THE OXFORD INSTITUTE FOR ENERGY STUDIES

Short-Term Outlook

OIES Oil Monthly

OIES OM: 03

April 2021

OIES Oil Monthly
April 2021

In Focus

OPEC+ and the COVID-19 shock: A year on

Bassam Fattouh and Andreas Economou argue that while oil market dynamics and prices have markedly improved, the degree of uncertainty surrounding the outlook remains high. Following a challenging year, OPEC+ policy choices will keep dictating market outcomes, but the recent oil price rebound does not yet signal the start of the next oil supercycle as the key triggers are still missing.

April 2020 was the worst month ever in terms of oil market balances, prices and sentiment. During that month, the oil market saw the largest y/y contraction in global demand which reached a staggering 23.3 mb/d. Also, production from OPEC increased to a 14-month high of 30.4 mb/d from 28 mb/d in the previous month. Brent prices collapsed to an 18-year low, to average $23.3/b for the month. If one is to add the pressures on physical storage and the negative sentiment following the breakup of the OPEC+ agreement in March 2020, April 2020 will be remembered as the bleakest month in the history of oil markets.

One year later and oil market prospects look fundamentally different. Prices have recovered by 98 per cent since the April 2020 collapse to above $60/b, increasing by $41.9/b to average $65.2/b in March 2021; the market has shifted into deficit; OECD stocks are approaching their 2015–2019 average having drawn by an estimated 219 mbbls from their peak of 265 mbbls in June last year; and OPEC+ production in February was 5.7 mb/d lower than year-ago levels.

This impressive recovery occurred despite wide uncertainty surrounding oil demand and the fact that it has yet to fully recover to its pre-pandemic level. Our estimates suggest that global oil demand in Q1 2021 stands at 4.9 mb/d below 2019 levels. And although the dominant expectation is for oil demand to rebound strongly in H2 2021 as countries lift restrictions and the global economic recovery accelerates, the uncertainty over the timing and pace of the rebound remains high. Virus cases are still on the rise in many countries, restrictions are being extended, and vaccination programmes are facing supply bottlenecks and significant delays.

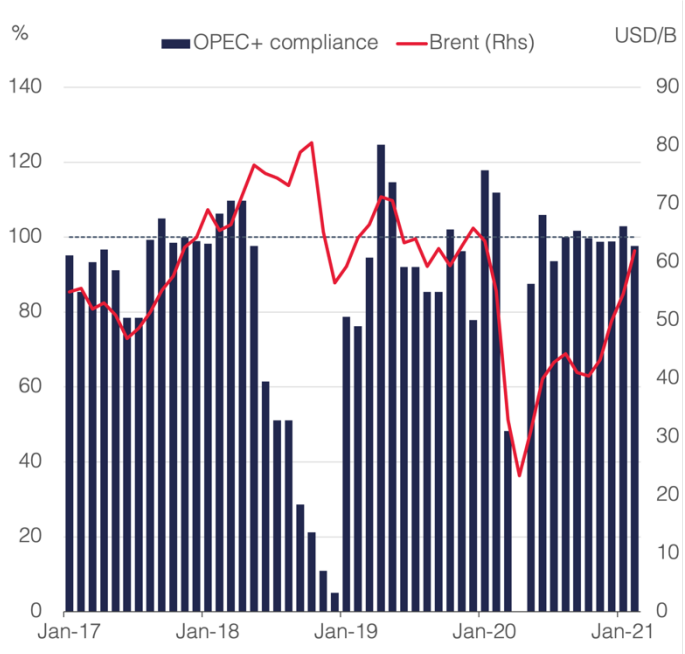
Two key questions come to mind at this critical juncture: first, whether the forces that have led to the sharp price recovery in January and February this year will persist? And, second, how high can these forces push prices? As Brent prices exceeded $60/b, the pendulum swung towards strong optimism with some predicting oil would enter a supercycle[1] and speculation that oil prices could reach $100/b started to emerge.[2,3] Even as prices dropped towards the end of March and into early April, many still stand firm on the call for a supercycle.[4] But how realistic are these expectations?

OPEC+ response a distinguishing feature

Every oil price cycle has its distinguishing features, and this 'Covid-19 cycle' is no different. Two key features stand out. On the demand side, it has been the unevenness of the impact of the shock and the unsynchronised demand recovery both across geographies (Asia compared to the rest of the world) and fuels (road and other fuels versus jet fuel). The second has been the OPEC+ response to the shock. This second feature manifested in a number of ways:

- The high compliance of OPEC+ despite the historical size of the agreed cut and despite excluding countries suffering from output disruptions from the agreement (Libya, Iran and Venezuela)
- Historically, compliance tended to weaken as prices recovered, but this has not yet occurred. During the months of January and February 2021, even as prices rose, OPEC+ compliance remained exceptionally high (**Figure 1**)

Fig 1: OPEC+ output compliance



Notes: Excludes Venezuela and extra voluntary cuts.
Source: OIES

In Focus

- The ability of producers to reach compromises on output decisions and maintain the cohesion within the group. Against most expectations, the relationship between the group's biggest producers, Saudi Arabia and Russia, continued to strengthen following the breakup of the OPEC+ agreement in March 2020, challenging the notion that OPEC+ can only manage the market on the downside
- The holding of monthly Joint Ministerial Monitoring Committee (JMMC) meetings to monitor the compliance of participating countries
- The introduction of a new compensation mechanism for countries to make up for past over-production which acted as a tool to put pressure on non-compliers to achieve full compliance
- Exhibiting proactiveness and flexibility by adjusting output policy almost on a monthly basis to respond to the increased short-term uncertainty surrounding the market
- The willingness of Saudi Arabia to act independently and to take additional measures beyond the OPEC+ agreement by making substantial additional unilateral cuts (**Figure 2**)
- The ability of OPEC+, and particularly Saudi Arabia, to continue to surprise the market with key decisions, for instance those related to implementing extra voluntary cuts, rolling over production cuts and/or raising supplies in a more gradual manner to meet the expected increase in demand. Creating this sense of uncertainty about OPEC+ decisions has been an effective tool for reducing open interest, as the risk of being on the wrong side of an OPEC+ decision has increased.

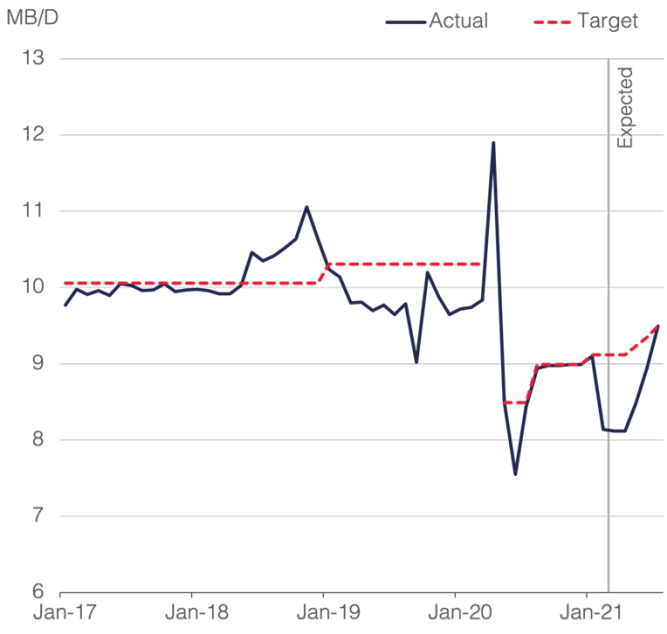
All these factors point to a more flexible and more effective OPEC+ in dealing with the adverse shock of COVID-19 and in influencing market expectations and shaping sentiment. And although it has become increasingly difficult to predict OPEC+'s next move, this unpredictability is part of a deliberate policy and has had the effect of increasing the market impact of OPEC+ decisions. At a more fundamental level, it shows a more assertive role for OPEC+ in dictating the pace of market rebalancing.

OPEC+ impact to consolidate further

OPEC+'s impact on markets could consolidate further in the remainder of 2021 and potentially in 2022 reinforcing its key role in the current stage of the cycle at least in the short-term for a number of reasons.

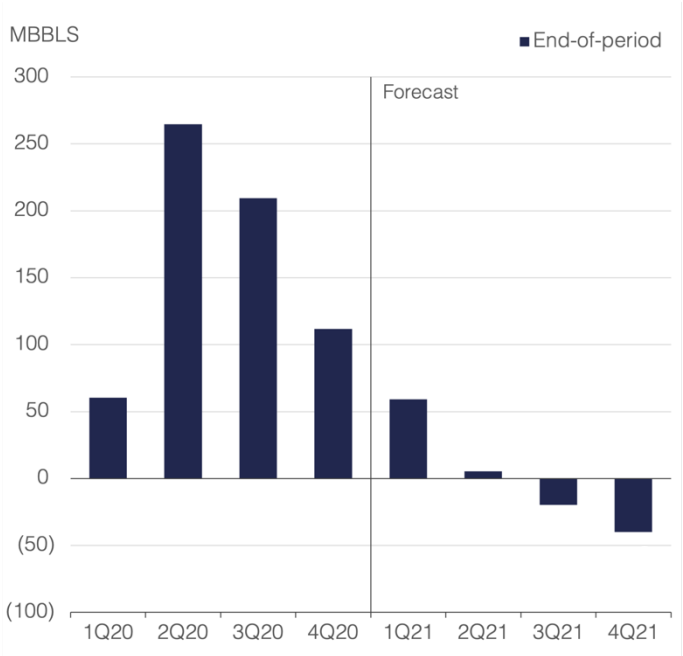
First, the buffer in the form of commercial stocks, particularly outside China, will erode further as the market deficits in H2 2021 are expected to widen. Based on our model, we expect OECD stocks to reach the 2015–2019 average by the end of Q2, standing 5.4 mbbls above the average, before clearing below the average in the remaining quarters by -19.7 mbbls (end Q3) and -40 mbbls (end Q4 - **Figure 3**).

