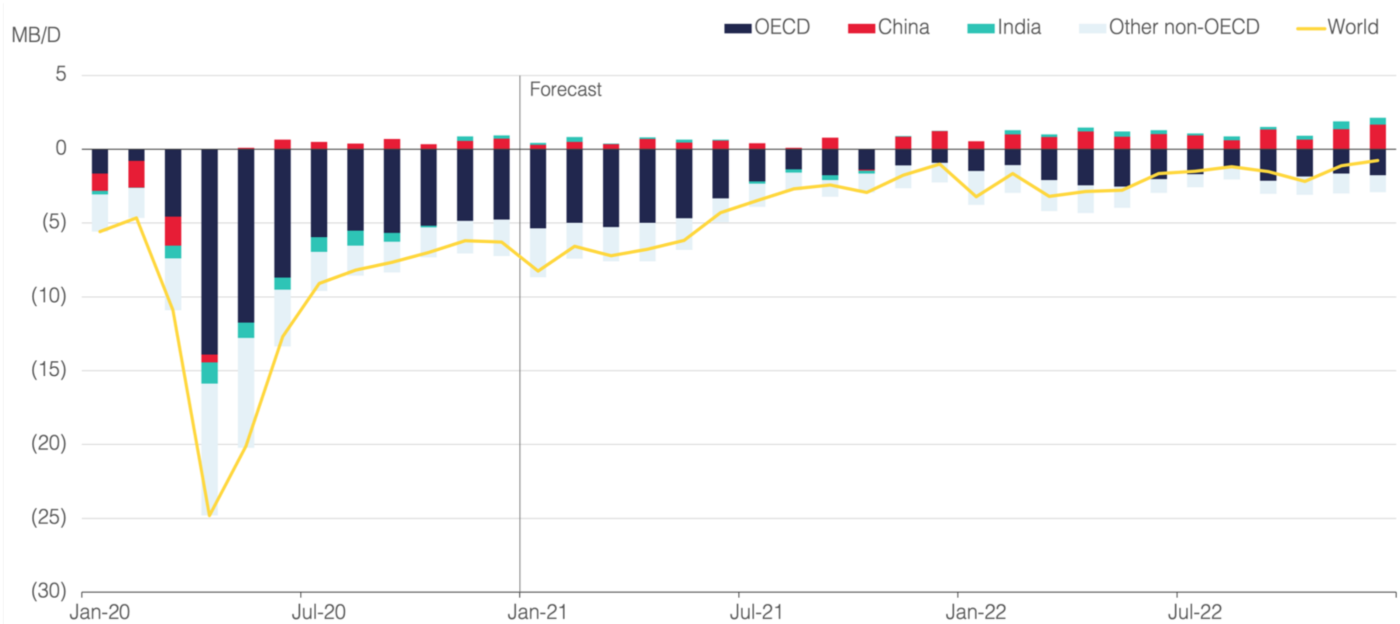
Global oil demand growth is expected to rebound to 5.5 mb/d in 2021

Our global economic growth assumptions are based on IMF's World Economic Outlook projections and see global GDP growing by 5.5% y/y in 2021 and 4.2% in 2022, after a dip by -3.5% in 2020.

The pace of demand recovery remains highly uneven

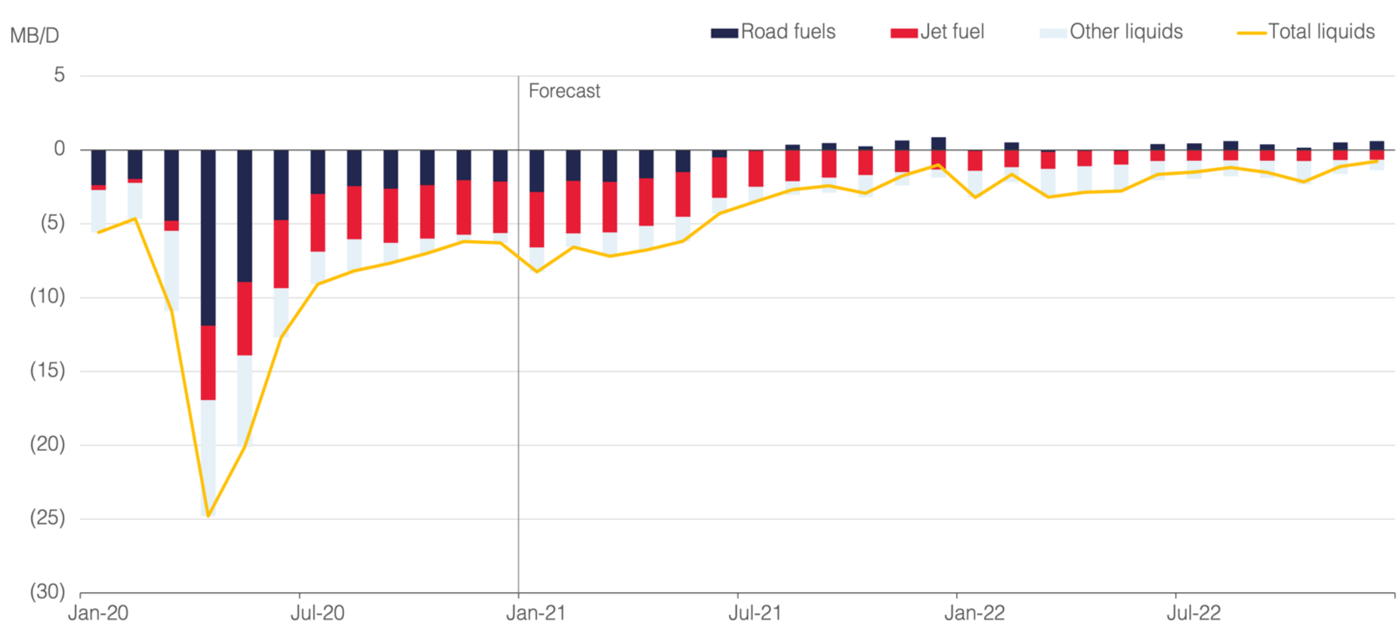
China and India doing most of the heavy lifting with the rebound seen accelerating across all regions from H2 2021, driven mainly by road fuels while jet fuel struggles

Global oil demand by region vs Dec 19



Source: OIES

Global oil demand by sector vs Dec 19



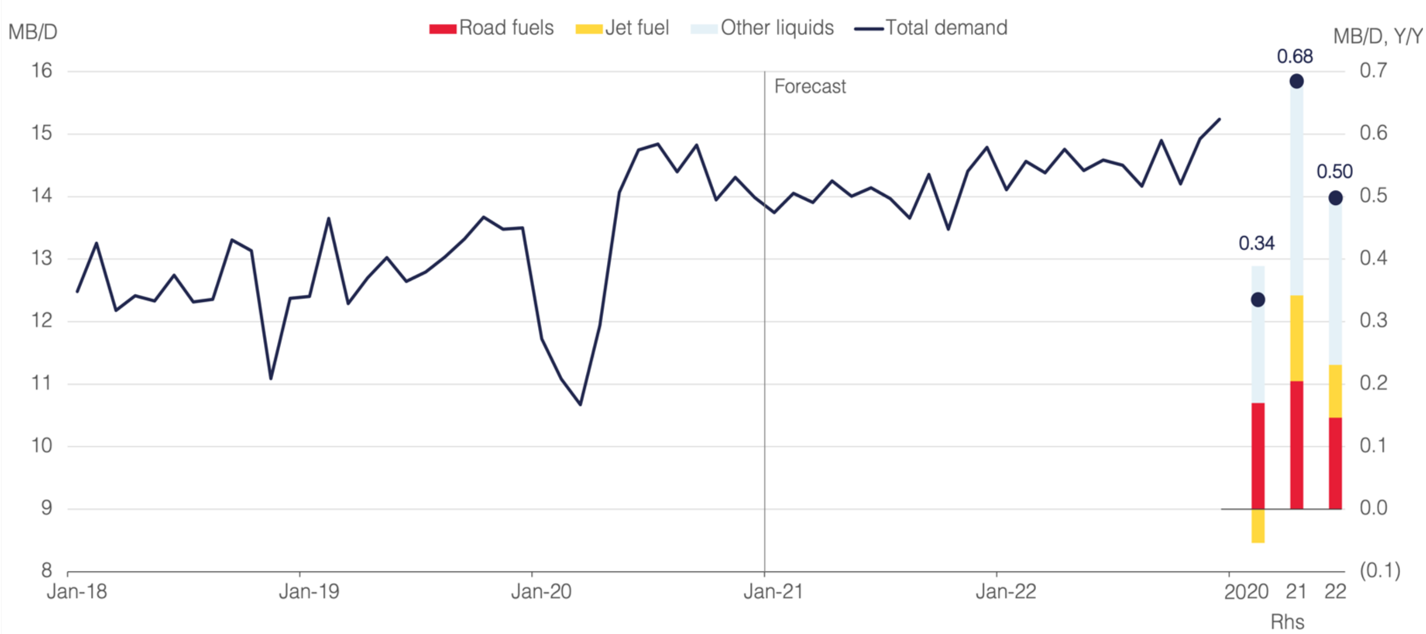
Notes: Other liquids include fuels for other transport, commercial/residential use, industry and other uses. Source: OIES

China

China's product demand to grow strongly in 2021, despite a weak Q1

China's product demand grew strongly in 2020: transport consumption picked up in Q4 and demand for chemicals was strong throughout

China implied product demand



Notes: Other liquids include fuels for other transport, commercial/residential use, industry and other uses. Source: OIES

China oil demand
MB/D

	Total	Y/Y	vs 4Q19[1]
2020	13.4	0.3	0.5
2021	14.1	0.7	0.7
2022	14.6	0.5	1.2

[1] Compared to Q4 in each year.

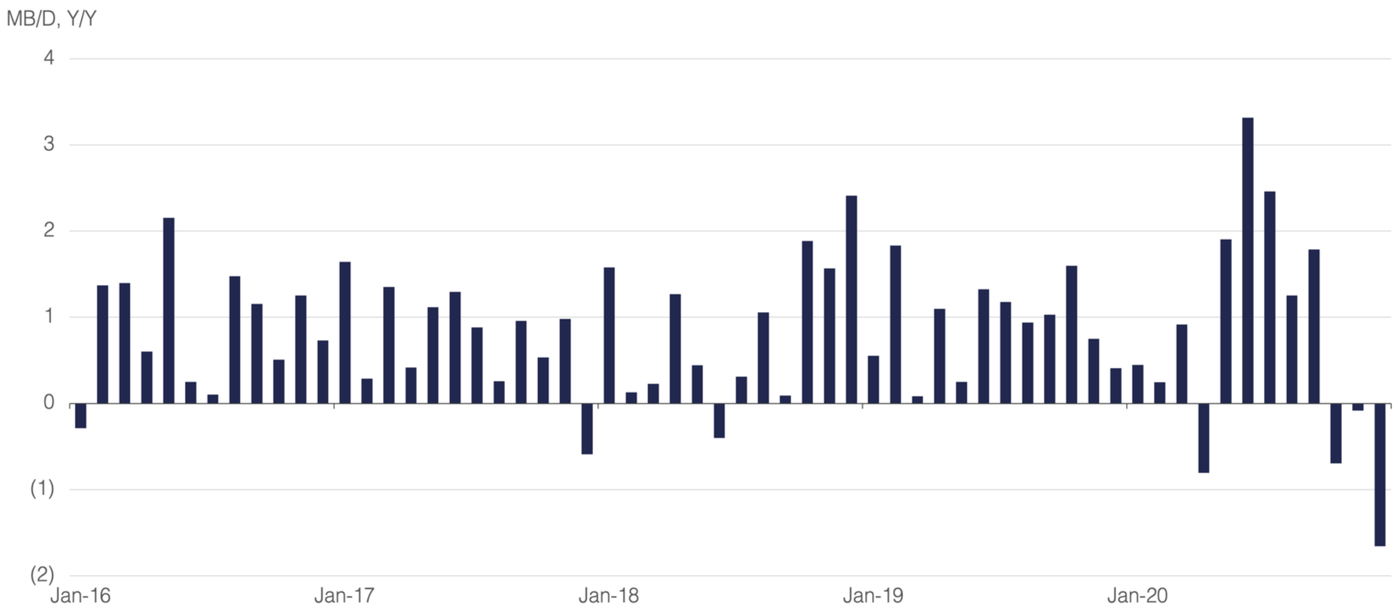
We expect China's product demand to grow by 0.7 mb/d in 2021 and crude imports to rise strongly

China's economy recovered quickly in H2 2020, and with the government committed to reviving economic activity the outlook remains positive for the coming 24 months. China's GDP is expected to expand by 8.1% in 2021 and 5.6% in 2022.

