

## Oil Market Anticipates OPEC Decisions Amid Rising Crude Prices



Crude oil prices are experiencing upward pressure as the market awaits the upcoming OPEC+ policy meeting. However, the long-term outlook for the oil market remains uncertain due to an ongoing imbalance between supply and demand.

Crude oil prices have shown significant volatility this year, influenced by geopolitical tensions and uncertainties surrounding global supply and demand. Brent and WTI futures prices peaked at \$90 per barrel and \$87 per barrel respectively in early April before pulling back to around \$83 per barrel and \$78 per barrel currently. In May, oil prices stabilized within a narrow range, with Brent futures fluctuating between \$81 and \$84 per barrel. Year-to-date, both Brent and WTI futures have risen approximately 5%, while the spot markets have shown greater strength, increasing by about 10%.

Oil prices found some support in May ahead of the OPEC+ meeting in June. However, uncertainty surrounding the global economy, particularly in China, coupled with record-high U.S. production, continues to weigh on the market. Additionally, the ongoing energy transition may exert downward pressure on fossil fuels in the long term.

### **OPEC+ Likely to Extend Production Cuts but Yet to Fully Implement Targets**

The Organization of the Petroleum Exporting Countries (OPEC) and its allies, including Russia, postponed the policy meeting by one day to June 2. The meeting was shifted to a virtual format following the death of Iran's president. Led by Saudi Arabia, the organization provides 40% of the global oil supply and has voluntarily cut its output by approximately 2.2 million barrels per day (bpd), or around 2% of global oil consumption.

OPEC is widely expected to maintain this level of output reduction until the end of the year.

The cartel began cutting outputs in November 2022 amid weakened demand due to China's economic slowdown. It deepened the output cut in July 2023, with Saudi Arabia reducing its production by 1 million bpd and Russia pledging to cut its supply by 300,000 bpd. By March 2024, the total production cut by the organization amounted to 5.9 million bpd, or about 5.7% of global demand.

Despite these efforts, member countries have not fully implemented the cuts. According to S&P Global Platts, OPEC+ crude output amounted to 41.21 million bpd in February, similar to January levels. The 22-country OPEC+ alliance produced 175,000 bpd above the agreed combined quotas, with a compliance rate of 97.8%. The biggest overproducer was Iraq, which produced 4.27 million bpd in February, compared with a quota of 4 million bpd.

### **Record Oil Production in the U.S.**

An OPEC report indicates that the increase in oil supply in 2024 is expected to come primarily from the U.S., Canada, Brazil, and Norway. According to International Energy Statistics, U.S. oil production rose for the sixth consecutive year to an average of 12.9 million bpd in 2023, accounting for 12.5% of global demand.

The U.S. has notably ramped up its oil production, reaching 13.12 million bpd, which is 6.5% higher than the previous record of 12.31 million bpd in 2019. This record-high U.S. production implies a loss of market share for OPEC+, which may discourage the organization from further deepening its production cuts.

In January, Saudi Arabia lowered its crude oil prices to Asia, likely aiming to protect its market share and boost profitability. Middle Eastern countries supply light sweet crude grades, with Brent as the benchmark, while West Texas Intermediate (WTI) is a lighter and sweeter grade than Brent, primarily produced by the U.S.

Data from the Energy Information Administration (EIA) indicated that U.S. oil stockpiles climbed to 461 million barrels in late April, only 5 million barrels below the prior 10-year seasonal average. This suggests that the oil markets are skewed towards oversupply rather than undersupply, which is reflected in softened prices in oil futures markets. The International Energy Agency (IEA) anticipates oil supply to reach a new high of 103.8 million bpd, while demand is projected to grow by 1.22 million bpd to 103 million bpd in 2024. Consequently, supply and demand may be reasonably balanced. However, OPEC foresees demand increasing by 2.25 million bpd, significantly more than the IEA's prediction for this year, driven by Asia.

### **China's Pivotal Role in Oil Market Demand**

According to the IEA, China accounted for 80% of oil consumption among non-OECD countries, making it the world's largest oil importer. China imported 11.3 million bpd of crude oil in 2023, a 10% increase from 2022, according to China customs data. However, the country's demand is expected to weaken, with its share shrinking to 43% in 2024 and 27% in 2025 due to a slowdown in economic growth and the transition to green energy.

China's rapid transition to electric vehicles and high-speed trains may significantly impact crude oil demand.

Furthermore, the IEA anticipates that daily demand in OECD countries will decrease by 100,000 bpd to 45.7 million bpd in 2024 due to the decarbonization efforts in developed nations.

## **Overview**

The oil market remains on edge as it braces for the outcomes of the OPEC+ meeting. While short-term price movements are influenced by geopolitical tensions and immediate economic indicators, the long-term outlook is shaped by significant shifts in global supply and demand dynamics, technological advancements, and the ongoing energy transition.