Fig 2: Saudi Arabia's oil production



Source: IEA, OPEC, OIES

Fig 3: OECD stocks vs 2015-2019 average



Source: OIES

Second, the buffer in the form of spare capacity is likely to be lower than consensus estimates, which suggests a cushion of 8-9 mb/d.[5] Some of the OPEC+ countries such as Algeria, Angola, and Nigeria may not be in a position to restore production to the base levels agreed by OPEC+ back in April 2020 as the shock has hit investment and activity in their oil sectors (**Figure 4**).

Third, non-OPEC supply will respond to higher oil prices, but the response will be limited in 2021 before gradually increasing in 2022 due to the lags between investment and production. These lead times could be longer due to greater scrutiny from investors and a lack of enthusiasm for financing oil projects, especially those with long investment cycles. Our model indicates that non-OPEC supply outside OPEC+ will rise by 0.41 mb/d in 2021 and 1.33 mb/d in 2022 and these increases will be limited to only a small number of countries (Canada, the US, Brazil, Norway and Guyana).

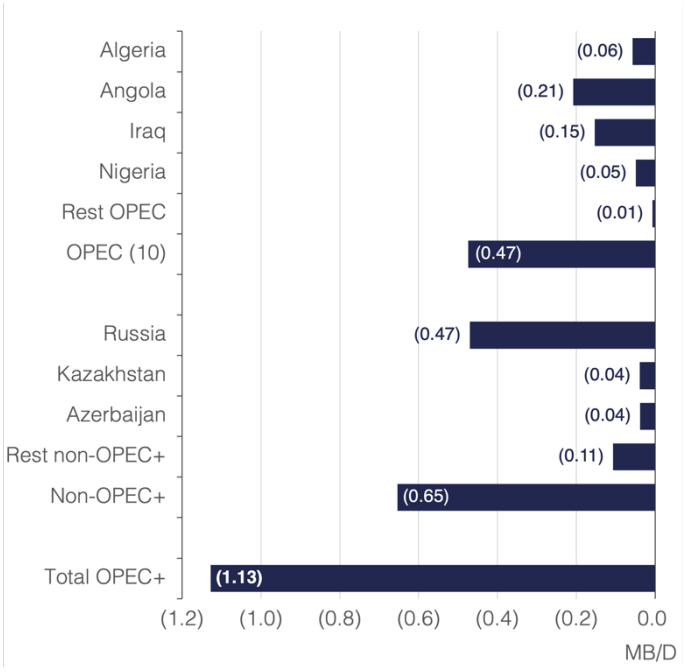
Fourth, another key distinguishing feature of the current cycle is the magnitude and the speed at which US shale production declined in response to the oil price shock. Over just two months, between March and May 2020, output declined by 2.4 mb/d and as of January 2021 it recovered by only 0.9 mb/d to 7.6 mb/d compared to its pre-shock levels of 9.1 mb/d. There is an emerging consensus that US shale growth will be rather limited or even decline in 2021.[6] While the economics of shale production have strengthened in the current price environment and the cash flows of operators have improved, companies are being rewarded for reducing debt and returning cash to shareholders through increased dividend payments and buybacks. Also, with increased uncertainty over access to capital, reduced investor enthusiasm for the shale sector and with climate change considerations featuring high in President Biden's administration as well as in companies' agendas, the output response could be smaller and subject to longer lags. Only time will tell whether and how long this 'capital discipline' will persist and as in previous cycles, the response of US shale on the upside remains a major source of uncertainty for 2022 and beyond.

Finally, the timetable for Iran's return will be far from smooth.[7] While China is willing to test US tolerance for its purchases of Iranian crude, other Asian refiners are still not willing to risk buying even discounted Iranian barrels. Growing volumes of Iranian crude and condensates exports estimated at 1.2–1.3 mb/d during January–March 2021 have been pressuring the physical market recently. Even if the Iran nuclear deal is revived, the export increase from current levels will be moderate. Also, unlike 2016, the expected incremental demand and cumulative refining runs in H2 2021 could be enough to absorb Iranian crude 'leakages'.

Demand remains the key uncertainty

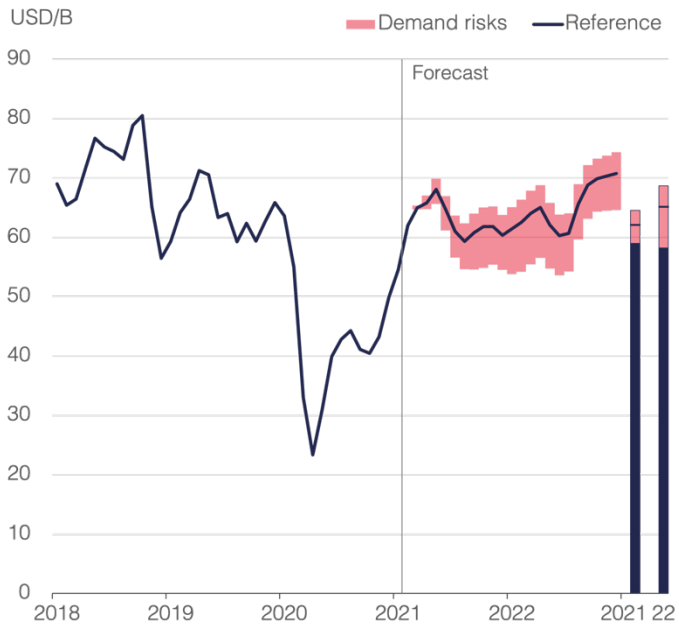
A common feature behind all the above factors is that they are mainly supply-side issues. With OPEC+ opting for a gradual approach, the major uncertainty shaping the market for the next two years will come mainly from

Fig 4: Baseline vs April 2020 supply



Source: OIES

Fig 5: Demand risks



Notes: Brent price. Source: OIES

the demand side, and will eventually dictate OPEC+ choices and its room to manoeuvre. In this context, it is possible to consider two scenarios.

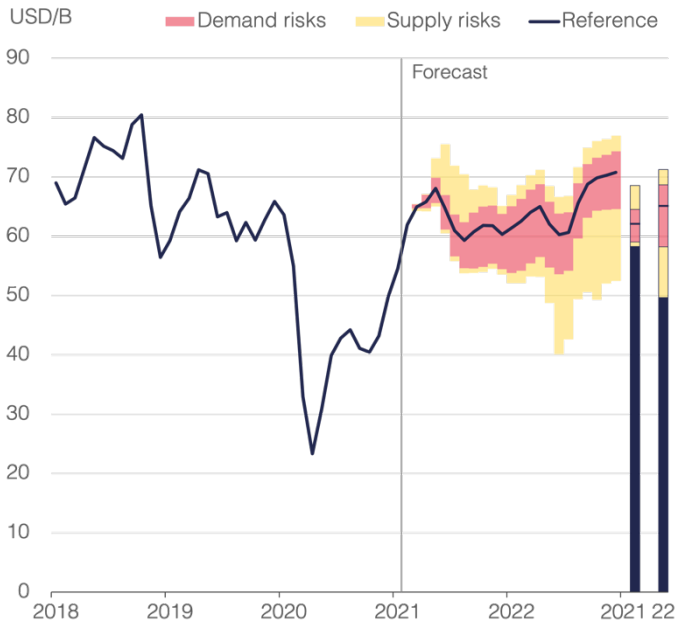
On the upside, a stronger-than-expected global demand rebound in H2 2021. This could be driven by higher runs as refineries return from maintenance, strong recovery in gasoline demand as countries lift mobility restrictions sooner than expected, a strong US driving season, and higher seasonal demand for fuel oil in the Middle East. On the downside, demand could turn out to be weaker than currently anticipated due to the reintroduction of restrictions, persistent delays to the roll-out of vaccines, weaker demand from India, and lower demand for storage from China. In both scenarios, it is assumed that OPEC+ and Saudi Arabia bring back their output gradually between May and July this year as agreed on April 1st by OPEC+ and producers achieve 100 per cent compliance to the agreed cuts, while for scenario purposes the July targets extend to the end of 2022.

Based on our model, these two scenarios create a price range between $59/b and $69/b for the rest of 2021 and 2022 on an annual basis, with monthly prices bounded between $54/b and $74/b (**Figure 5**). Of course, sentiment could push prices beyond these boundaries, but they are not likely to be sustainable. For prices to reach anywhere close to $100/b, we need to consider other shocks.

So, what are some potential fundamental factors that could break the price away from this range? On the upside, a reversal of the latest OPEC+ decision on renewed demand concerns and/or unexpected supply outages, particularly in Libya, could push prices higher. But on the downside, supply risks could also act as countervailing forces. For instance, one can think of a faster return of Iranian barrels and higher US shale growth responding to higher oil prices, as well as the full return of OPEC+ production after April 2022 signaling the end of market management. These factors could widen the price range further, but there appears to be a price ceiling at $80/b at which point scenarios are stretched, while to the downside a $50/b price appears to be a solid floor (**Figure 6**). Although releasing the withheld OPEC+ barrels in April 2022 would have an immediate sharp impact on prices, the lower spare capacity reduces the downside risks and pushes prices higher towards the end of 2022.

Based on the above, it is possible to make some generalised conclusions: (1) the degree of uncertainty surrounding the oil market outlook remains high; (2) the OPEC+ response has been a distinguishing feature not only in the way it countered the COVID-19 shock so far, but also in widening the options available to OPEC+ and creating some room for manoeuvre in a very uncertain environment. Hence the choices OPEC+ makes will dictate market outcomes, but its choices will also be shaped by the demand recovery in the next two years; and finally (3) some key triggers of an oil supercycle, such as an inelastic supply in the face of rampant demand and lack of spare capacity and refining constraints, which could push prices to $100/b and keep them at those high levels are still missing. All the factors discussed on the supply and demand side remain within the bounds of a 'normal' oil cycle so far.

Fig 6: Balance of risks



Notes: Brent price. Source: OIES

Footnotes:

[1] Julianne Geigger, '$100 Oil: Big Banks Believe A New Supercycle Is Beginning' Oil Price February 16, 2021.

[2] Ben Sharples, 'Whispers of $100 Oil Return as Crude Shakes Off Covid's Slap', Bloomberg February 24, 2021.