China’s crude imports to resume as new refining capacity starts up

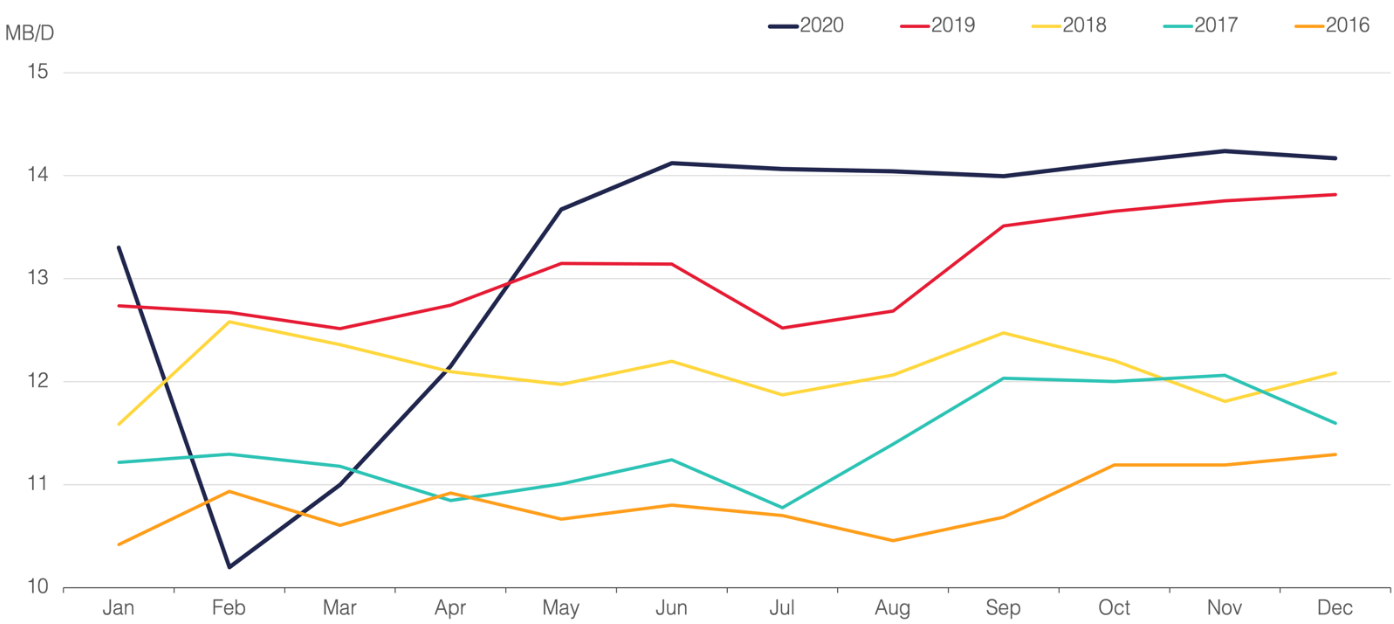
Crude imports have come down from record highs and will likely stay subdued through the Lunar New Year and refinery maintenance season but will rise subsequently

China crude imports



Source: China customs, OIES

China refinery runs

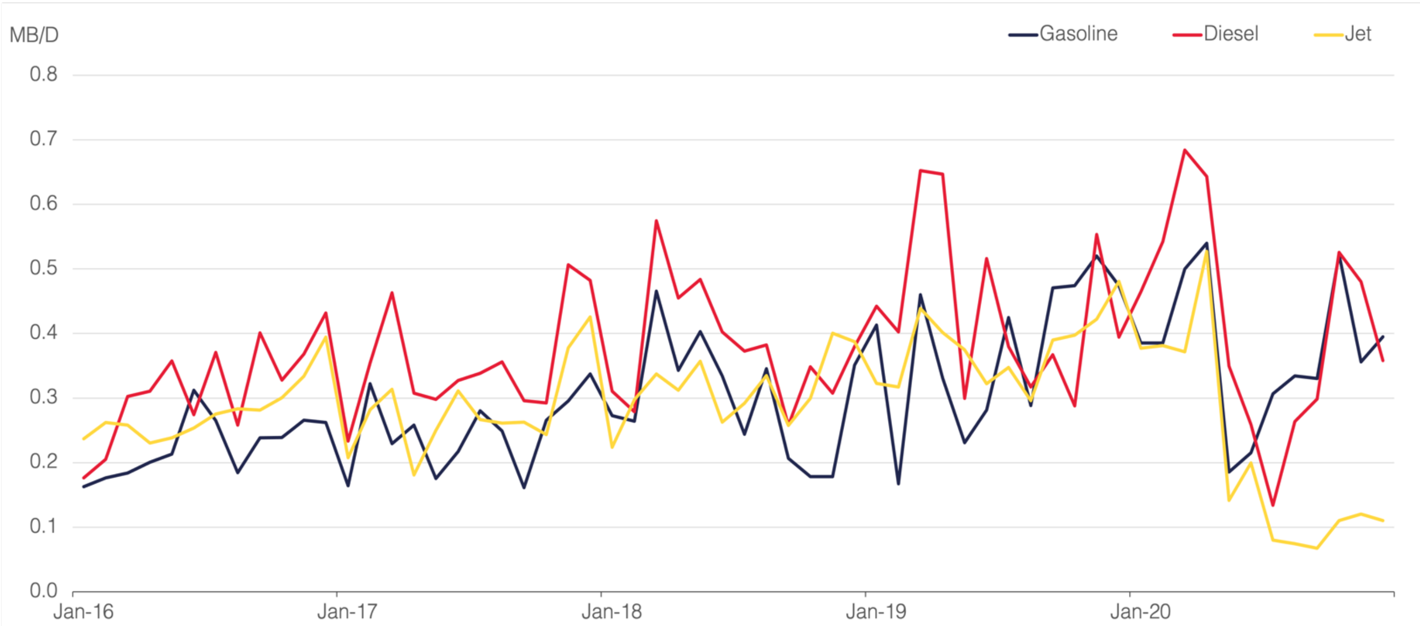


Source: NBS, OIES

China's product exports will rise in 2021 as stocks will need to draw

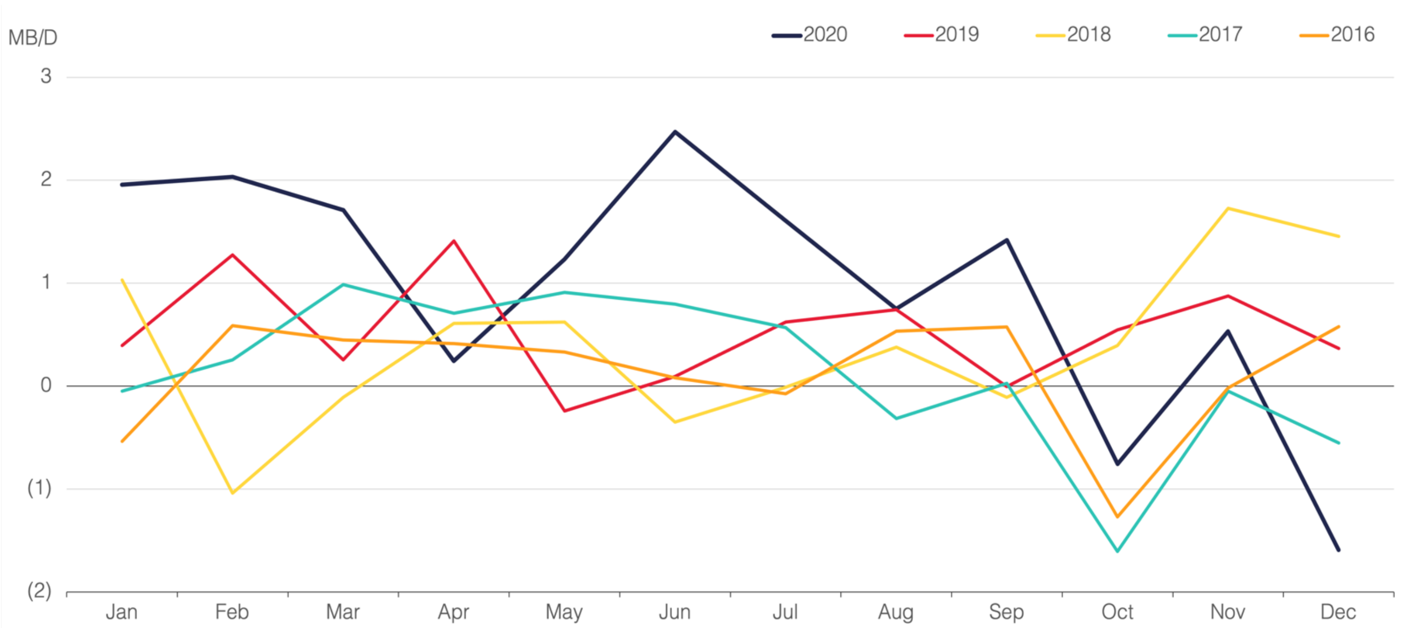
Product exports disappointed in 2020 on a weak export arb, while crude stocks have been falling, but if travel constraints hit demand anew, stocks will start building again

China product exports



Source: China customs, OIES

China implied stocks



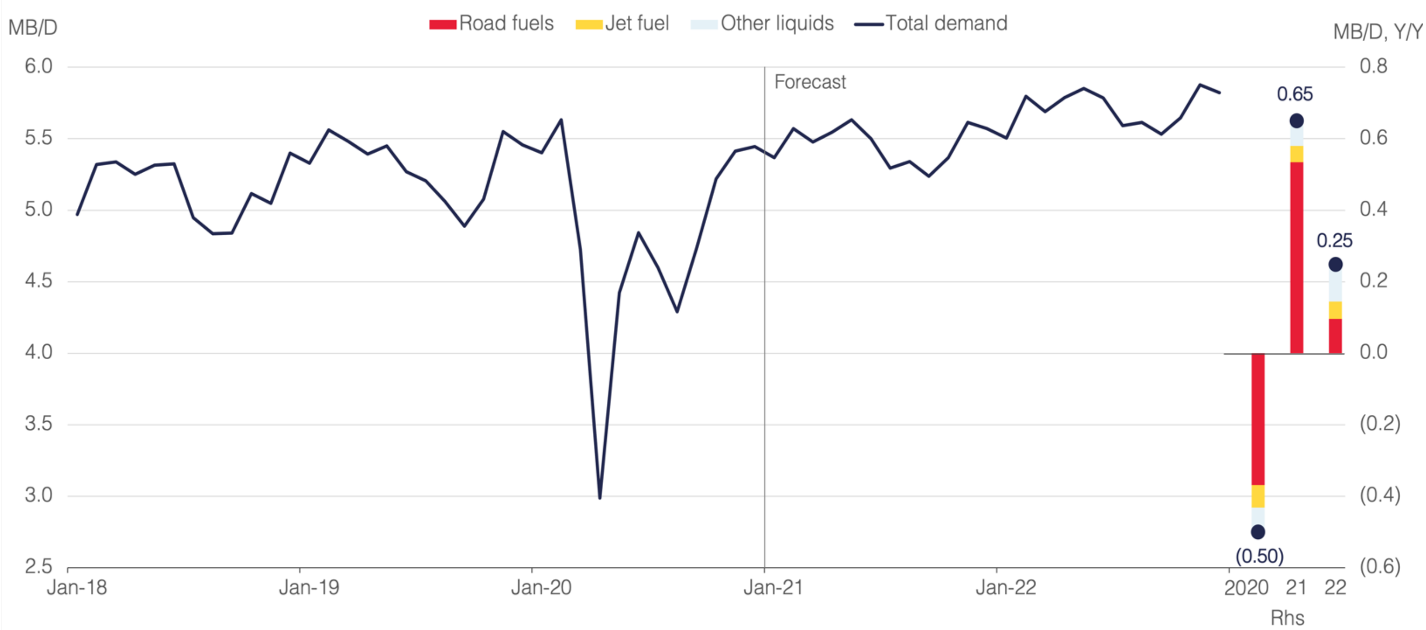
Source: NBS, China customs, OIES

India

India to continue on a gradual recovery path

A stronger-than-expected Q4 2020 lifted overall products demand to pre-pandemic levels, but India's favourable outlook remains subject to virus and policy vulnerabilities

India implied product demand



Notes: Other liquids include fuels for other transport, commercial/residential use, industry and other uses. Source: OIES

India oil demand MB/D	Total	Y/Y	vs 4Q19[1]
2020	4.8	(0.5)	0.0
2021	5.5	0.7	0.2
2022	5.7	0.2	0.4

[1] Compared to Q4 in each year.

