

Oil comment

Tight supply supports spot despite rising growth risks

- Oil spot prices recovered from post-PMI lows as supply risks persist, while recession fears continue to weigh on the longer end of the curve.
- While looming demand slowdown points towards easing commodity prices in 2023, the limited spare capacity in global markets could support the current steep backwardation and high spot prices in the near-term, we see Brent crude averaging USD120/bbl in Q3 and USD100/bbl in Q4.

The most recent move in oil futures curves reflects the divergent forces currently driving the global commodity markets. The weak June Flash PMIs weighed especially on the longer-end of the oil curve, as rising recession risks and tightening financial conditions weaken the demand outlook. At the same time, the world continues to struggle with tight oil supply amid the war in Ukraine and very limited spare capacity. OPEC+ announced faster planned production hikes for July and August, but it failed to meet its target in May as production declined from the previous month. While official data on true production capacity is limited, even the largest OPEC producers are reportedly now running near maximum levels (see *Reuters*).

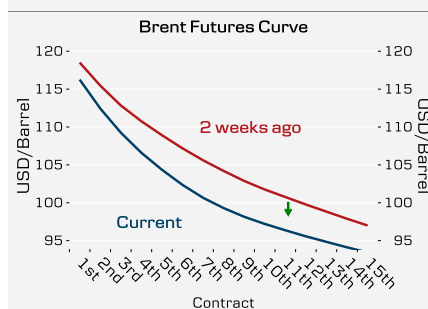
BP estimated that global energy consumption reached pre-pandemic levels already in 2021 despite aviation-demand (-33%) still holding the total crude oil demand around 3.7% below 2019 level. Oil demand has since recovered, yet the supply impact from the EU embargo on Russia remains unclear. So far, India and China have taken advantage of the discounted prices of Russian crude, and purchased majority of oil left over by the EU, reducing the negative supply shock to the global market.

The 240M barrel reserve releases from the US SPR and by the other IEA countries will end in September, and as we argued in *Oil comment - Oil prices to remain elevated despite the SPR release*, 31 March, the lower reserve levels combined with limited capacity for production hikes leaves the market unusually vulnerable to any future supply shocks. With costs of living rising globally, social unrest and labour union strikes have become more common over the recent months – often leading to disruptions in commodity production.

Recent examples include protests in Ecuador (potential 0.5% decline in global oil supply, *Reuters*) and strike at Shell's Australian LNG liquefaction facility (0.9% of global LNG supply, *Reuters*). While similar shocks are usually only temporary and limited in size, they could lead to unusually large moves in prices in an environment where global supply conditions remain very tight. Risks remain tilted towards further disruptions as we expect inflation to remain elevated in the near-term.

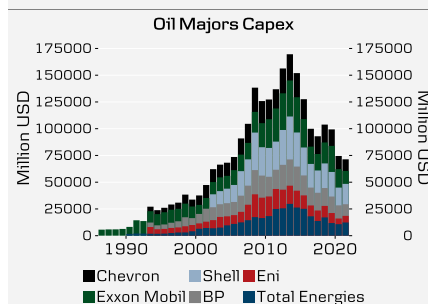
While we expect western economies to fall into a recession towards 2023, and the latest leading indicators point towards even faster downturn, renewed stimulus in China will compensate for part of the decline. All together, we expect broad commodity prices to ease moderately towards 2023, but see price levels remaining elevated in the near-term. **We continue to forecast Brent oil at USD120/bbl in Q3, USD100/bbl in Q4 and USD95/bbl in 2023. Potential outcome space remains very wide amid mixed drivers affecting both global demand and supply outlooks.**

Spot oil prices have remained elevated, while recession risks weigh on the long-end of the curve



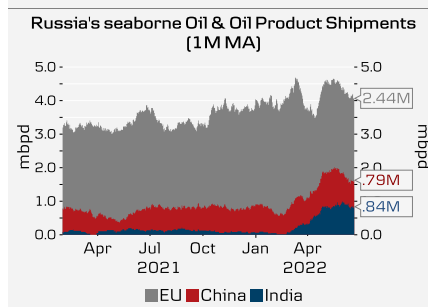
Source: Macrobond Financial

Investment into new production has declined over the past 10 years



Source: Refinitiv

India and China have compensated for the drop in Russia's oil exports to EU



Source: Refinitiv

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