[3] Supercycles in commodity prices are defined as multi-year periods of booms and busts, resulting from a lag between unexpected, persistent and positive shocks to commodity demand confronted by slow-moving supply responses. As supply finally expands to meet demand growth, the cycle enters a downswing phase.

[4] David Sheppard, 'Banks stand firm on calls for oil super-cycle even as prices drop', Financial Times March 23, 2021.

[5] See IEA, Oil 2021, March 2021.

[6] Justin Jacobs and Derek Bower, 'Oil price rally tests drilling discipline in US shale industry', Financial Times March 16, 2021.

[7] Meghan L. O'Sullivan, 'There's No Hurry for Biden to Re-Enter the Iran Nuclear Deal', Bloomberg March 25, 2021.

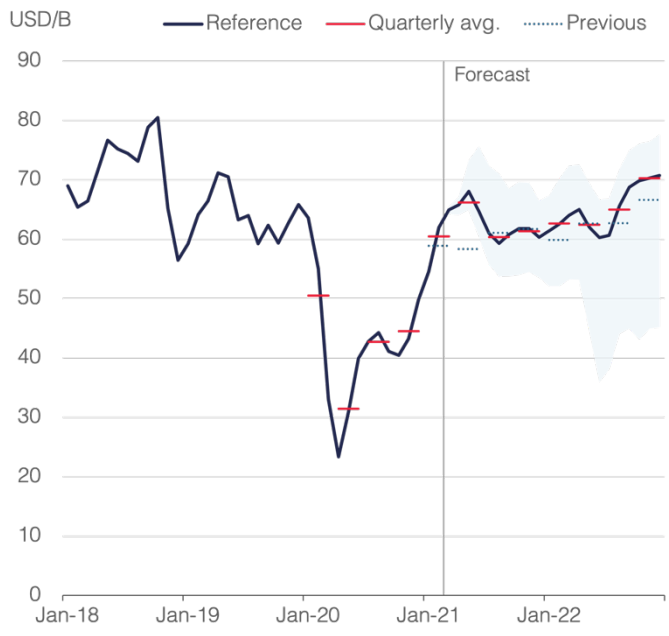
Bassam Fattouh and Andreas Economou, OIES

Outlook

Key insights

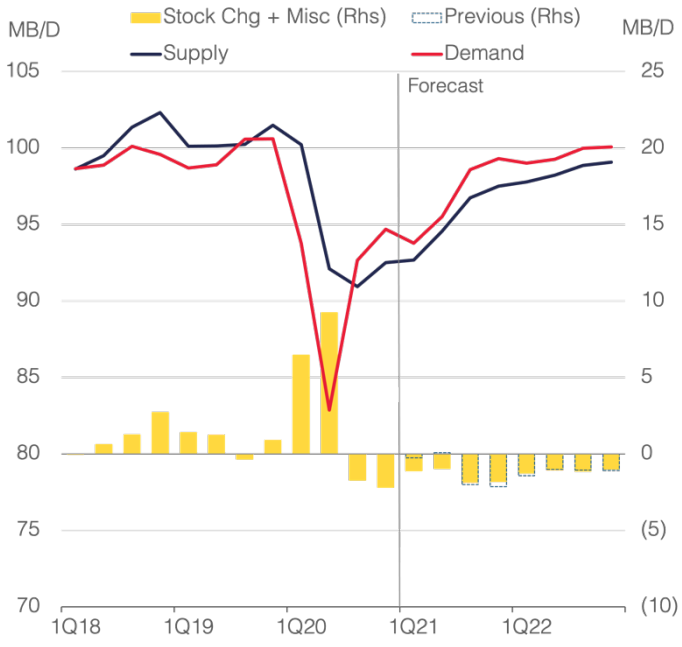
- **Our reference forecast for Brent is upgraded to $62.1/b in 2021 and to $65.1/b in 2022.** Despite the price momentum easing in recent weeks, a strong rebound in demand in H2 2021 faced with a gradual increase in production from OPEC+ are expected to sustain prices above $60/b in 2021 with the momentum gathering pace in H2. Brent Prospect has now fully converged towards the Reference price in 2021, on the back of the latest OPEC+ decision and producers' flexibility in adjusting output in face of downside risks materialising.
- **The balance of risks to our reference outlook in the very-near term has tilted to the upside but market fragilities persist beyond 2021.** Demand-side downside risks are broadly unchanged in 2021 but they return in 2022 amid concerns of the protracted impact of the global pandemic dampening demand prospects. OPEC+ compliance risk remains low but the end of the OPEC+ agreement in April 2022 constitutes a short-term downside risk, which fades as higher OPEC+ production reduces the size of available spare capacity.
- **Global oil demand growth in 2021 remains broadly unchanged at 5.8 mb/d, followed by 2.8 mb/d in 2022.** Stronger than expected demand particularly in China and the US improve the outlook in Q1, but persistent pandemic related risks cloud the outlook for the rest of 2021, as a pandemic resurgence and slow vaccine rollout weigh heavily on demand prospects elsewhere, especially in India and Europe.
- **Global oil supply growth in 2021 is estimated at 1.4 mb/d and increases to 3.1 mb/d in 2022, to average 2 mb/d below 2019 levels.** OPEC+ remains in the driving seat of the market rebalancing with its latest decision seeing 2.14 mb/d returning to the market in May-July, while retaining its flexibility to reverse course anew if market conditions change. Outside OPEC+, US shale activity has risen in Q1, but a material rebound is not expected before 2022.
- **The market is expected to fall into a 1.4 mb/d deficit in 2021 and a 1.1 mb/d deficit in 2022.** OECD stocks are seen approaching their 2015-2019 average faster than anticipated.

Brent price outlook



Source: OIES

Global balance



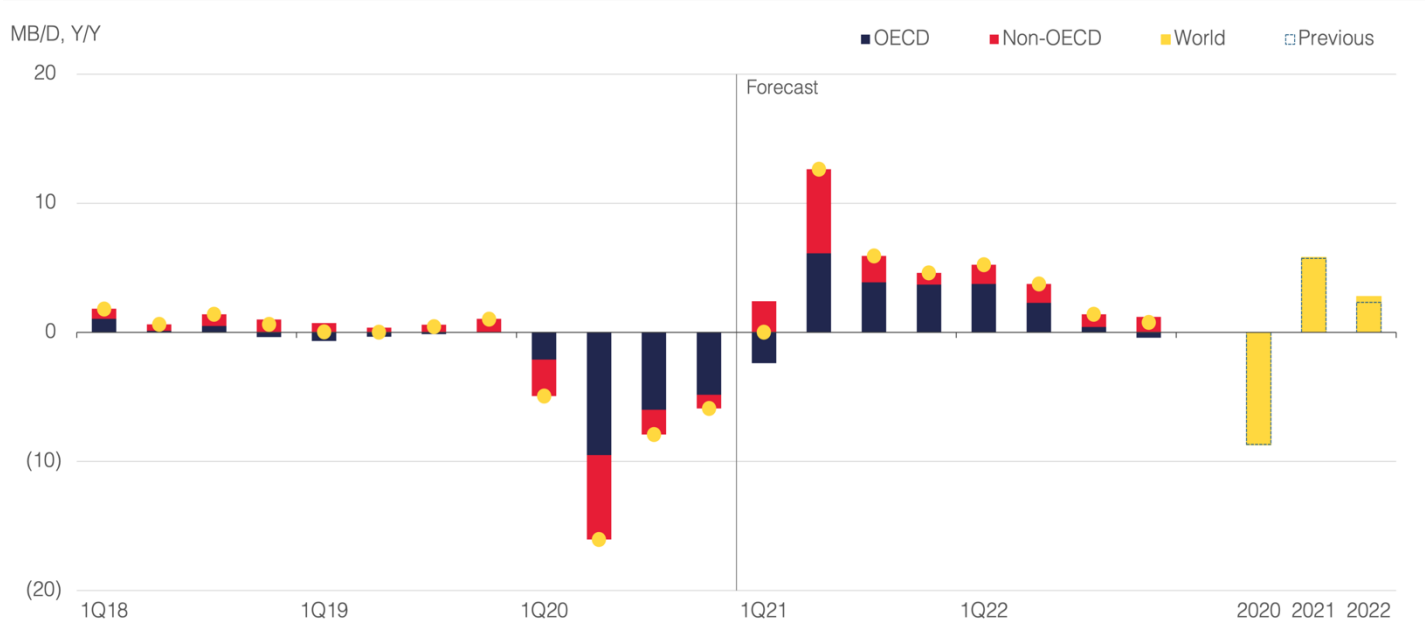
Source: OIES

Demand

Slightly stronger Q1 in prospect, but downside risks to 2021 persist

Stronger than expected demand particularly in China and the US improve the outlook for Q1, but persistent pandemic related risks cloud the outlook for 2021 as a whole.

Global oil demand



Source: OIES

Global oil demand
MB/D

	Total	Y/Y	vs 4Q19[1]
2020	91.0	(8.7)	(5.9)
± prev	-0.01	-0.01	
2021	96.8	5.8	(1.3)
± prev	+0.06	+0.07	
2022	99.6	2.8	(0.5)
± prev	+0.52	+0.46	

[1] Compared to Q4 in each year.