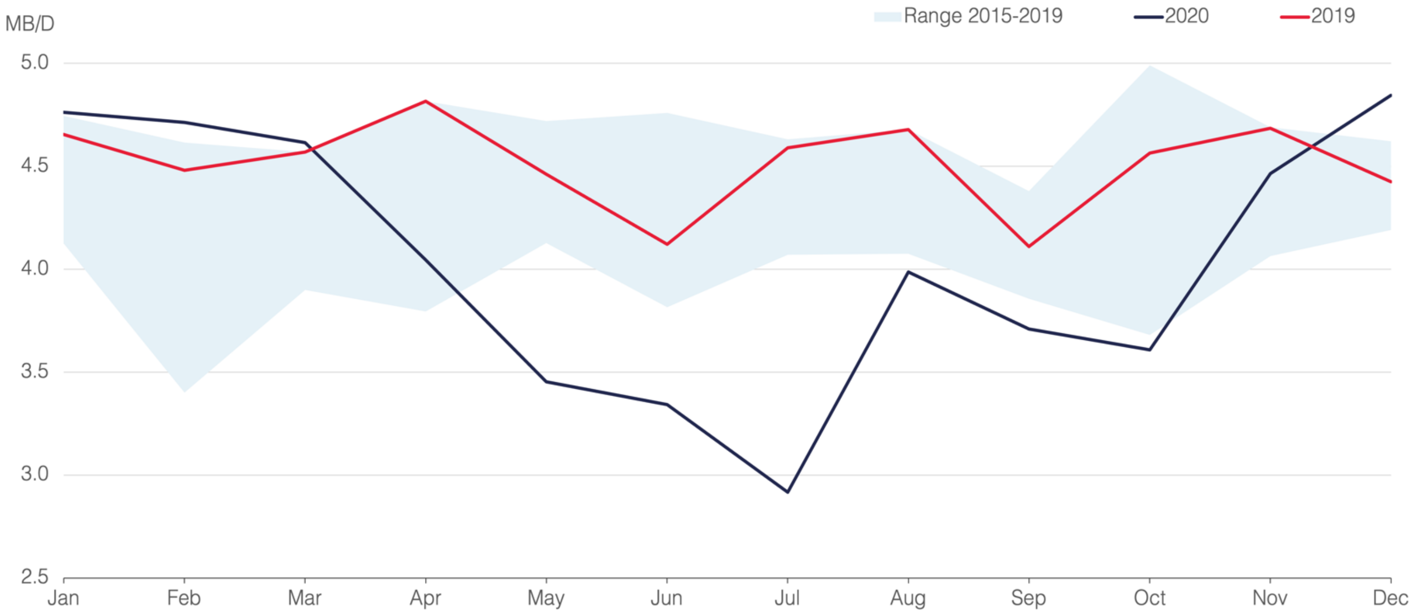
India's product demand is expected to return to 0.65 mb/d growth in 2021

Following a stark GDP contraction by -8% in 2020, our assumptions see India's GDP rebounding by 11.5% in 2021 and 6.8% in 2022.

India's oil imports surged ending-2020 as refiners increased runs

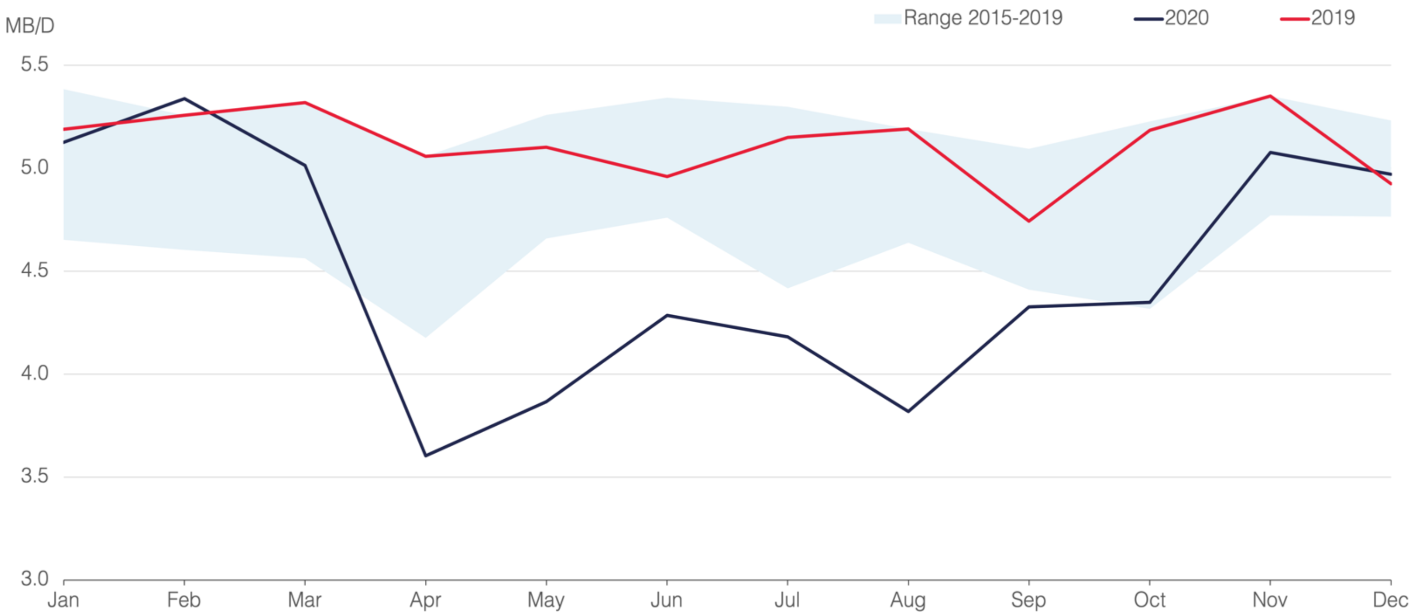
As India unlocks from stringent mobility restrictions and vaccines roll-out, robust demand for transport fuels – in particular for gasoline – will keep driving growth

India crude imports



Source: PPAC, OIES

India refinery runs



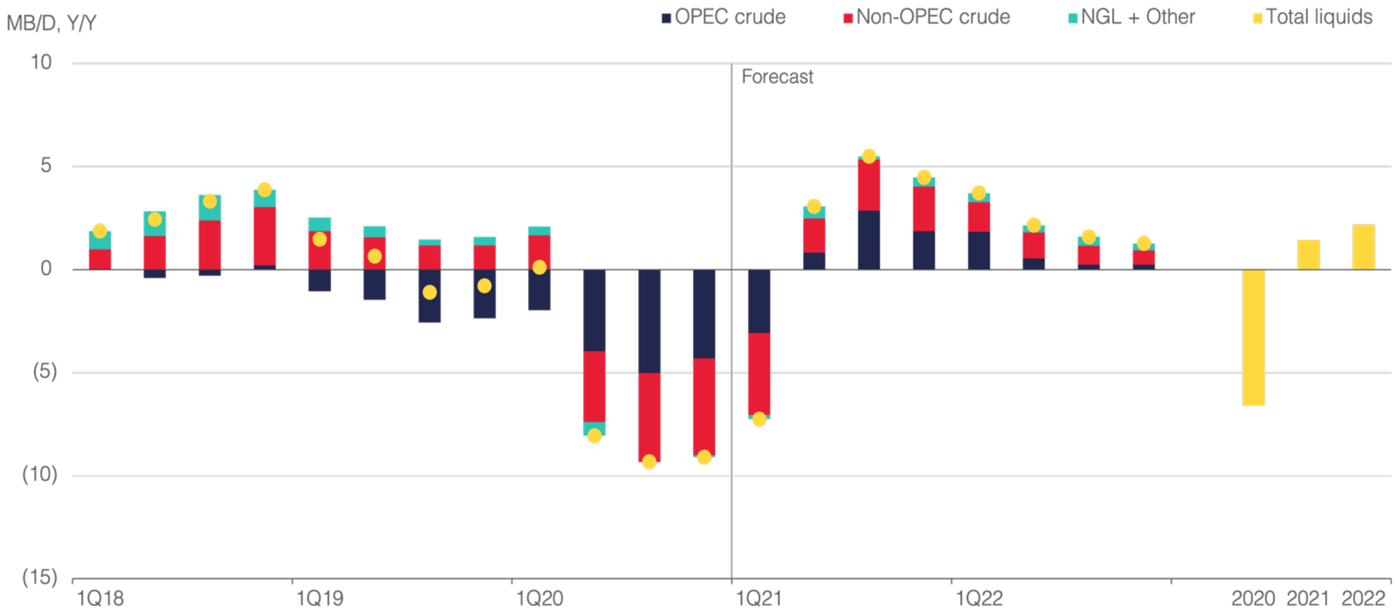
Source: PPAC, OIES

Supply

Saudi Arabia and OPEC+ reduce supply growth in 2021

An already subdued rebound of global supply in 2021, as activity remains largely depressed, is now aggravated by the latest output cutback by OPEC+

Global oil supply



Source: OIES

Global oil supply MB/D	Total	Y/Y	vs Dec-19[1]
2020	94.0	(6.6)	(8.5)
2021	95.4	1.4	3.8
2022	97.6	2.2	1.2

[1] Compared to December in each year.

We expect global oil supply in 2021 to expand by 1.4 mb/d and by 2.2 mb/d in 2022

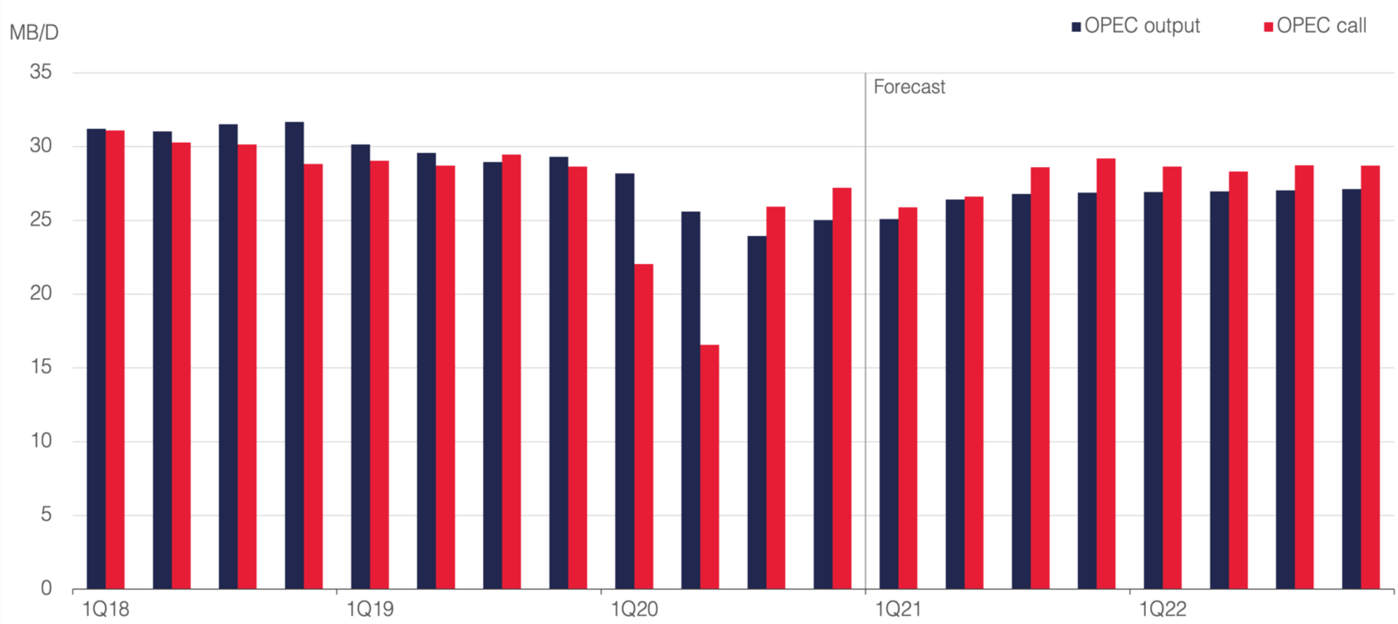
Our forecasts incorporate the latest OPEC+ decision to withhold 1.5 mb/d of production in Feb/Mar, excluding a 0.15 mb/d increase from Russia and Kazakhstan. We also incorporate the extra 1 mb/d cut from Saudi Arabia in the months of Feb/Mar. We assume that the entire 2 mb/d of withheld OPEC+ production returns by June 2021.

