

Oil extends losses on trade and global economy concerns

Highlights

- Oil prices depressed by economic growth worries; Brent crude down 22% since April 2019-peak to around \$58/bbl.
- The IEA revised down global oil demand growth by 0.1 mb/d to 1.2 mb/d on weak oil consumption in 1H19.
- A stock overhang and surging US crude production continue to undermine OPEC+ efforts to rebalance the market.
- US crude output hit a high of 12.5 mb/d in August, up 0.8 mb/d so far in 2019 while OPEC+ compliance reaches 141% in July; aggregate OPEC output declines to a five-year low of 29.6 mb/d in July.

Oil prices roiled by global trade and economic worries

Worries over the global economy continue to weigh on oil prices. Brent crude, the international benchmark, fell 7.3% in August to close at \$60.4/bbl, the steepest monthly fall since May's decline of 11.4%. It has since dropped further, to around \$58.3/bbl as of 3 September. (Chart 1.) The US crude marker, West Texas Intermediate (WTI), declined 6% in August to \$55.1/bbl. Brent though returning a decent 8% year-to-date, has, nevertheless, lost almost 22% of its value since its 2019-peak in April.

The current US administration's recourse to trade protectionism, engaging in escalating rounds of tit-for-tat tariffs with China has been significantly bearish for global economic growth, oil demand and, by extension, oil prices. The latest retaliation has seen China impose tariffs of up to 10% on \$75 billion worth of US goods including soy beans and oil (5%). China was the largest importer of US crude during the first half of 2018, taking in about 376 kb/d on average, but has since scaled back its purchases by more than 60% in 2019 as the trade war has deepened.

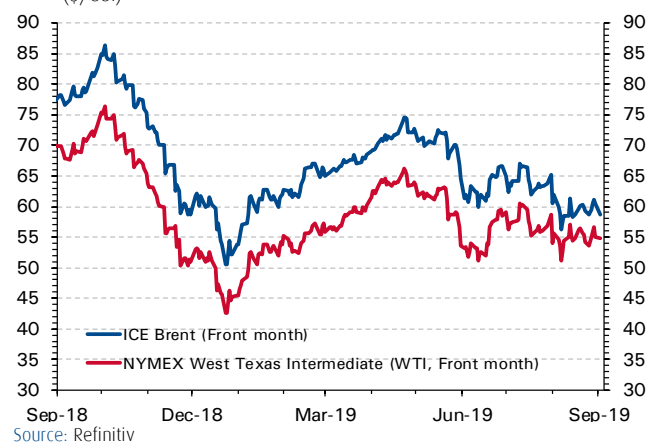
The weakening economic backdrop has led the International Energy Agency (IEA) to revise down in August its projection for global oil demand growth in 2019 for a third time this year, by 100 kb/d to 1.1 mb/d. Demand growth is, however, expected to accelerate during the second half of 2019, spurred on by increases in gasoline and jet fuels consumption as well as petrochemicals production.

While rising demand would be expected to be positive for oil prices, the outlook is complicated by the continued global stock overhang and by surging US shale production.

OECD commercial crude stocks increased counter-seasonally in June to 2,961 mb, 66.9 mb/d above the five-year average for that month. Reducing global crude stocks is one of the targets that OPEC+ has been working towards, but which, after three

consecutive months of increases, appears to be slipping further away. US crude production, meanwhile, continues to break records. In late August, output reached 12.5 mb/d on gains of 800 kb/d in 2019 alone.

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



This has made OPEC+ efforts to clear away the supply surplus more difficult since this figure offsets almost half of the aggregate production (1.7 mb/d) that OPEC+ has pared back as part of the group's Vienna production cut accord that went into effect in January. And this has occurred in spite of OPEC+ regularly notching up commendable compliance rates in excess of 100% (141% in July). OPEC's own output is down at around a five-year low of 29.6 mb/d thanks to steeper than mandated production cuts by Saudi Arabia, Angola and Kuwait as well as by continued, involuntary production declines in Iran and Venezuela as a result of sanctions.

With the supply picture uncertain, it seems likely that for oil to regain some of its luster, progress in Sino-US trade talks needs to occur as a minimum.

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