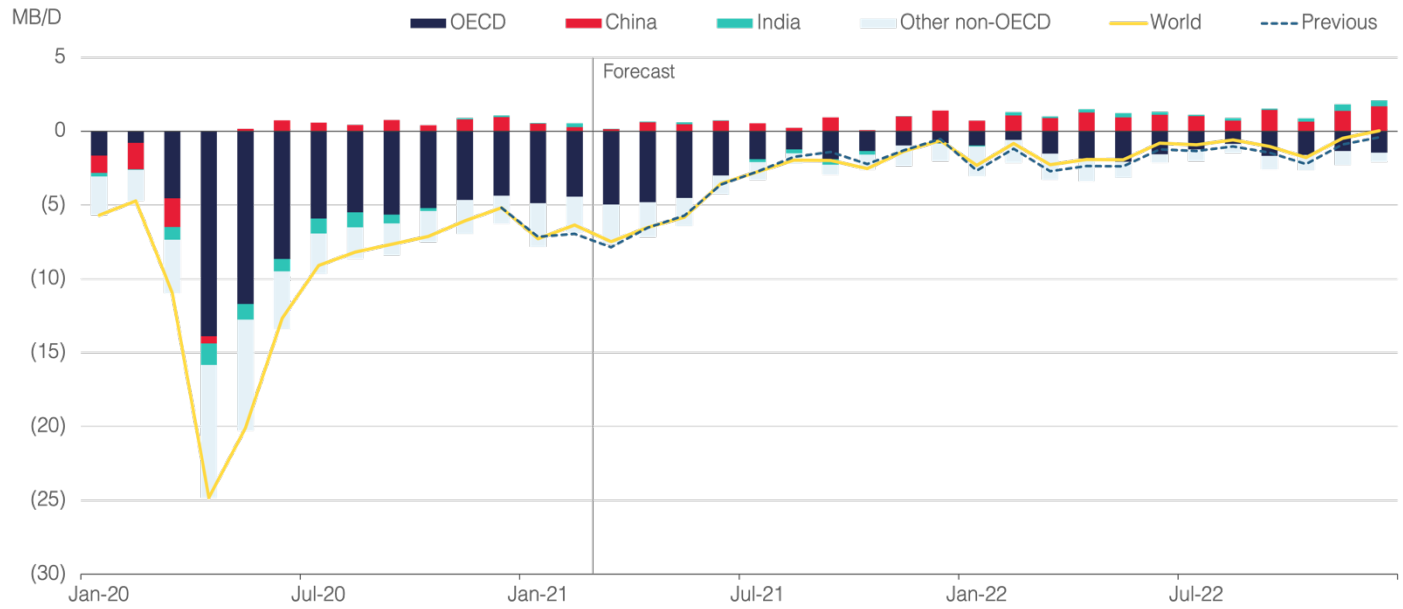
Global oil demand growth in 2021 remains broadly unchanged at 5.8 mb/d

Despite the slightly stronger growth momentum seen in China and the US in Q1, the not so clear path to the end of the COVID-19 tunnel due to the rise in virus cases and the vaccine delays continues to cast a shadow over the expected acceleration of the demand recovery from Q2 onwards.

Stronger growth in the US offsets weaker demand in Europe

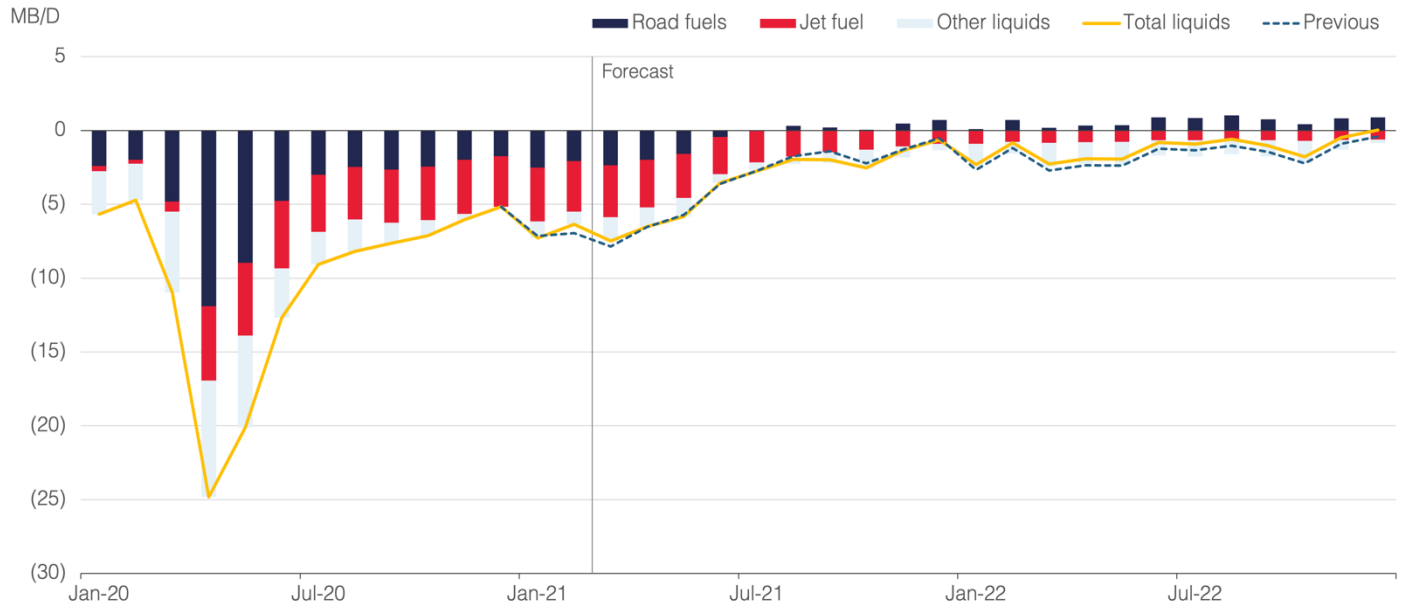
Faster vaccinations and the fiscal stimulus are strengthening US product demand in 2021, raising y/y demand growth in OECD Americas to 1.72 mb/d from 1.47 mb/d.

Global oil demand by region vs Dec 19



Source: OIES

Global oil demand by sector vs Dec 19



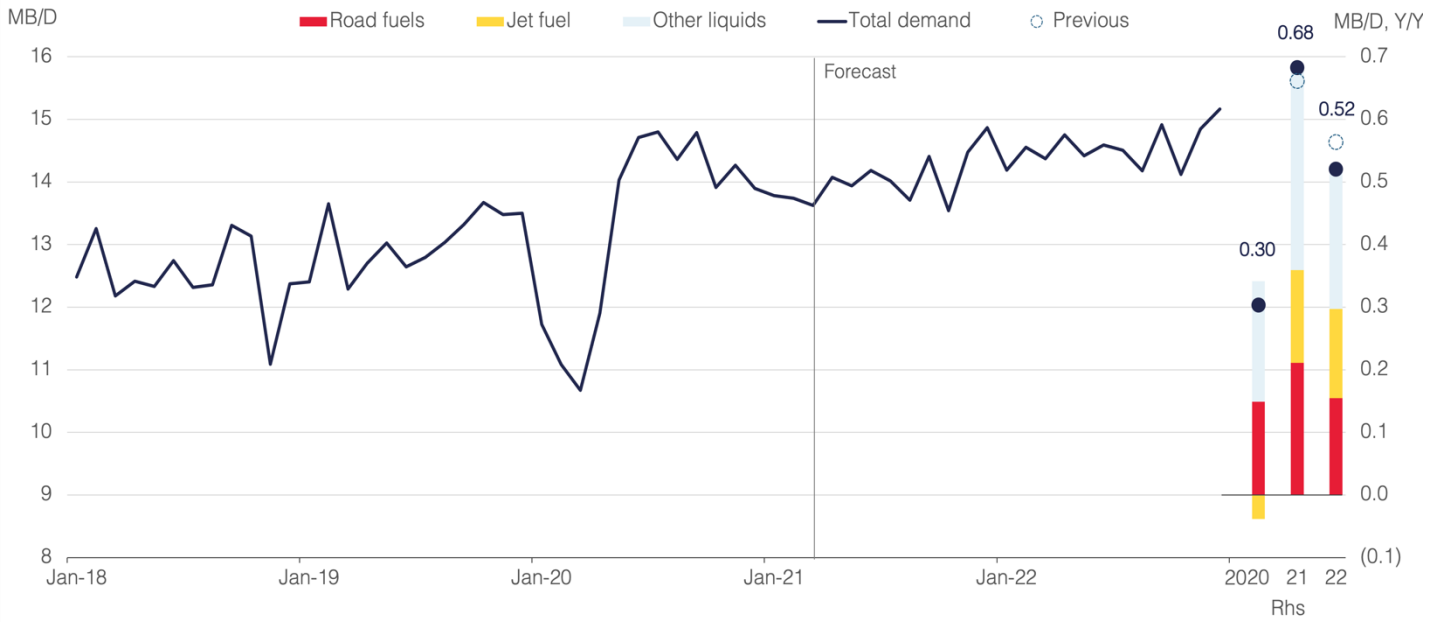
Notes: Other liquids include fuels for other transport, commercial/residential use, industry and other uses. Source: OIES

China

Despite the travel restrictions, the Lunar Year was stronger than expected

The lack of accurate product storage data masks some of the weakness, but the lockdowns seem to have contained the pandemic, allowing for a strong rebound.

China implied product demand



Notes: Other liquids include fuels for other transport, commercial/residential use, industry and other uses. Source: OIES

China oil demand
MB/D

	Total	Y/Y	vs 4Q19[1]
2020	13.3	0.3	0.5
± prev	-0.03	-0.03	
2021	14.0	0.7	0.7
± prev	-0.01	+0.02	
2022	14.6	0.5	1.2
± prev	-0.05	-0.04	

[1] Compared to Q4 in each year.