OPEC

OPEC will keep surprising the market

Demand concerns over the virus resurgence pushed back the gradual return of 2 mb/d in Q1 2021, but we still expect the remaining 1.5 mb/d to return by June 2021

OPEC supply



Notes: Assumes 100% compliance with OPEC+ deal. Source: OIES

OPEC supply
MB/D

	Output	Call	± dif.
2020	25.7	22.9	2.7
2021	26.3	27.6	(1.3)
2022	27.0	28.6	(1.6)

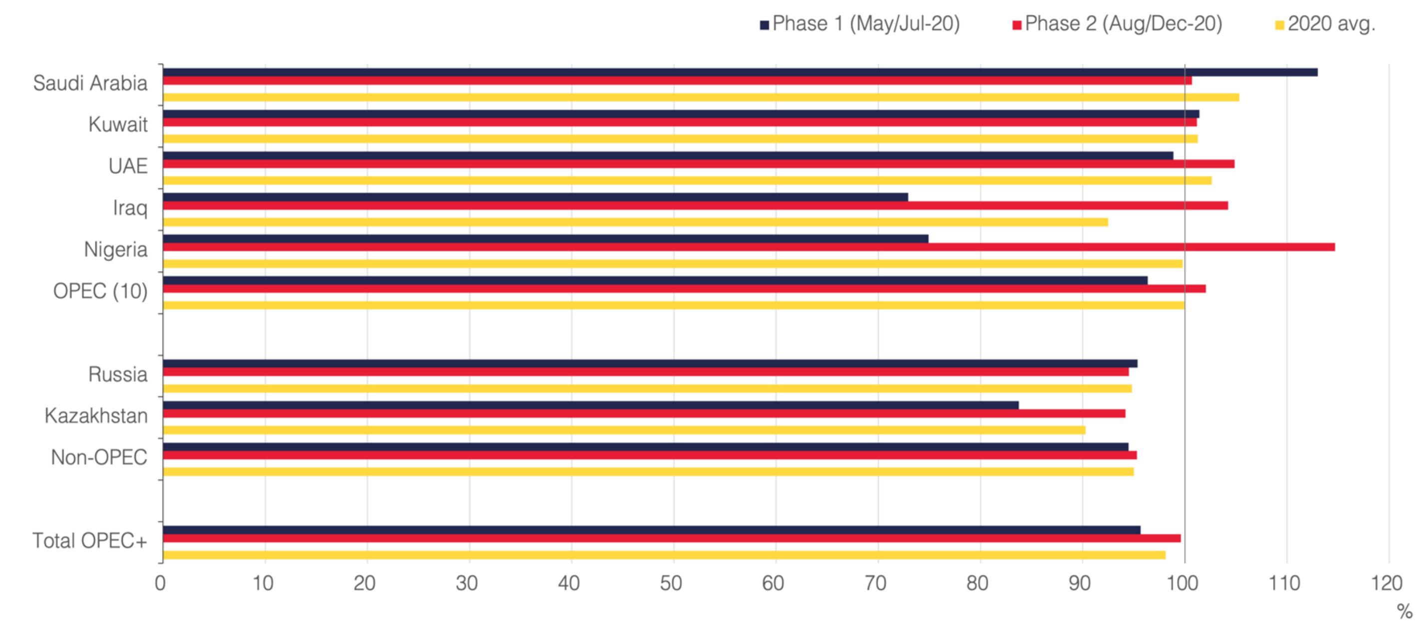
The call on OPEC crude is expected to recover to 27.6 mb/d in 2021

All forecasts assume 100% compliance with OPEC+ deal and no compensation cuts. For 2022, we assume no collective exit from the agreement after April 2022.

High compliance remains key in 2021

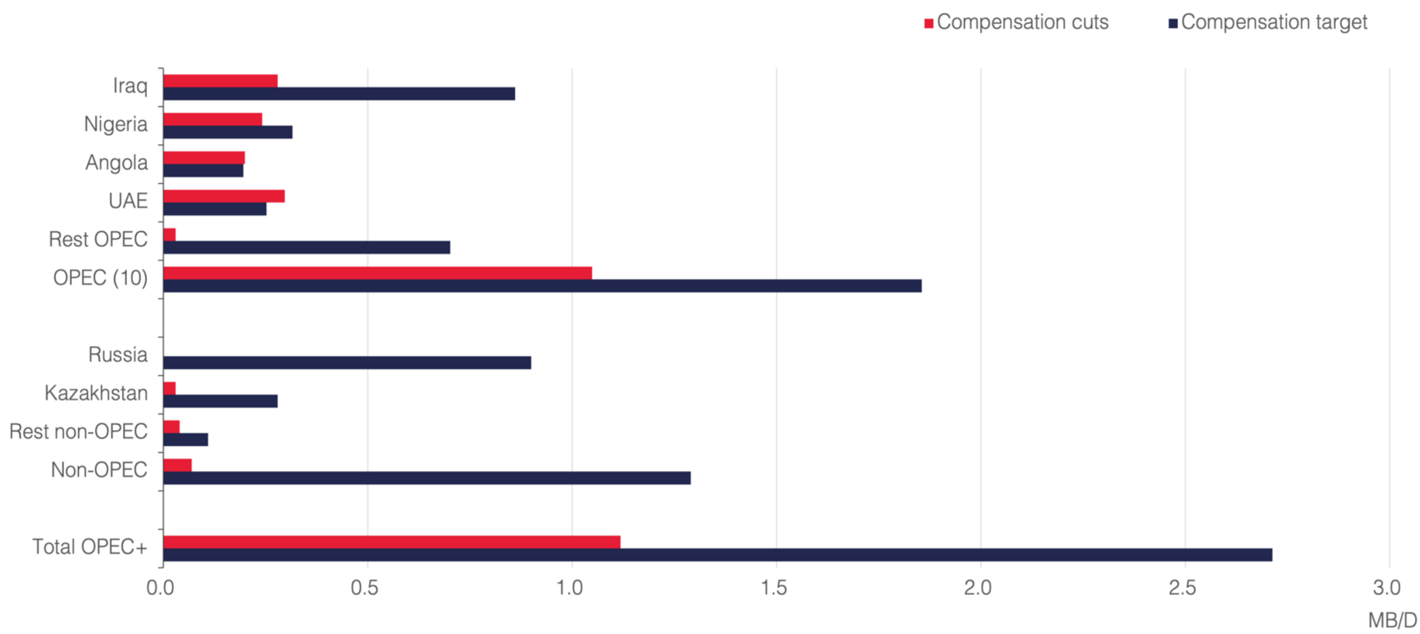
In 2020, OPEC+ achieved an unprecedented level of compliance, but compensation cuts remained below 50% and mostly confined to OPEC producers

OPEC+ output compliance



Source: OIES

OPEC+ compensation target vs cuts

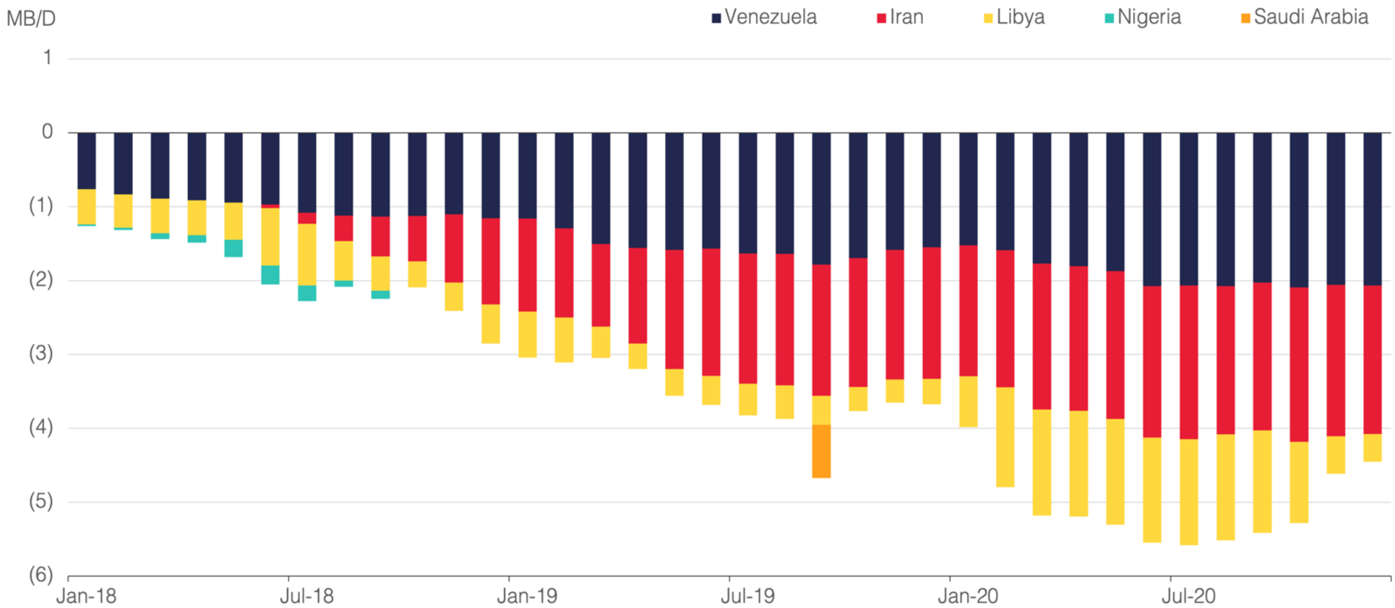


Notes: Ending-2020. Source: OIES

Geopolitical risks are bearish to the outlook

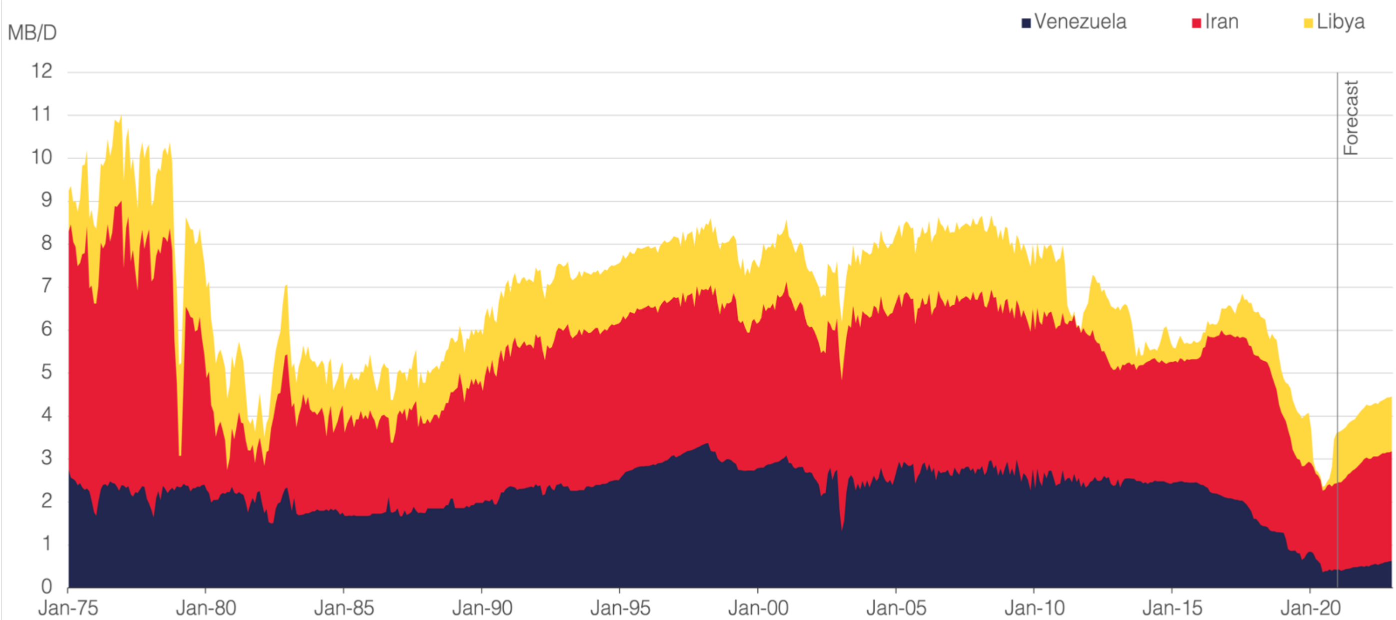
Following the Libyan return, Iran is expected to follow, but the pace and extent of the recovery remains conditional to lifting the US sanctions and to domestic challenges

