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Oil Price Report

Q1 2023

What's next for UK fuel prices?

Supply

Global production increases, for now

It is expected that world oil demand growth will sharply accelerate in 2023, rising from 710 kbpd in 1Q23 to 2.6 mbpd in 4Q23. The average annual growth rate is predicted at 2m bpd, resulting in global oil demand reaching a record high of 102 mbpd. The rebound of air traffic and pent-up demand in China are likely to be the driving forces behind this recovery.

In February, global oil supply increased by 830k bpd to 101.5m bpd due to the US and Canada rebounding from winter storms and outages. Non-OPEC+ countries are expected to be the main drivers of global output growth, which is predicted to be 1.6 mbpd this year. This should be sufficient to meet demand in 1H23, but it may fall short in the second half of the year due to seasonal trends and China's recovery, which are set to boost demand to record levels.

Global refineries hit a seasonal low in February at 81.1 mbpd due to the muted recovery in the US and planned maintenance elsewhere. Despite the drop in middle distillate cracks, refining margins remain healthy, particularly for those utilizing discounted Russian crude and feedstocks. Refinery runs are expected to average 82.1 mbpd in 2023, up 1.8 mbpd year-over-year.

> "There is still a lot of uncertainty in the short-term energy outlook"
>
> **- US Energy Information Administration**

In February, Russian oil exports fell to 7.5 mbpd following the EU's embargo on refined oil products. Sailings to China and India also fell, while cargoes without a destination surged by 600 kbpd to 800 kbpd. Export revenues plummeted by another $2.7 billion to $11.6 billion, down 42% year-over-year.

Global observed inventories surged by 52.9 mb in January and a decline in oil on water. Industry oil stocks in the OECD rose by 54.8 mb, four times the five-year average. Stocks reached an 18-month high of 2,851 mb. Preliminary data for the US, Europe, and Japan showed a 7.8 mb increase in industry stocks in February.

In range-bound trading, crude oil futures fell by about $1 month on month in February as optimism surrounding China's reopening faded in the face of the hawkish drift in central bank policy. WTI slumped further in physical differentials amid ongoing US crude stock builds. Prices fell by an additional $3 in March as macroeconomic worries escalated following the collapse of Silicon Valley Bank.

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Continued Volatility

Several factors contributing to short term instability

The oil market is currently grappling with an oversupply of oil amidst weak demand, resulting in inventory levels reaching an 18-month high. This surplus is due in large part to Russia flooding the market with oil after being hit with EU sanctions. Despite these market disruptions, Brent crude oil futures have remained within a narrow range since the beginning of the year. In January, global inventories increased by 52.9 million barrels, bringing total known stocks to almost 7.8 billion barrels, with preliminary data indicating further builds in February.

Although demand from Asia has been robust, the market has remained in surplus for three consecutive quarters. Russian oil production remained stable in February, but exports to the world market decreased by over 500,000 bpd to 7.5 million bpd. Shipments to the EU plummeted by 760,000 bpd to just 580,000 bpd, prompting Russia to find alternative outlets for its crude. India and China have stepped up as willing buyers of discounted crude, but with increasing volumes on the water, the proportion of Russian oil in their import mix may be concerning. In February, Russia accounted for approximately 40% and 20% of Indian and Chinese crude imports, respectively.

Although Russian crude oil is primarily being shipped to Asia, other buyers for products backed out of the EU are emerging. In February, Russian product exports to the EU and its G7 allies decreased by almost 2 million bpd compared to pre-war levels, while exports to Asia grew by less than 300,000 bpd. Shipments to Africa, the Middle East, and Latin America increased, but the lack of buyers caused oil to pile up on the water, with product exports dropping by 650,000 bpd year on year.

> "Building oil stocks should ease tensions as the market swings into deficit during the second half of the year, when China is expected to drive world oil demand to record levels"

It remains to be seen if there will be sufficient demand for Russian oil products now that sanctions are in place, and whether production will begin to decline as a result. Russian oil export revenues have already fallen, with estimated revenues in February reaching $11.6 billion, a $2.7 billion decrease from January. To address the oversupply, Moscow has signalled that it will cut output by 500,000 bpd this month, but global oil supply could still exceed demand in the first half of the year.

However, building oil stocks should ease tensions as the market swings into deficit during the second half of the year, when China is expected to drive world oil demand to record levels. Matching that increase would be a challenge even if Russia were able to maintain production at pre-war levels. Lack of investment in African Oil fields and conflict in established Oil bearing nations could cause viscous swings should supply halt.

OPECs recent supply cut shock the market balance and seems set to flip into a supply deficit during the second half of the year as global oil demand rebounds with stock draws of over 1 million b/d. With this expectation Forecasts remain high from leading banks with an average price of $85.50/bbl for Q2 of 2023.

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Forecasts

What's next for oil prices?

Foenix have compiled a selection of forecasts below from the most reputable thought leaders.

Financial institutions regularly publish their market forecasts. We have compiled a sample of key names with corresponding Brent predictions (directly representative of the broader data), presented in a summary table. All prices are in USD per barrel ($/bbl). These indicate percentage changes that might be useful when considering possible changes to diesel prices, which are driven by changes in Brent crude oil.

"On average, oil prices are expected to rise by 8% by the end of 2023"

The data collected from a clear pattern. Today's crude prices hover around $85/bbl, Av Q2 of:

Brent Crude Oil Price Forecasts

Ref Today's Prices (11.04.23)	$84.50

Individual Forecasts

Institution	Q2($/bbl)	Q3 ($/bbl)	Q4 ($/bbl)
Barclays	89.00	96.00	98.00
Bank of America	86.00	90.00	94.00
Deutsche Bank	75.00	80.00	80.00
Goldman Sachs	83.00	85.00	89.00
HSBC	87.00	90.00	90.00
JP Morgan	89.00	90.00	94.00
Morgan Stanley	90.00	90.00	95.00

Summary

	Q2($/bbl)	Q3 ($/bbl)	Q4 ($/bbl)
Average Forecast ($/bbl)	85.50	88.70	91.40
Change from Today's Price	1.2%	4.7%	8.1%