China's product demand growth still expected to be a strong 0.7 mb/d in 2021

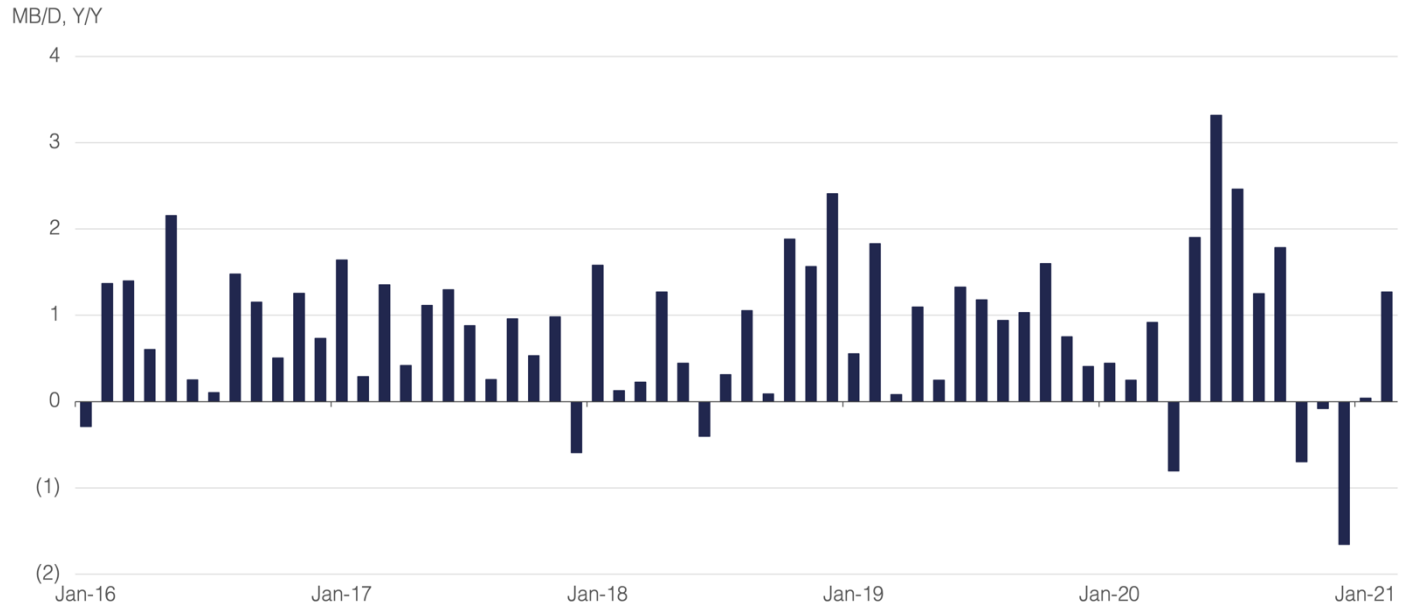
Despite the stronger than expected Q1 2021 demand, the coming quarters are expected to see further improvement, but jet fuel is seen recovering later than expected on international travel restrictions.

Outlook

Crude inventories built as refiners used their import licenses

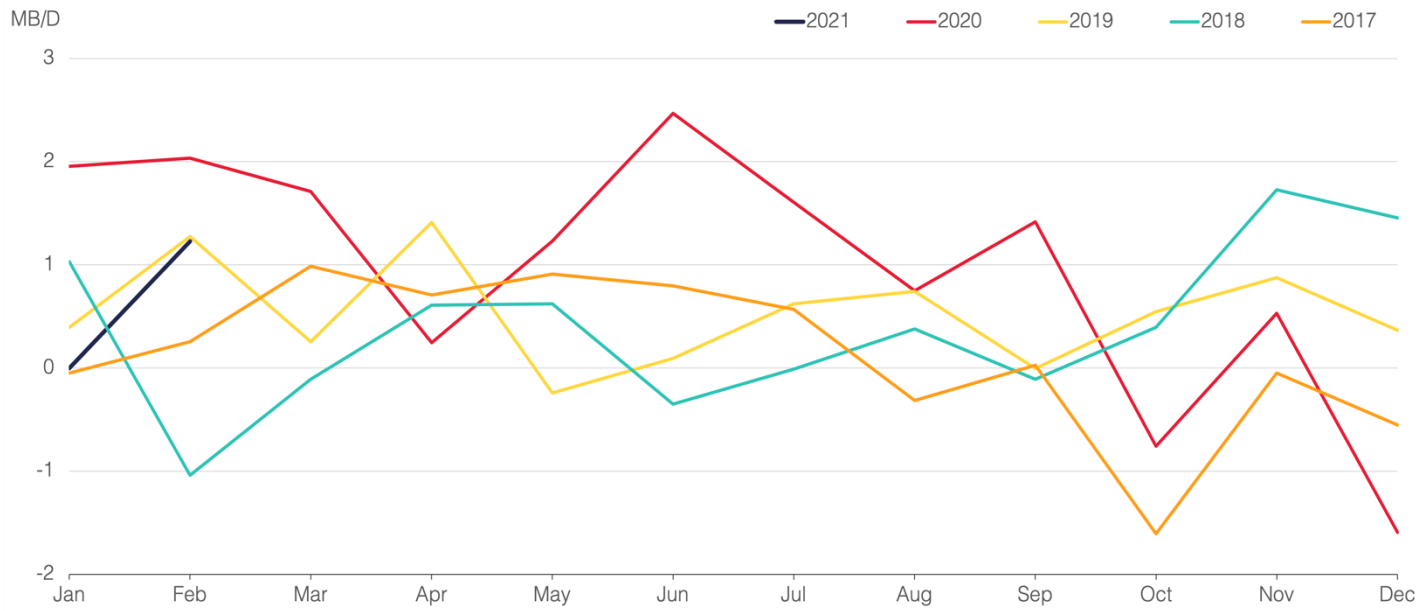
Strong crude inflows meant an uptick in crude stocks, mainly by the independents with the majors de-stocking, but crude imports set to rise toward H2 after a short lull.

China crude imports



Source: China customs, OIES

China implied stocks



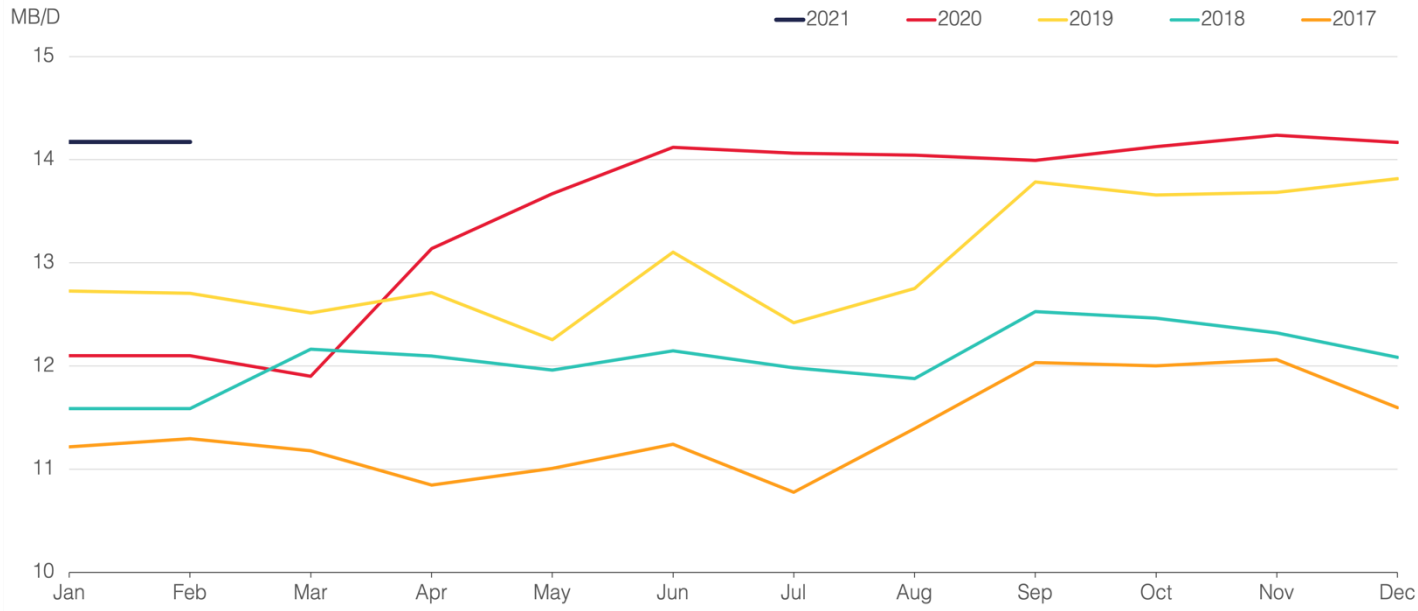
Source: China customs, OIES

Outlook

With strong refinery runs, product stocks built and exports rose

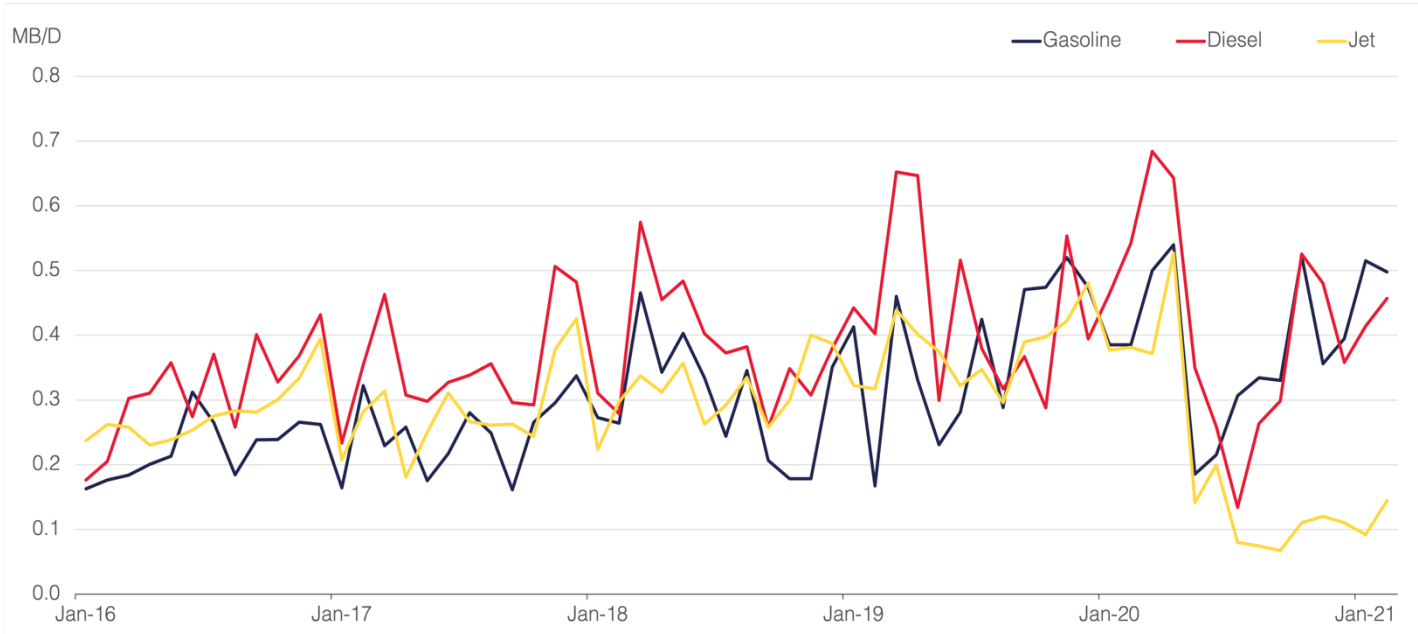
In the next few months, outflows could soften as refiners enter peak maintenance and demand improves domestically.