OPEC geopolitical supply disruptions



Source: OIES

OPEC(3) oil production



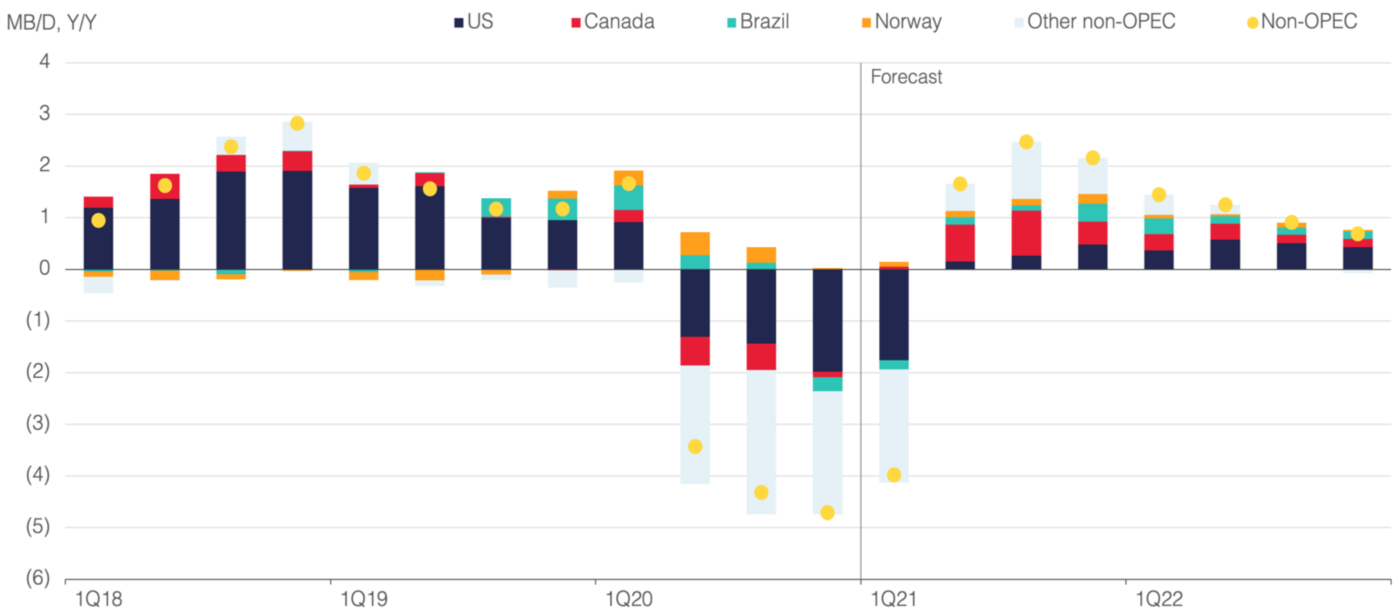
Source: OIES

Non-OPEC

Non-OPEC outlook remains gloomy

Non-OPEC supply outside OPEC+ is expected to post a moderate recovery in 2021 but suppressed activity indicates that further out, supplies will struggle to return

Non-OPEC supply



Notes: Crude oil only. Source: OIES

Non-OPEC supply[1] MB/D				
	Total	Y/Y	US	Y/Y
2020	51.2	(2.7)	11.3	(1.0)
2021	51.7	0.6	11.1	(0.2)
2022	52.8	1.1	11.5	0.5

[1] Includes crude oil and condensates only.

Non-OPEC crude supply is expected to grow by 0.6 mb/d in 2021

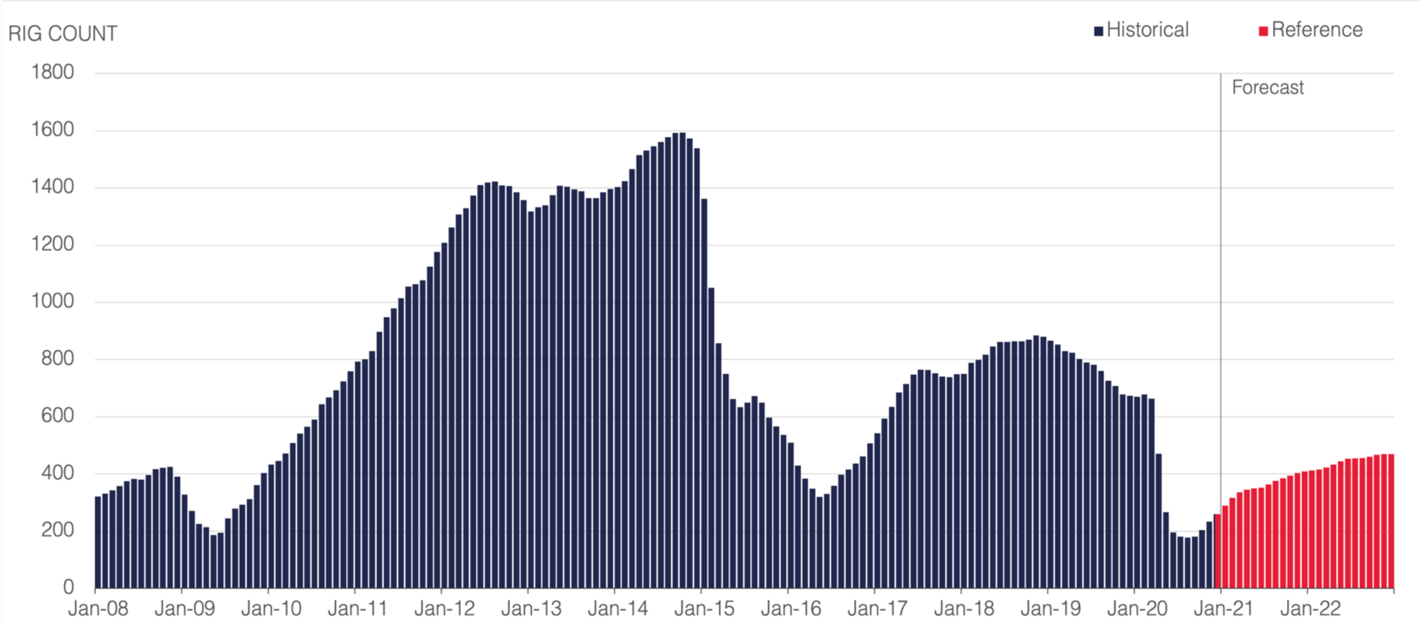
Our non-OPEC supply forecast is crude oil and condensates only. Estimates of NGLs and other liquids are global.

Outlook

US outlook the weakest link

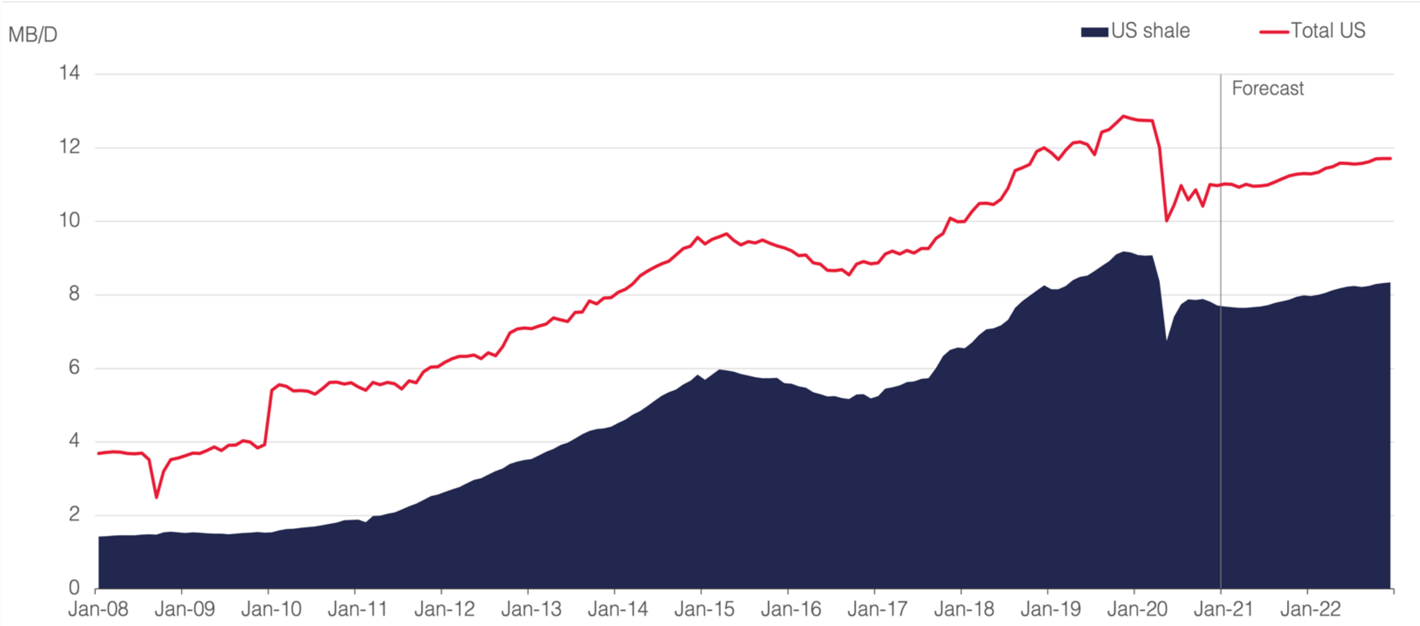
US drilling activity rebounds from a very low base for a material comeback of US shale, which is seen falling in 2021 by 0.3 mb/d before growing by 0.4 mb/d in 2022

