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

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.

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.