China refinery runs



Source: NBS, OIES

China product exports



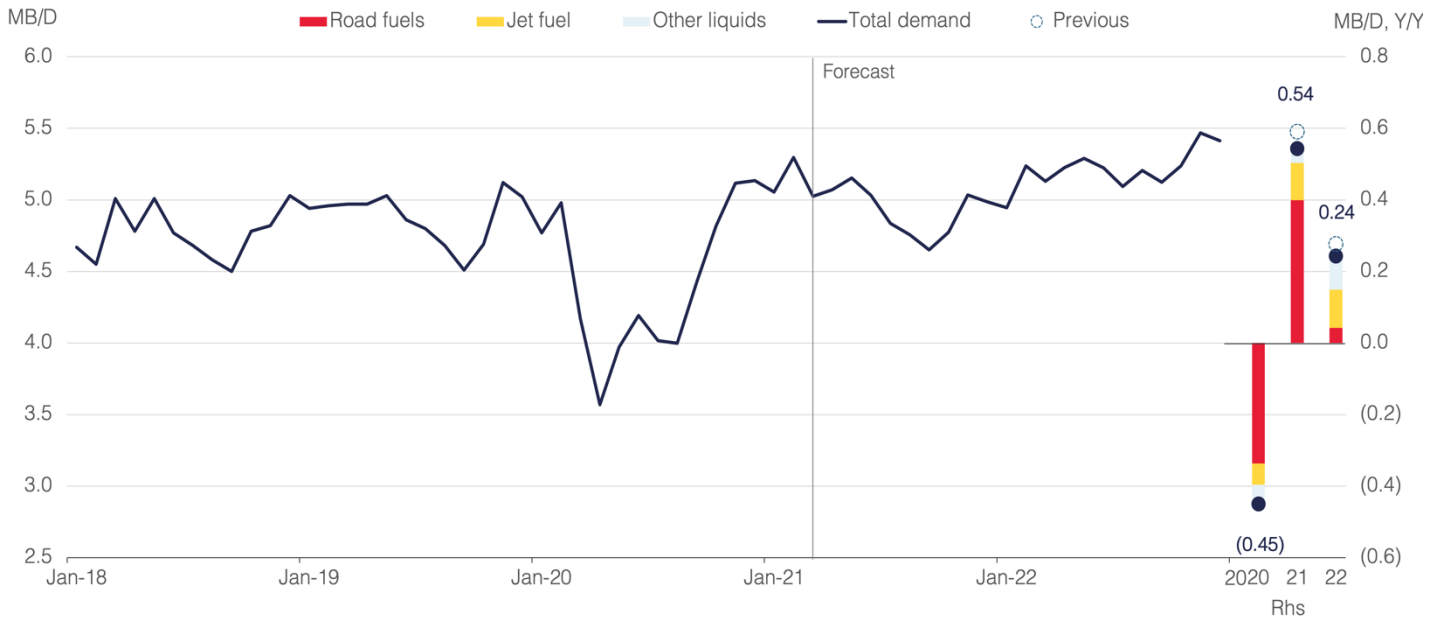
Source: China customs, OIES

India

Resurge in pandemic weighs on India demand recovery

The reintroduction of curbs on domestic activity amid rising infections in several states, confronted with high retail prices, continues to weigh on demand prospects.

India implied product demand



Notes: Other liquids include fuels for other transport, commercial/residential use, industry and other uses. Source: OIES

India oil demand
MB/D

	Total	Y/Y	vs 4Q19[1]
2020	4.4	(0.4)	0.1
± prev	-0.03	+0.05	
2021	5.0	0.5	0.1
± prev	-0.23	-0.05	
2022	5.2	0.2	0.4
± prev	-0.26	-0.03	

[1] Compared to Q4 in each year. Notes: This month's level changes reflect revisions in historical data.

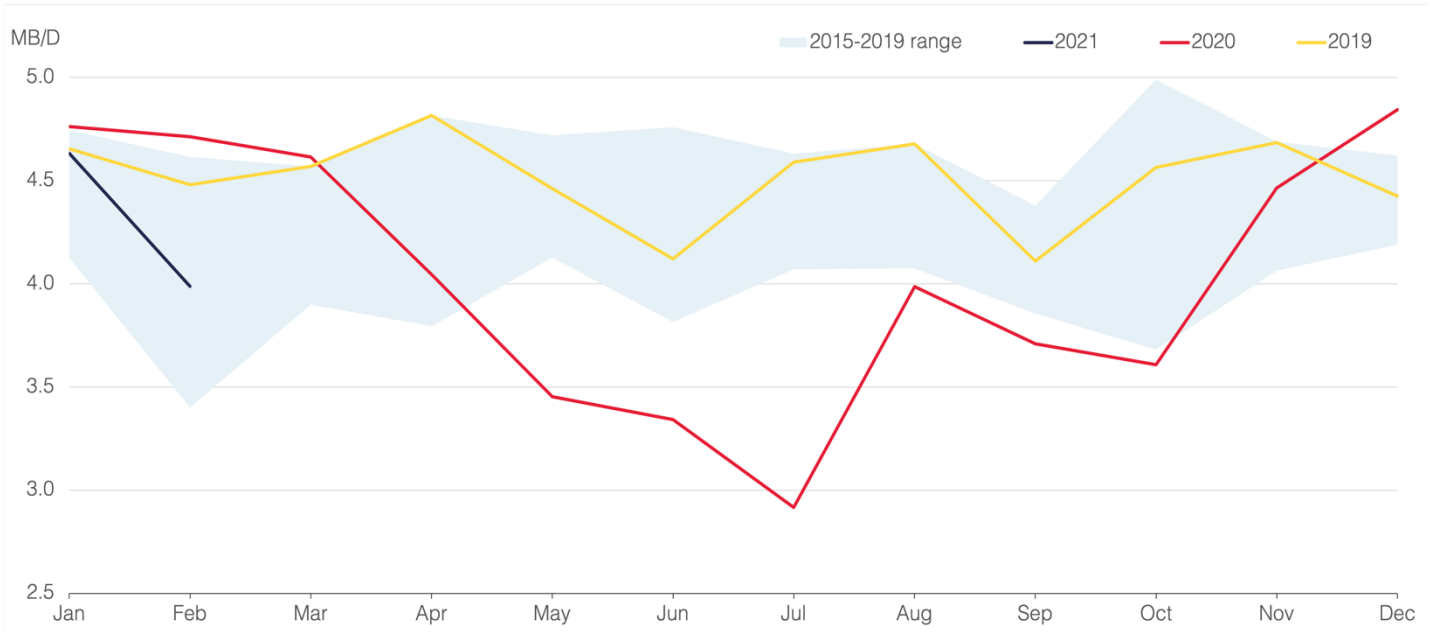
India's product demand growth in 2021 is lowered again to 0.54 mb/d

The reintroduction of domestic travel restrictions and pressure from higher international oil prices on Indian fiscal balances reflected in recent reluctance from officials to adjust federal taxes on petroleum products downwards, could temporarily dampen India's demand recovery.

India's crude imports and runs weaken on higher oil prices

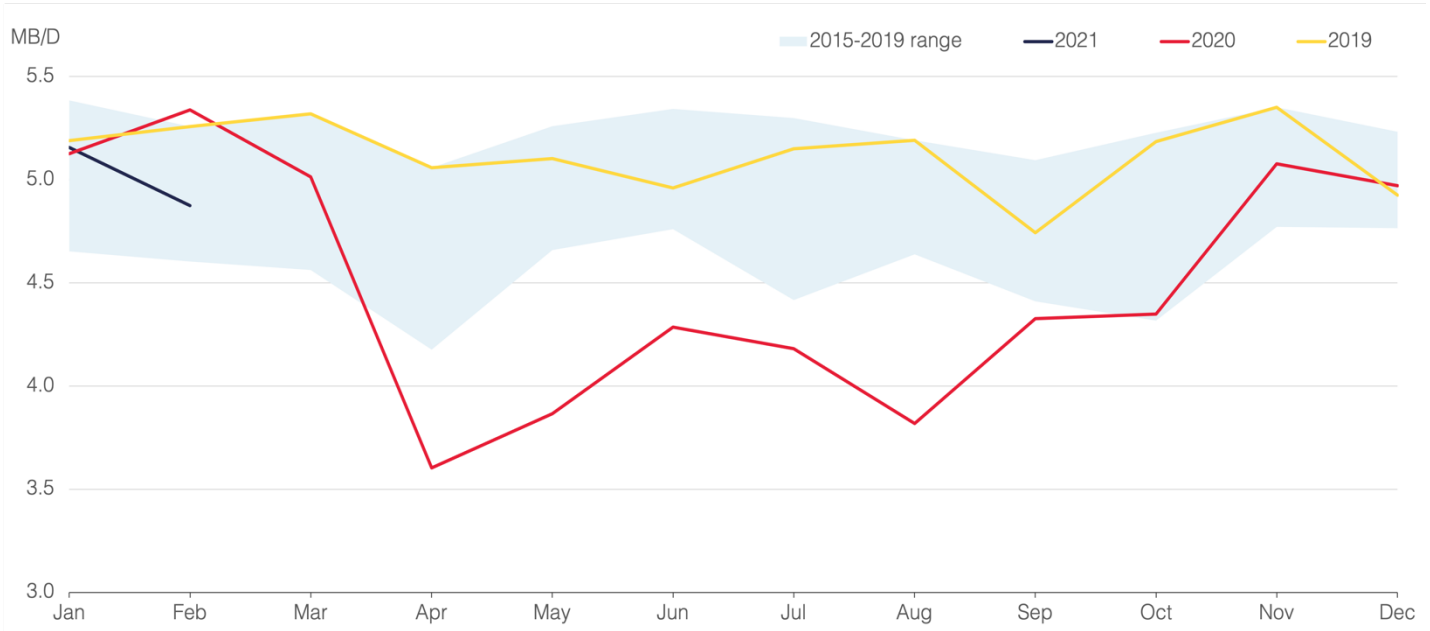
India's government directed state refiners to seek new sources of crude, with the US replacing Saudi Arabia as its second-largest import source.