US drilling activity



Source: OIES

US supply

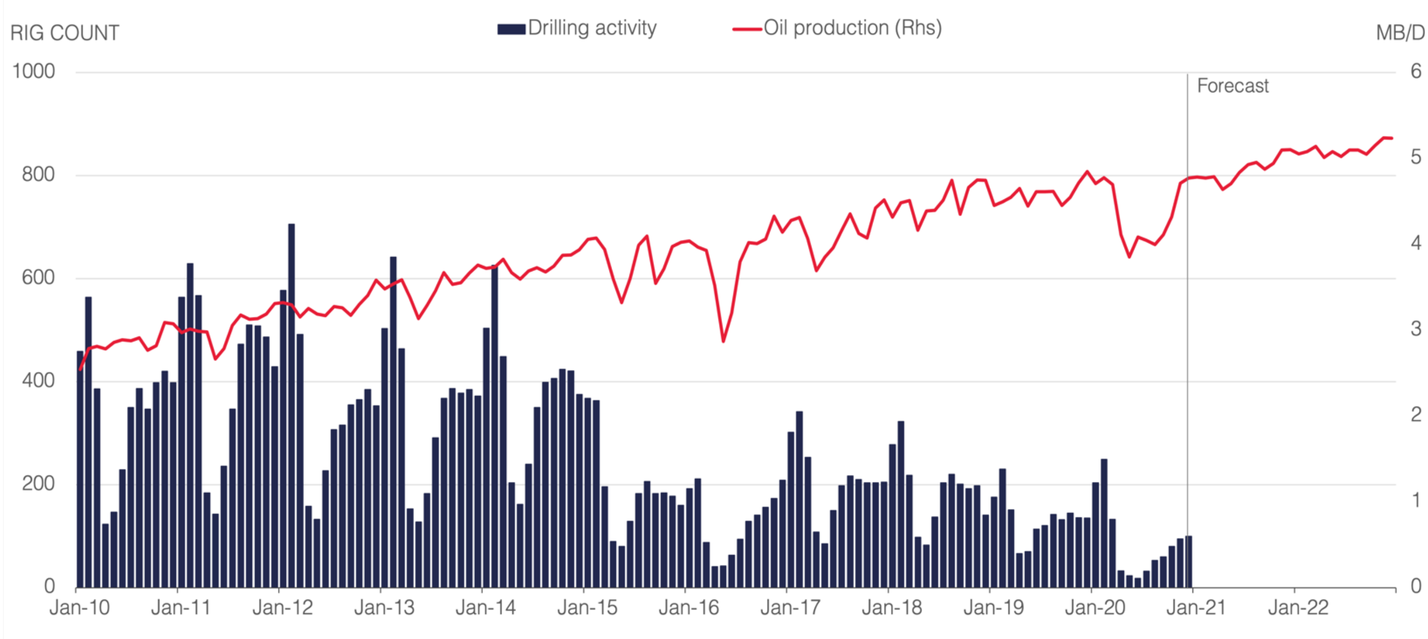


Notes: Crude oil only. Source: OIES

Canada is expected to lead the recovery outside OPEC+

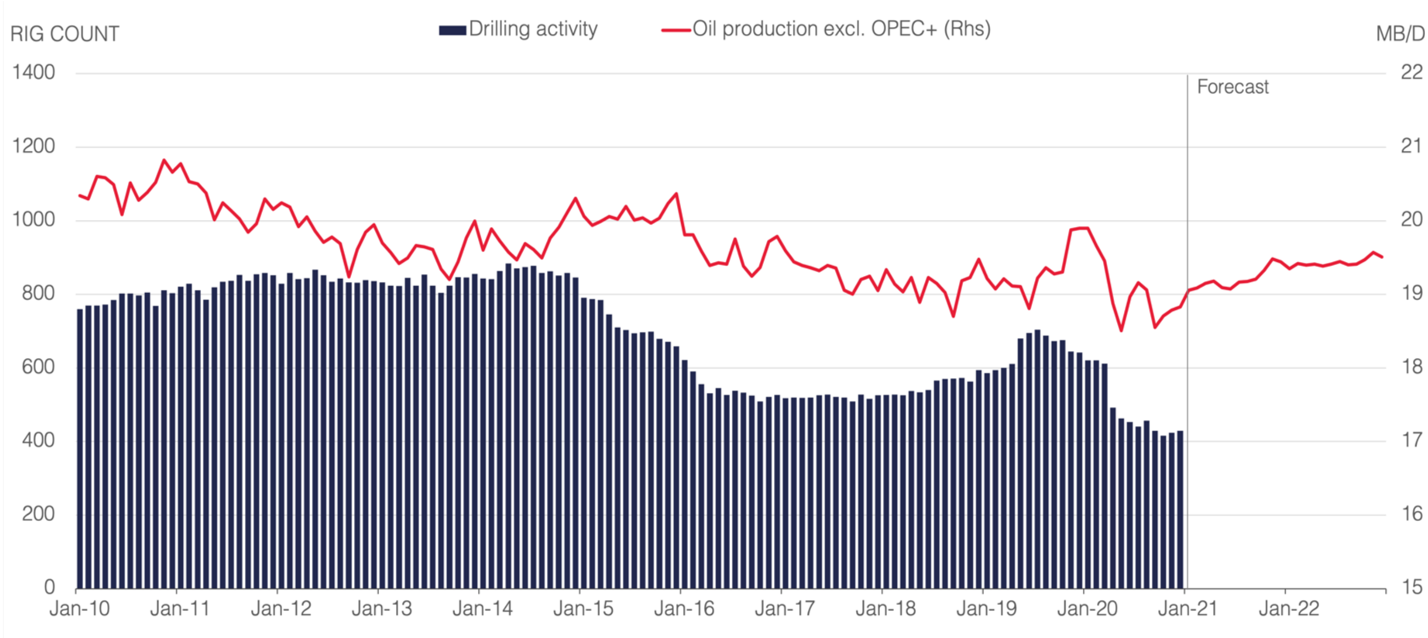
But outside North America, drilling activity remains depressed and despite small pockets of growth, overall non-OPEC growth will be modest

Canada supply



Source: Baker Hughes, OIES

Non-OPEC supply outside NAM



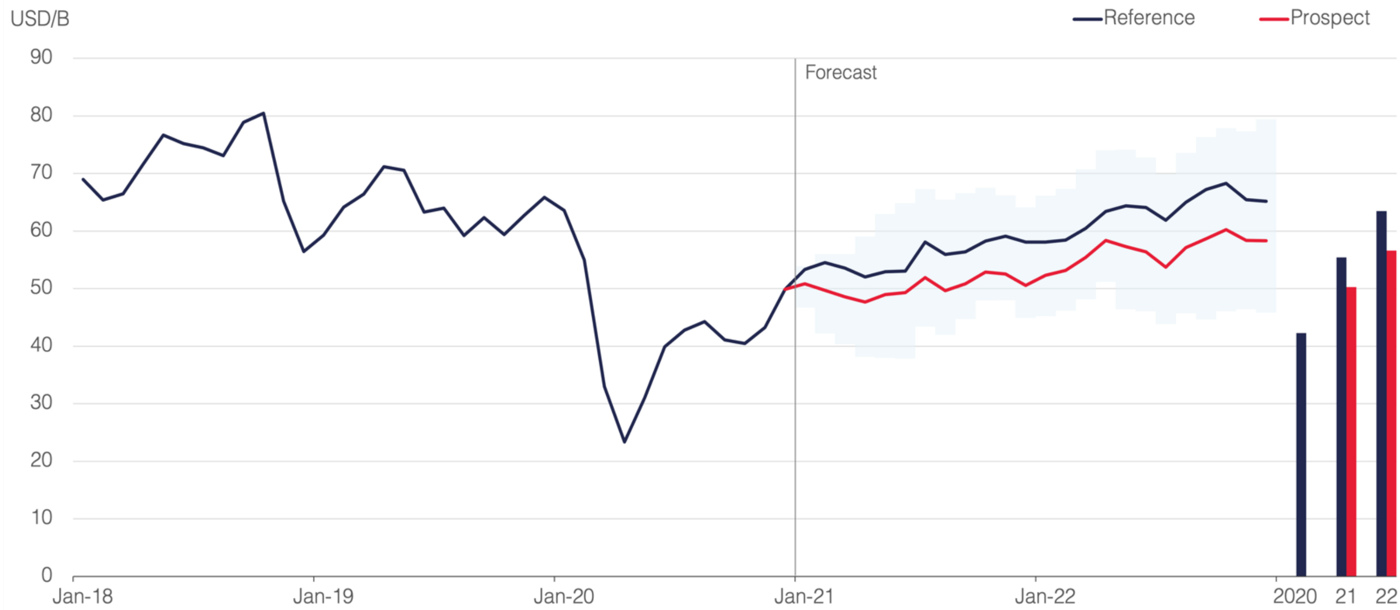
Source: Baker Hughes, OIES

Price Outlook

Oil prices to hold in the $50/b-$60/b range in 2021

The global vaccine roll-out and surprise Saudi cut announcement lifted prices above $55/b and we expect medium-term optimism to continue shaking near-term risks

Brent price outlook



Notes: Assumes 100% compliance with OPEC+ deal and extra 1 mb/d Saudi voluntary cut in Feb/Mar 2021. Source: OIES

Key assumptions

		2021	2022
Geopolitics MB/D	**IRN**	2.24	2.53
	VEN	0.46	0.56
	LBY	1.19	1.25
Supply %, Compliance[1]	**OPEC+**	100	100
Demand %, Y/Y	**GDP**[2]	5.5	4.2

[1] Average OPEC+ compliance. [2] Based on IMF WEO.

Our Brent price forecast stands at $55.4/b in 2021 and at $63.5/b in 2022

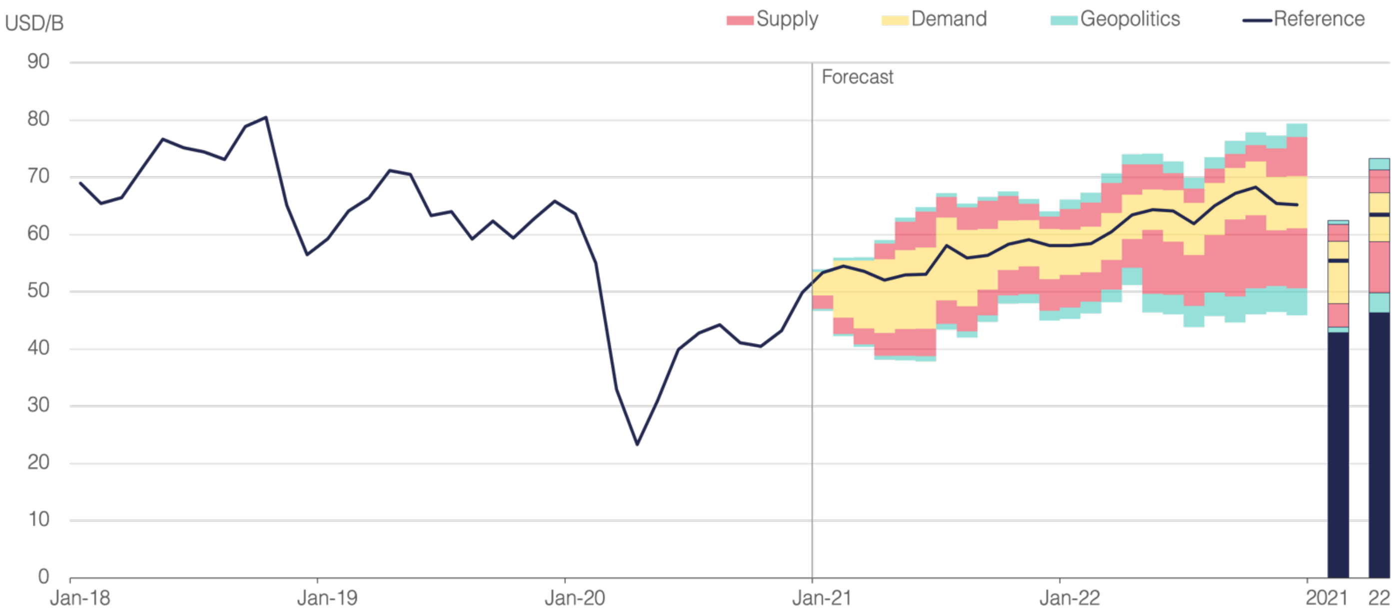
The strong oil demand rebound from H2 2021 onwards coupled with tighter supplies and smaller-than-expected stock buffers in 2022 are driving our outlook. For 2022, OPEC+ next steps will dictate any deviations to the downside.

Balance of Risks

Downside risks persist but shift from demand- to supply-driven

Near-term virus induced demand concerns dominate the risks around our outlook in 2021, but supply pressures begin to progressively build towards 2022

Balance of risks



Notes: Brent price. Source: OIES

Balance of risks
USD/B

	2021	2022
Reference	**55.4**	**63.5**
Supply risks[1]	(1.1)	(4.9)
Demand risks[1]	(4.1)	(0.9)
Geopolitical risks[1]	(0.3)	(1.5)
Balance	**(5.5)**	**(7.4)**

[1] On balance.

