

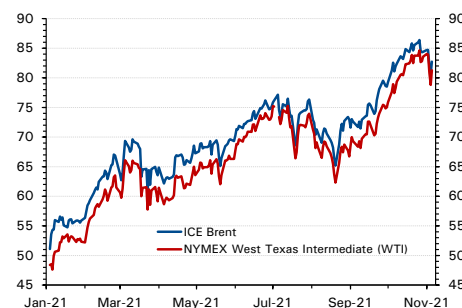
Oil Markets

Prices at near 7-year highs as OPEC+ sticks to output increase plan

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- In October, oil prices reached levels last recorded in 2014 amid continued market tightness. ICE Brent topped its previous high of \$86.3/bbl from October 2018 to reach \$86.4/bbl, before settling at \$84.4/bbl (+7.5%; +62.9% ytd) at month-end. (Chart 1.) As of 5 November, Brent had slipped to \$82.7/bbl as the market took stock of Iran's intention to resume stalled nuclear negotiations and a fifth increase in six weeks of US commercial crude inventories.
- It was, however, the OPEC+ meeting on 4 November that dominated headlines and which bolstered market sentiment, after the group ratified its existing monthly schedule of supply increases (+400 kb/d). The US and others had been urging the group to pump more oil to rebalance a market that had grown increasingly tight amid a highly publicized natural gas shortage. In explaining the OPEC+ decision, Saudi oil minister Prince Abdulaziz stated that it was this shortage (which has seen gas demand diverted to oil) and under-investment that was the real issue and not OPEC+ oil policy.
- But OPEC+ supply growth has not kept pace with its own schedule due to outages among several members, including Angola and Nigeria. In fact, OPEC-10 has yet to meet its monthly output quota this year. Preliminary estimates for October reveal OPEC-10 production fell short of its target by 387 kb/d, with aggregate output at 23.4 mb/d. (Chart 2.) OPEC+ has likely undershot its quota by 700 kb/d. The Saudi-led group is worried about overshooting supply, seeing recent oil demand growth gains as sustainable; the OPEC outlook for 1Q22 anticipates a market oversupplied by about 2 mb/d. The Saudis especially do not want to reverse supply gains should demand turn out weaker than expected. Moreover, managing the group's internal production policy to enable producers with excess capacity, such as the UAE, Iraq and Saudi Arabia, to offset declines from others appears too complicated and politically contentious.
- The drawdown in global crude oil stocks provides the most visible evidence of the recovery in oil consumption. OECD commercial crude stocks fell to 2.85 billion barrels by end-August, which is sufficient to cover 62.5 days of forward oil demand, according to OPEC. (Chart 3.) Stocks were 183 mb below the 5-yr average (2016-2020), a key OPEC+ gauge to assess market rebalancing efforts.
- Estimates of the balance of market demand and supply this quarter show a further stock draw, of around 0.5 mb/d, down from 3Q21's sizeable draw of nearly 1.5 mb/d on the back of supply increases from both OPEC and non-OPEC producers. US crude production reversed all its Hurricane Ida-related losses to reach 11.5 mb/d by end-October (+200 kb/d in October), according to the EIA.
- The outlook for 2022 looks markedly different, though. Based on IEA demand and non-OPEC supply estimates and scheduled OPEC+ output increases, a surplus of 1.3 mb/d could materialize in 1Q22 and increase further during the year (averaging 3 mb/d for 2022). Further US output gains and Iran's return to the markets (+1.3-1.5 mb/d) could be potential supply-side spoilers. The Raisi government agreed recently to restart log-jammed JCPOA nuclear negotiations on the 29 November. Oil demand could also undershoot expectations if Covid-19 continues to stress global economic activity. The IEA pegs oil demand growth at 3.3 mb/d (average) in 2022, down from 5.5 mb/d this year. With these dynamics on the horizon, OPEC+ will not likely throw caution to the wind.

▶ **Chart 1: Benchmark crude oil prices**
(\$/bbl)



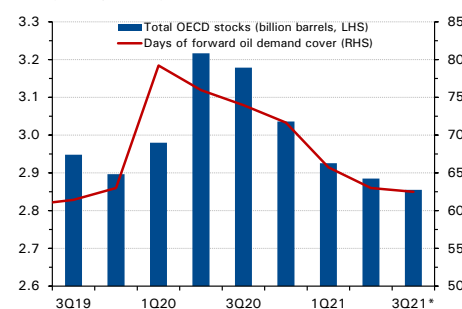
Source: Refinitiv

▶ **Chart 2: OPEC-10 crude production**
(mb/d)



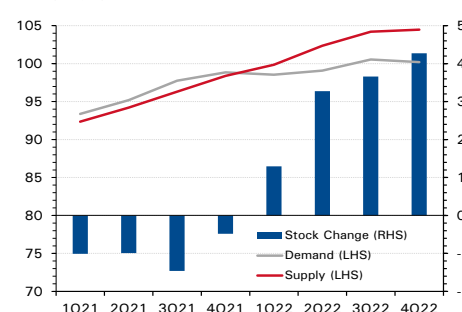
Source: OPEC, mees estimates for October production

▶ **Chart 3: OECD commercial crude stocks**
(closing stocks)



Source: OPEC, Argus, EIA, Euroilstock, IEA, METI, JODI; *Aug

▶ **Chart 4: Oil demand, supply and stock change**
(mb/d)



Source: IEA, mees, NBK estimates

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