India crude imports



Source: PPAC, OIES

India refinery runs



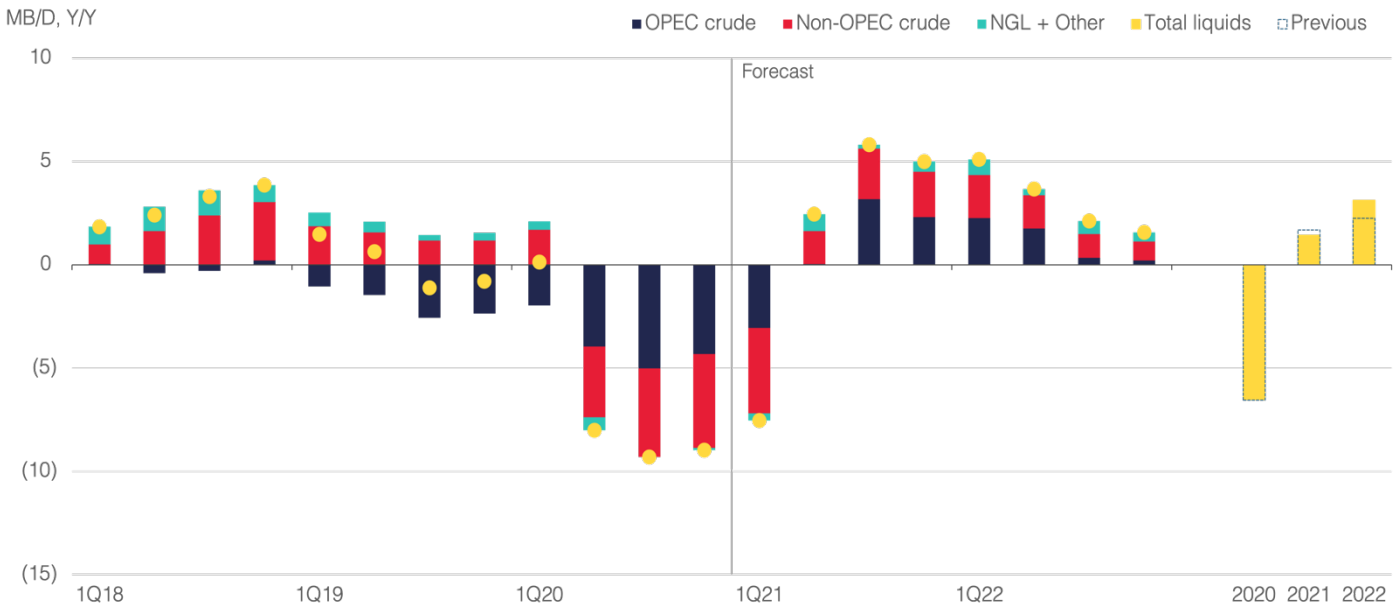
Source: PPAC, OIES

Supply

Supply rebound slows slightly in 2021, but outlook improves in 2022

OPEC+ producers opted for a gradual but cautious tapering of their cuts in May-July.

Global oil supply



Source: OIES

Global oil supply
MB/D

	Total	Y/Y	vs Dec-19[1]
2020	93.9	(6.5)	(8.4)
± prev	-0.04	+0.01	
2021	95.4	1.4	(3.8)
± prev	-0.30	-0.26	
2022	98.5	3.1	(2.3)
± prev	+0.57	+0.86	

[1] Compared to December in each year.

Global supply growth in 2021 is revised lower to 1.4 mb/d, but lifted at 3.1 mb/d in 2022

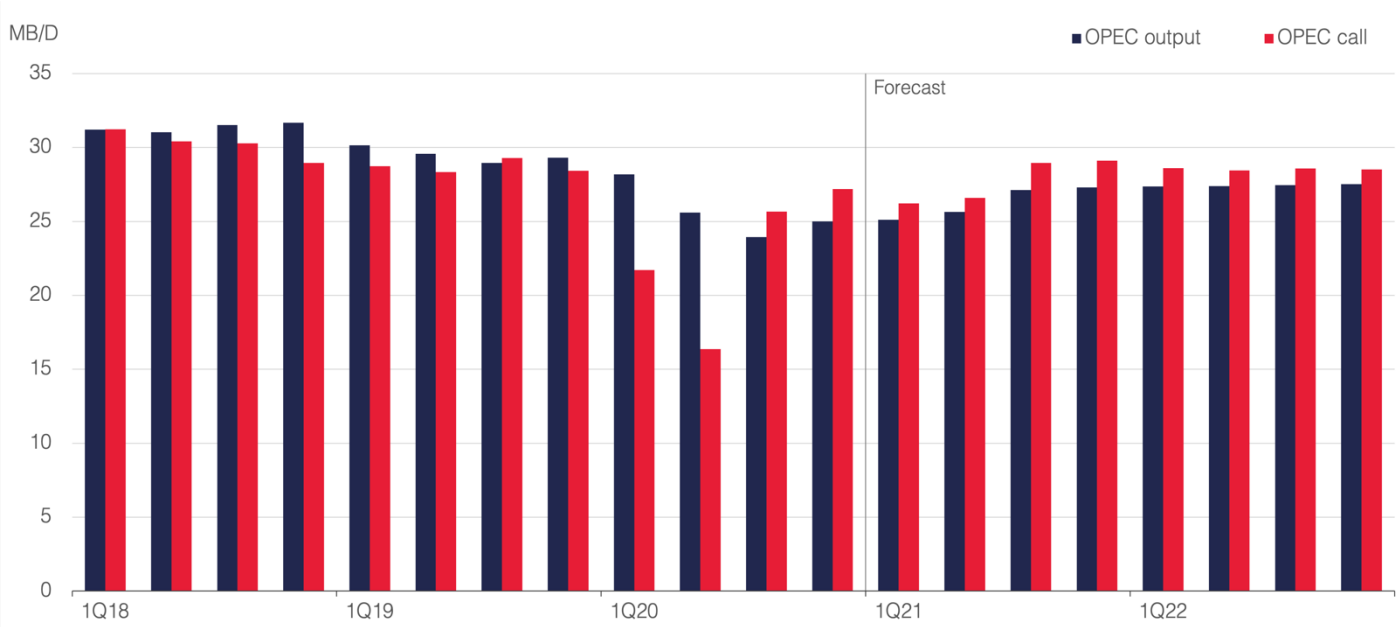
The downward revisions in 2021 reflect the decision by OPEC+ in March to keep production unchanged through April, including the extra 1 mb/d voluntary Saudi cut, amid the US production shut-in of 1 mb/d due to the surprise cold snap in February. In 2022, the supply outlook is supported by improvements in North America. But global oil supply remains below the December 2019 levels.

OPEC

OPEC+ remains in the driving seat

OPEC+ gradual output increases in May-July exhibit the continuation of a cautious stance from the producers' pact as demand uncertainty remains unresolved.

OPEC supply



Notes: Assumes 100% compliance with OPEC+ deal. Source: OIES

OPEC supply
MB/D

	Output	Call	± dif.
2020	25.7	22.7	3.0
± prev	0.00	+0.03	
2021	26.3	27.7	(1.4)
± prev	+0.08	+0.43	
2022	27.4	28.5	(1.1)
± prev	+0.33	+0.29	

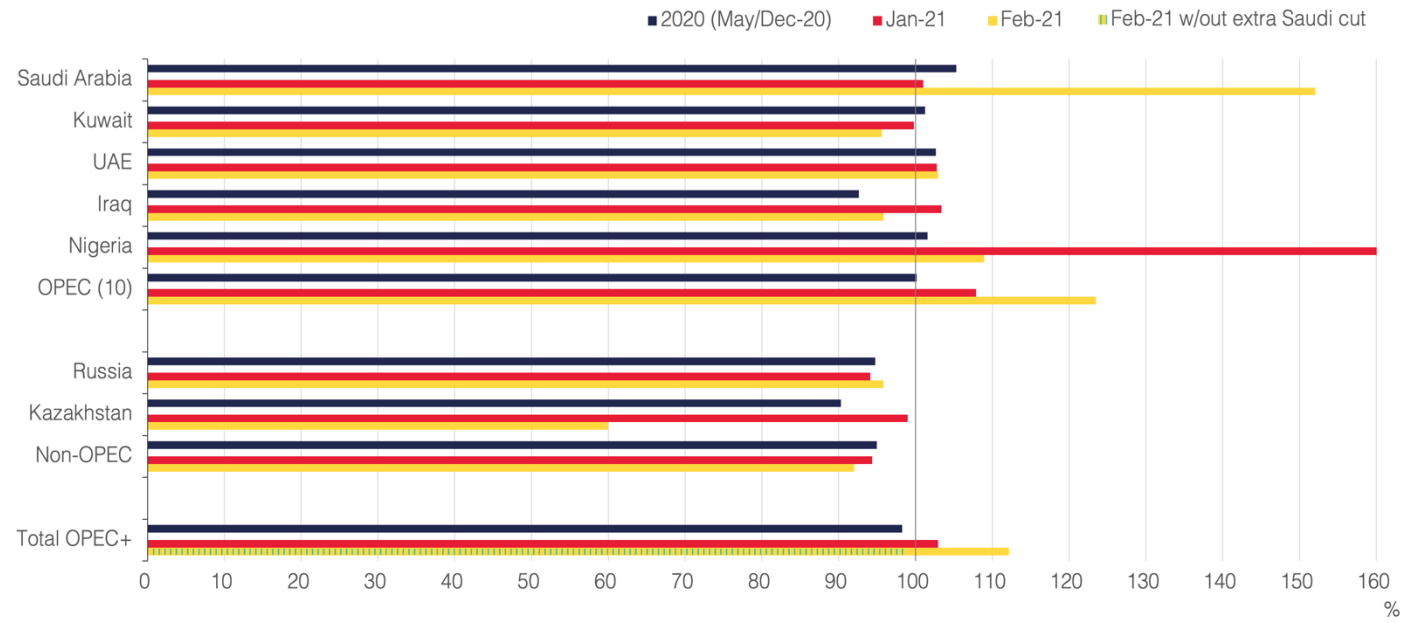
The call on OPEC crude in 2021 is raised by 0.4 mb/d to 27.7 mb/d

OPEC+ Ministers on April 1 agreed to a gradual tapering of their cuts in May-July by 1.14 mb/d. Saudi Arabia will return its extra 1 mb/d cut in increments, resulting in an OPEC+ overall production increase of 2.14 mb/d.