On balance, risks around our outlook are skewed on the downside in 2021 and stand at -$5.5/b

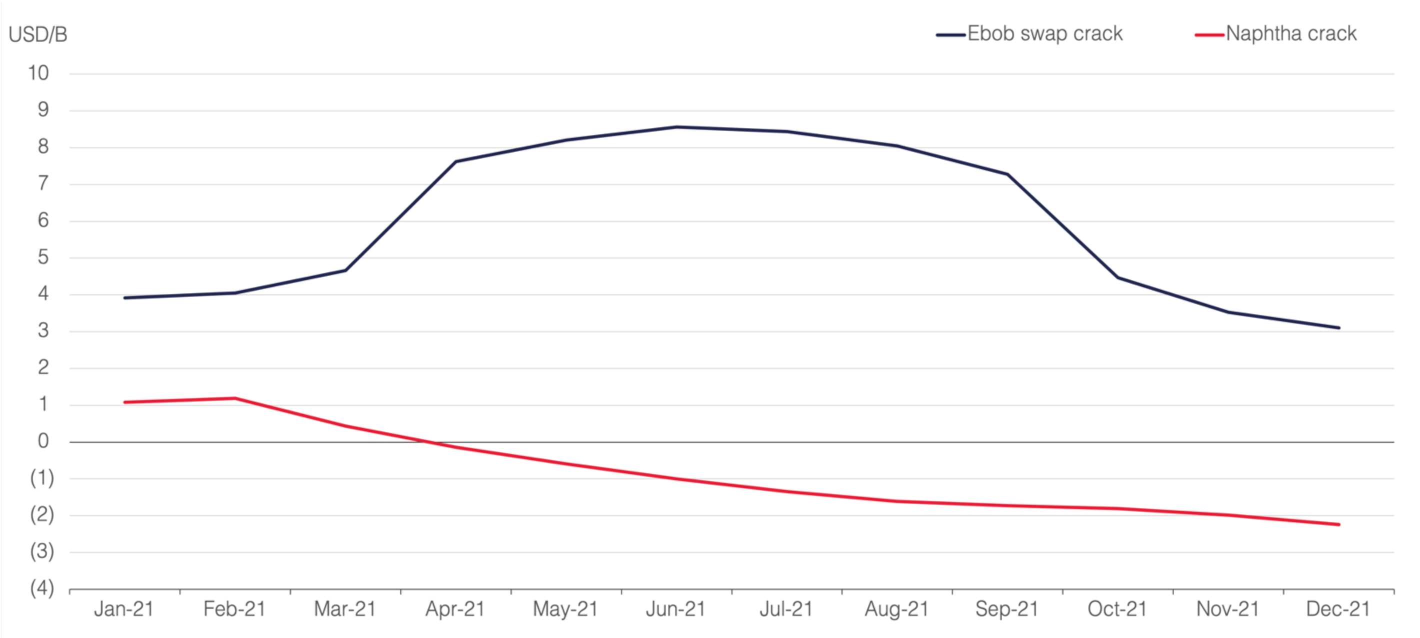
A critical factor surrounding the demand risks to the outlook is the progress in the roll-out of mass vaccination programs, while supply risks are dictated by OPEC+ compliance and OPEC+ next steps at the end of the cut deal in April 2022.

Cracks

Overall product margins to remain subdued in 2021

Following the pandemic-driven squeeze of oil products margins in 2020, pressure on margins is expected to persist

European gasoline (Ebob) and naphtha CIF NWE cracks



Source: OIES

Key product cracks forward curves[1]
USD/B

	Gasoline	Naphtha	Gasoil	FO 3.5%
Jan-21	3.92	1.08	5.14	(6.40)
Feb-21	4.06	1.19	5.30	(6.31)
Mar-21	4.66	0.43	5.75	(6.10)

[1] NWE as they appear on the graphs. OIES estimates.

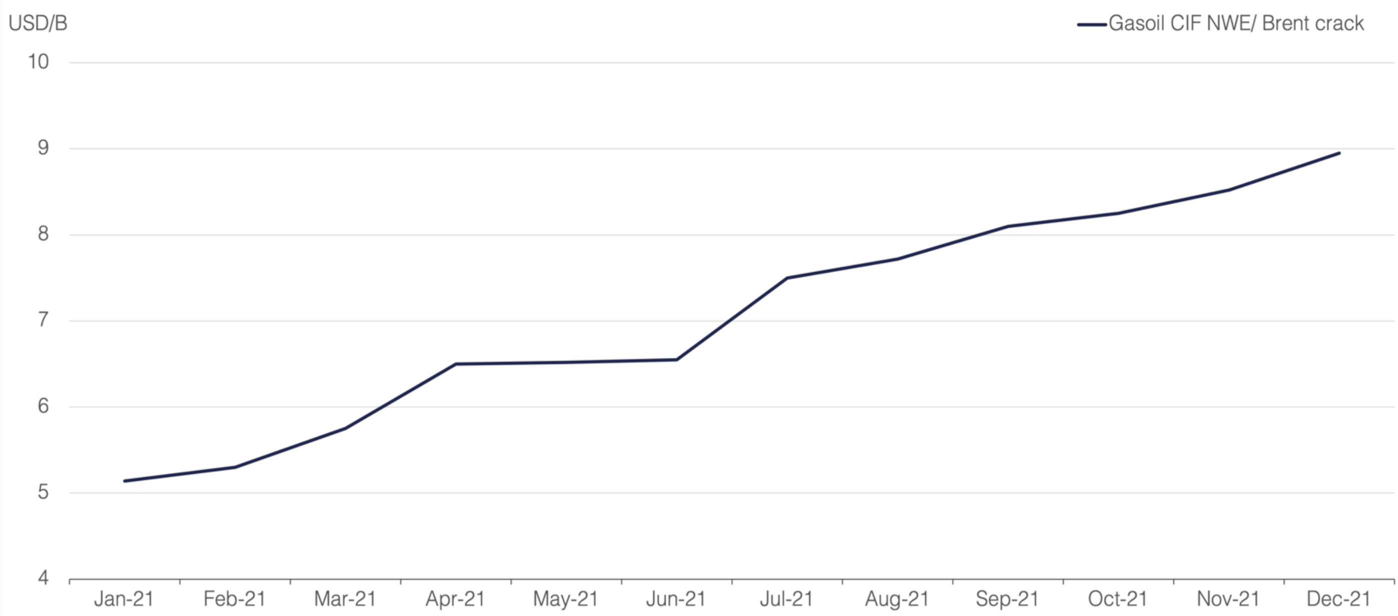
Gasoline showing seasonal improvement but still far from pre-pandemic levels

Prompt naphtha was lifted by LPG prices and refiners maximizing naphtha in ethylene crackers. Looking forward, however, naphtha cracks are expected to taper off.

Gasoil margins improvement needs further boost

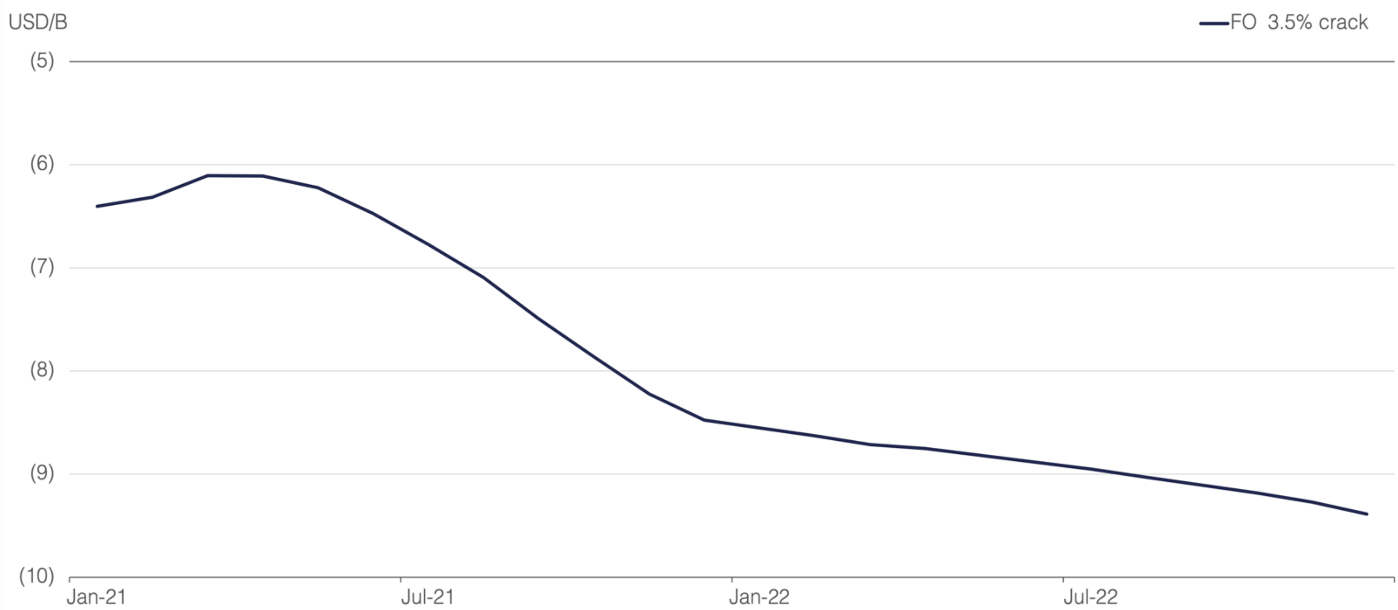
Gasoil margins show tentative signs of recovery but still nowhere near pre-shock levels, while HSFO weakens on expectations of returning Iranian and OPEC supplies

Gasoil CIF NWE / Brent crack



Source: OIES

Fuel oil barges NWE 3.5% crack



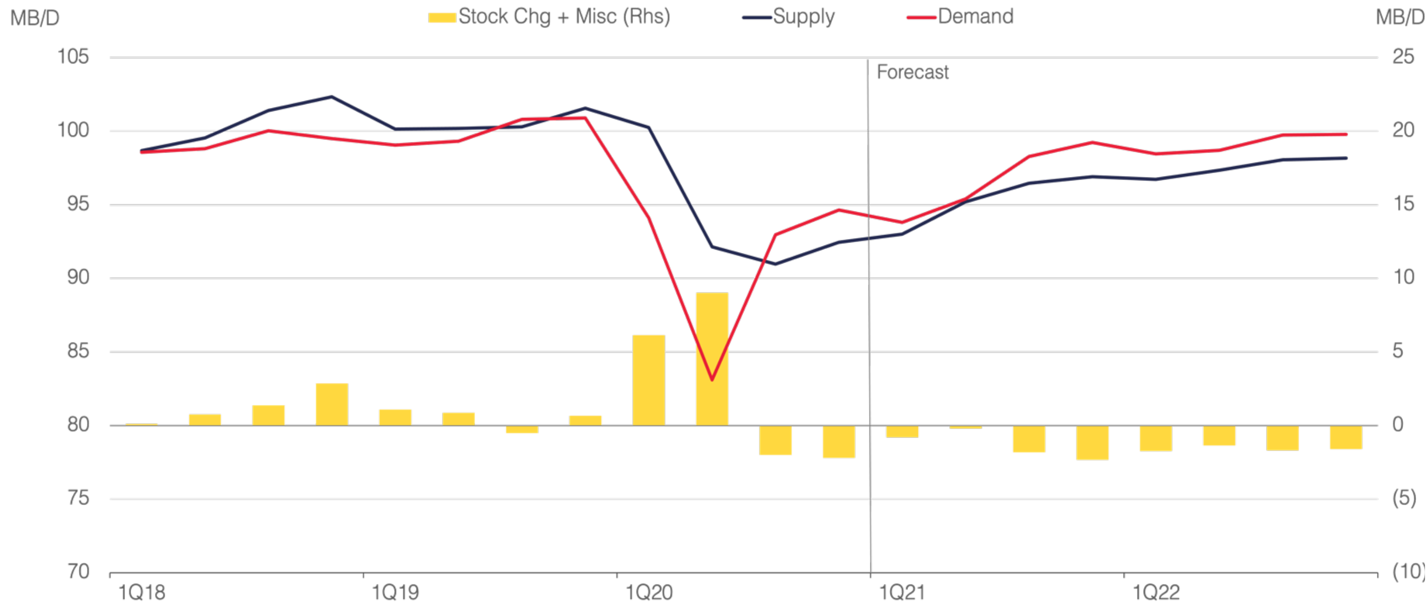
Source: OIES

Global Balance

Oil market continues into deficits

Following a fragile first half of the year, the market rebalancing is expected to accelerate from H2 onwards as deficits build anew

