Oil rally stalls on reemergence of global growth concerns amid rising oil stocks

Highlights

- Brent crude back trading around $62.5/bbl on global economy and oil oversupply concerns.
- Bearish sentiment stoked by US-China trade deal delays and continued increases in US crude stockpiles.
- Global oil demand growth in 2019 revised down again, by 0.065 mb/d to 1.0 mb/d—the weakest in three years; growth in 2020 was also trimmed, to 1.2 mb/d, following downgrades to global macro growth by the IMF.
- OPEC+ compliance in September skyrocketed to 230%, almost entirely due to Saudi outages stemming from the drone strikes.

Oil back on defensive after early November rally

Oil prices were back in familiar territory as the first week in November drew to a close: buffeted by a combination of overarching global macro concerns, specifically the off/on progress in US-China trade talks, and oil oversupply worries. International crude oil benchmark Brent crude was last trading at around $62.5/bbl (+16.2% ytd), down from its more than 4-week high of almost $63/bbl on 5 November. The US crude benchmark, West Texas Intermediate (WTI), was trading at $57.2/bbl (+26.1% ytd). (Charts 1-3.)

Both markers had been enjoying three days of gains on the back of signs of progress in US-China trade negotiations—a ‘Phase One’ trade deal had been talked about—as well as positive US jobs numbers and manufacturing data. But following reports that US President Trump and his Chinese counterpart Xi Jinping may not be able to sign a ‘Phase One’ trade deal until December, and the publication by the US Energy Information Administration (EIA) of data showing that US crude stockpiles had increased by much more than expected (+7.9 million barrels to 446.8 mb by the week ending 1 November), prices were once more on the back foot.

Also imparting a bearish spin on proceedings were reports that the OPEC+ group is unlikely to push for further production cuts at their next scheduled ministerial meeting in December. This came after OPEC, in its World Oil Outlook 2040, predicted that world oil demand would grow by a modest 1.0 mb/d over the medium term while US shale production would increase by a robust 40% by 2025. The producers’ group anticipated a decline in its own market share from the current 35% to 32% by 2025.

Prices traded sideways in October in the absence of specific triggers

With Saudi crude production restored to ‘normal’ levels relatively quickly in October after the drone strike on the Abqaiq/Khurais oil processing infrastructure the previous month, oil prices had traded sideways for most of October. Any lingering geopolitical risk premia disappeared with the full restoration of Saudi production. And with supply-
side triggers largely absent, anxieties about the trajectory of global economic growth were once again in the ascendency.

Overarching macroeconomic concerns

Both the International Monetary Fund (IMF) and the International Energy Agency (IEA), lowered their forecasts for the global macroeconomic and oil demand growth pictures, respectively, in October. The IMF cited rising trade barriers and increased geopolitical and trade uncertainty among the factors driving a ‘synchronized’ global slowdown, that left growth in 2019 at 3.0%—the slowest since the financial crisis more than ten years ago. Projected economic growth in 2020 was reduced by 0.2% points to 3.4%. The IEA, for its part, trimmed its oil demand growth forecast again for 2019 by 0.065 mb/d to 1.0 mb/d and for 2020 by 0.11 mb/d to 1.2 mb/d, respectively, although the agency did acknowledge that some of this year’s adjustment was due to 2018 crude demand figures in the US being revised upwards.

Non-OPEC supply gains despite record OPEC+ production cut compliance

Markets appear to have largely shrugged off the drone attacks on Saudi oil facilities and the negative implications for global oil supplies. The Abqaiq/Khurais outage were the largest contributors (1-1.2 mb/d) to the steepest monthly fall in oil supplies (1.5 mb/d) in more than a decade; declines in Norway and Canada as well as further falls in Venezuelan production accounted for the rest. Nevertheless, non-OPEC supply growth, led by robust US shale growth, dominates the supply outlook, helping to offset the cuts in production that OPEC+ has orchestrated this year. US crude production reached a historic high of 12.6 mb/d in October. The IEA sees US crude oil production alone increasing by 1.2 mb/d in 2019 and 0.9 mb/d in 2020, which accounts for at least 75% of the crude that OPEC+ has removed from the market.

Due to Saudi Arabia’s involuntary production cut in September, OPEC+ compliance skyrocketed to 230% from 120% in August. OPEC and its partners were characteristically tight-lipped about further OPEC+ production cuts, preferring to wait until December’s biannual ministerial meeting before making any announcements. So long as some OPEC producers, such as Iraq and Nigeria, continue to produce above their quotas, it does not seem likely that further cuts will be on the cards.