Global balance



Notes: Assumes 100% compliance with OPEC+ deal and extra 1 mb/d Saudi voluntary cut in Feb/Mar 2021. Source: OIES

Global balance MB/D	Demand	Supply	Balance
2020	91.2	94.0	2.7
2021	96.7	95.4	(1.3)
2022	99.2	97.6	(1.6)

We expect the oil market to fall into deficit in 2021 at -1.3 mb/d

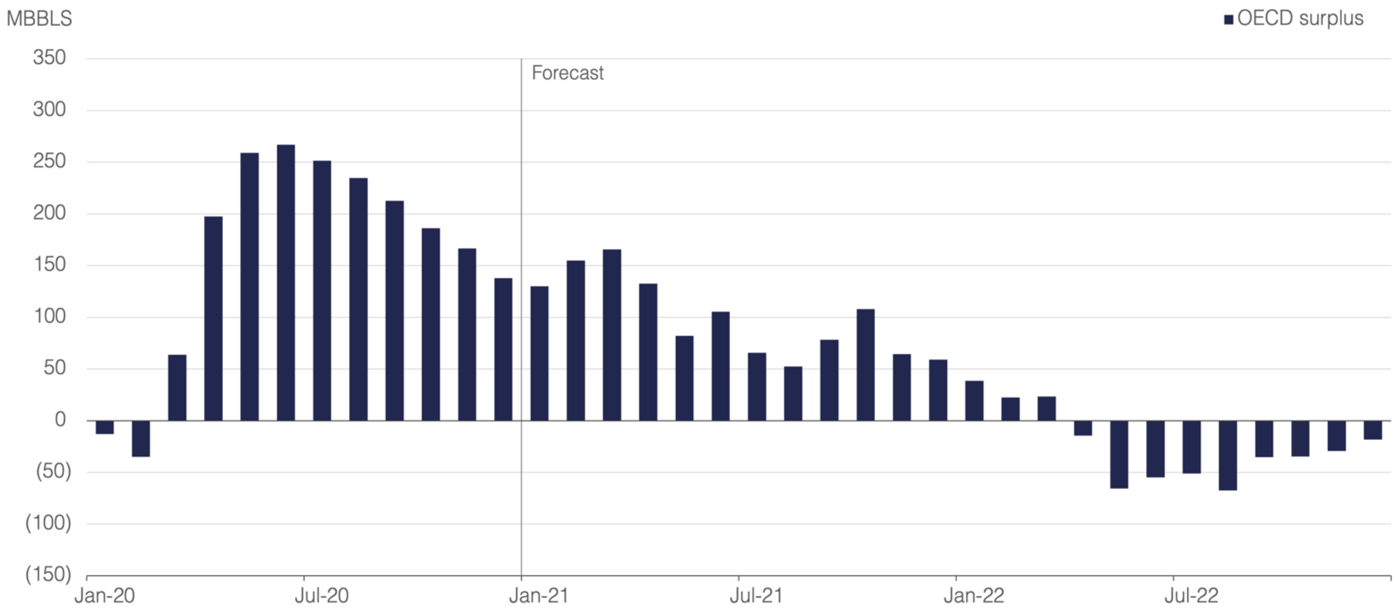
For OPEC+ supply we assume 100% compliance with the output cut deal, the gradual return of the remaining 1.5 mb/d by June 2021 starting in March and no exit from the OPEC+ deal after April 2022.

Outlook

The market rebalancing process accelerated

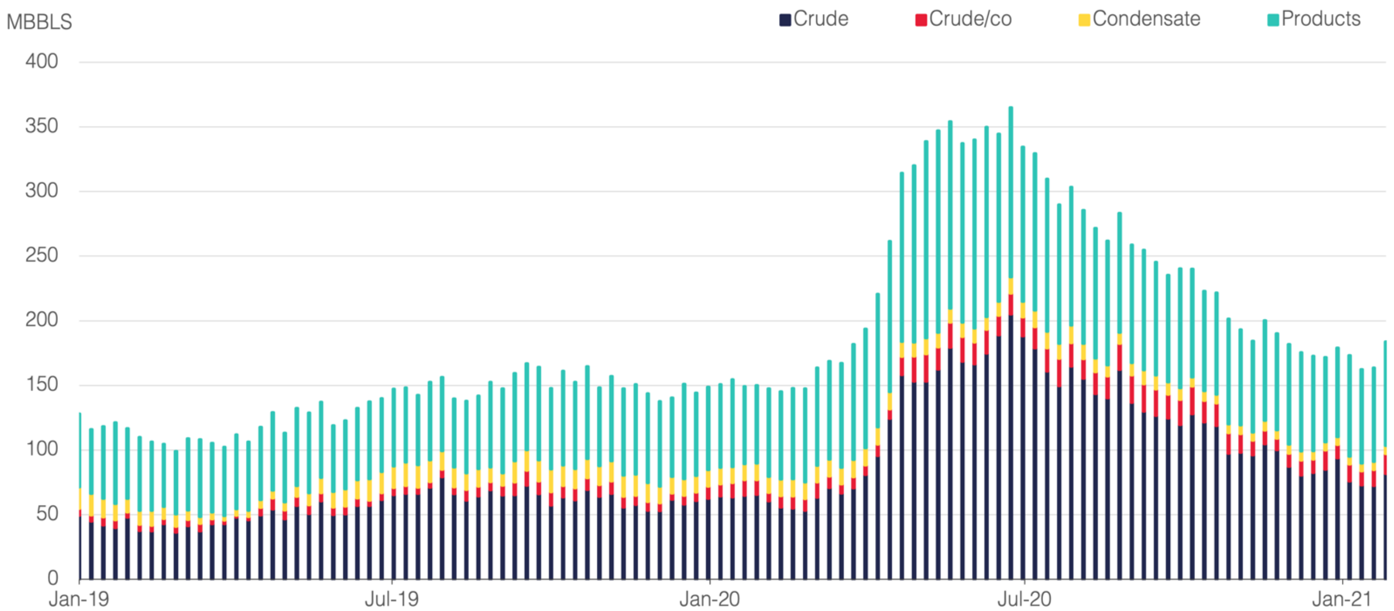
As floating stocks are now clear near pre-pandemic levels, onshore stock draws are also starting to show positive signs with OECD stocks expected to clear in 2022

OECD commercial stocks vs 2015-2019 average



Source: OIES

Global floating storage



Source: Kpler, OIES

Tables

Oil prices

	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	2022
							Forecasts					
Price outlook												
USD/b												
Brent price	**64.0**	50.5	31.4	42.7	44.5	**42.3**	53.8	52.7	56.8	58.5	**55.4**	**63.5**
Brent prospect	**64.0**	50.5	31.4	42.7	44.5	**42.3**	49.7	48.6	50.8	52.0	**50.3**	**56.6**
Price drivers							**Price risks**					
USD/b							USD/b					
Geopolitics	**2.3**	1.3	1.0	-0.8	-2.1	**-0.6**	0.1	-0.1	-0.4	-0.7	**-0.3**	**-1.5**
Supply	**4.0**	-0.6	6.4	8.5	2.6	**10.2**	-2.7	0.2	-0.2	-1.8	**-1.1**	**-4.9**
Demand	**-9.0**	-8.7	-27.6	6.9	0.9	**-21.2**	-6.6	-5.2	-3.2	-1.5	**-4.1**	**-0.9**
Speculative	**-5.3**	-4.1	1.1	-3.3	0.4	**-10.1**	-	-	-	-	**-**	**-**
Balance of risks	**-**	-	-	-	-	-	-9.2	-5.1	-3.8	-4.1	**-5.5**	**-7.4**
Brent low	**-**	-	-	-	-	-	43.1	38.0	43.4	47.0	**42.9**	**46.3**
Brent high	**-**	-	-	-	-	-	55.3	62.3	66.4	65.9	**62.5**	**73.3**

Global balance

	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	2022
							Forecasts					
Global balance												
mb/d												
OECD	**47.7**	45.4	37.5	42.2	42.9	**42.0**	42.6	43.5	46.0	46.7	**44.7**	**46.0**
Non-OECD	**52.3**	48.7	45.6	50.7	51.8	**49.2**	51.2	51.9	52.2	52.6	**52.0**	**53.2**
Total Demand	**100.0**	94.1	83.1	93.0	94.6	**91.2**	93.8	95.4	98.3	99.2	**96.7**	**99.2**
(y/y chg.)	**0.8**	-4.9	-16.2	-7.8	-6.3	**-8.8**	-0.3	12.3	5.3	4.6	**5.5**	**2.5**
OPEC	**29.5**	28.2	25.6	23.9	25.0	**25.7**	25.1	26.4	26.8	26.9	**26.3**	**27.0**
Non-OPEC	**53.9**	55.1	49.8	49.4	50.3	**51.2**	51.1	51.5	51.9	52.5	**51.7**	**52.8**
Of which:												
US	**12.2**	12.7	10.8	10.8	10.8	**11.3**	11.0	11.0	11.1	11.3	**11.1**	**11.5**
Brazil	**2.8**	3.0	2.9	3.0	2.8	**2.9**	2.9	3.1	3.1	3.1	**3.0**	**3.2**
Canada	**4.6**	4.7	4.0	4.1	4.6	**4.3**	4.8	4.7	4.9	5.0	**4.9**	**5.1**
Norway	**1.4**	1.7	1.7	1.7	1.7	**1.7**	1.8	1.8	1.8	1.9	**1.8**	**1.9**
Others	**32.8**	32.8	30.4	29.9	30.4	**30.9**	30.7	30.9	31.0	31.1	**30.9**	**31.0**
Total crude	**83.4**	83.3	75.4	73.4	75.3	**76.8**	76.2	77.9	78.7	79.3	**78.0**	**79.8**
NGLs	**13.6**	14.0	13.5	13.7	13.7	**13.7**	13.6	13.7	13.8	13.9	**13.7**	**14.0**
Biofuels/Misc.	**3.6**	3.0	3.3	3.9	3.4	**3.4**	3.2	3.6	4.0	3.7	**3.6**	**3.8**
Total Supply	**100.6**	100.3	92.1	91.0	92.5	**94.0**	93.0	95.2	96.5	96.9	**95.4**	**97.6**
(y/y chg.)	**0.1**	0.1	-8.1	-9.3	-9.1	**-6.6**	-7.2	3.1	5.5	4.5	**1.4**	**2.2**
Global Balance	**0.5**	6.1	9.0	-2.0	-2.2	**2.7**	-0.8	-0.2	-1.8	-2.3	**-1.3**	**-1.6**
Memo:												
OPEC call	**29.0**	22.0	16.6	25.9	27.2	**22.9**	25.9	26.6	28.6	29.2	**27.6**	**28.6**

Notes:

1/ OPEC estimates are based on current membership throughout. Assumes 100% compliance with OPEC+ deal.
2/ Non-OPEC crude supply includes crude oil, condensate and processing gains. OPEC includes crude oil only.
3/ NGLs and biofuels/misc. are global estimates and are excluded from OPEC, non-OPEC and country-specific crude supply estimates.
4/ Global balance is equivalent to global stock change.
5/ The OPEC Call equals the arithmetic difference between total demand and non-OPEC crude plus NGLs and other liquids.

THE OXFORD INSTITUTE FOR ENERGY STUDIES

Editor

Andreas Economou
Senior Research Fellow

Research Contributors

Bassam Fattouh
Director OIES

Adi Imsirovic
Senior Research Fellow

Michal Meidan
Director, China Energy Programme

Ahmed Mehdi
Research Associate

Anupama Sen
Senior Research Fellow

February 2021