OPEC+ output compliance issues remain low risk

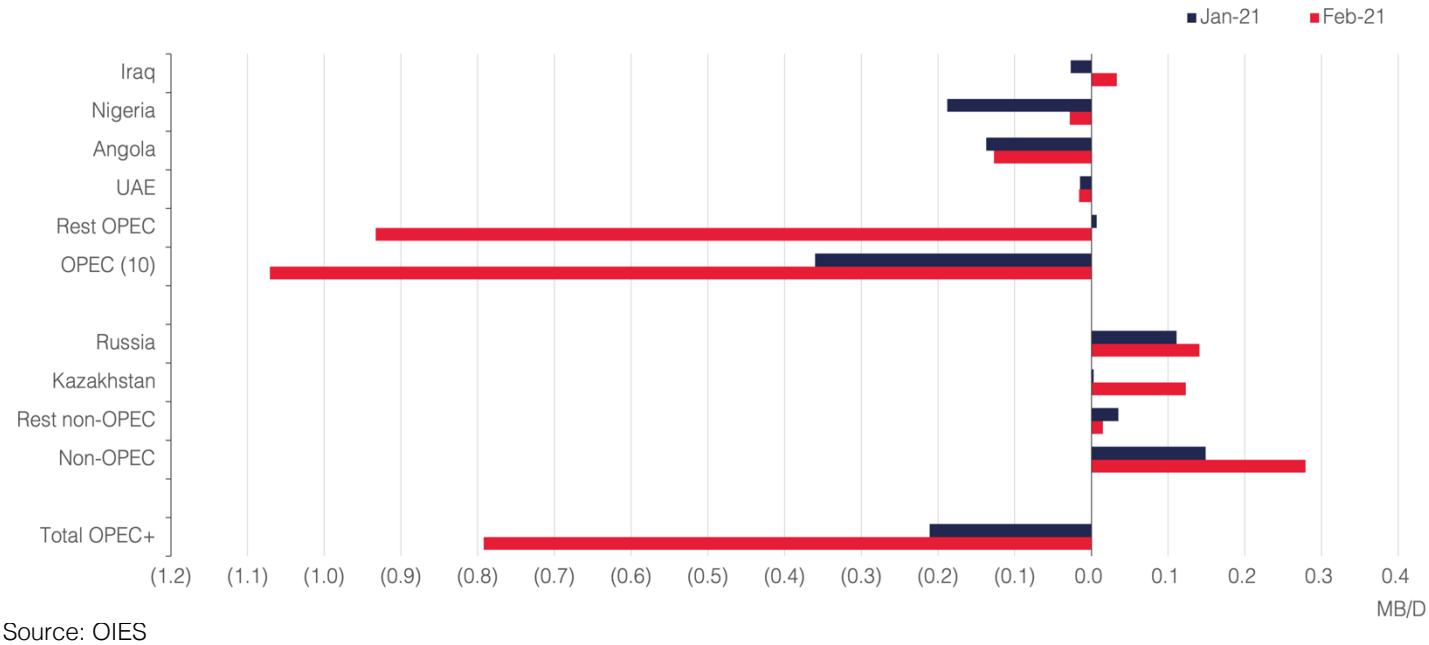
OPEC+ compliance in February reached a new high at 112%, mainly due to the extra Saudi cut, but even without the extra cut compliance is estimated to be a strong 98%.

OPEC+ output compliance



Source: OIES

OPEC+ over/under production

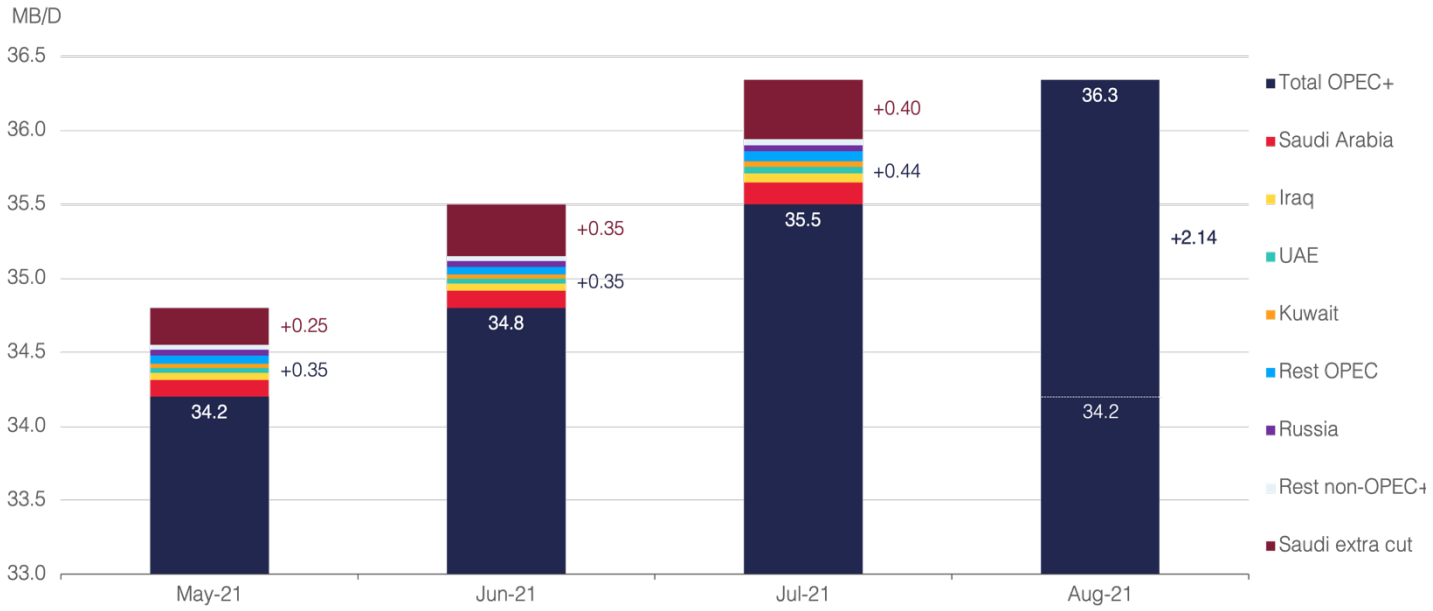


Source: OIES

OPEC+ remains vigilant over market uncertainties

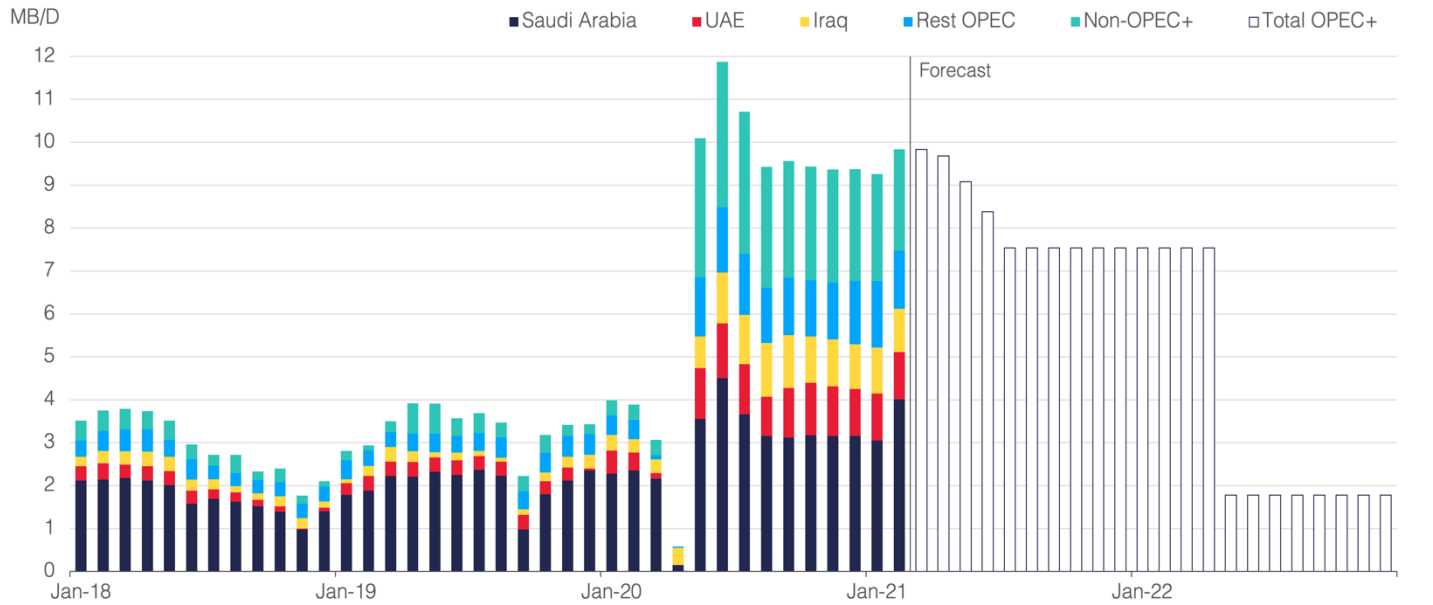
Despite its latest deal, OPEC+ retains its flexibility to reverse its decision over the course of May-July due to changing market conditions.

OPEC+ quota increases



Source: OIES

OPEC+ implied spare capacity

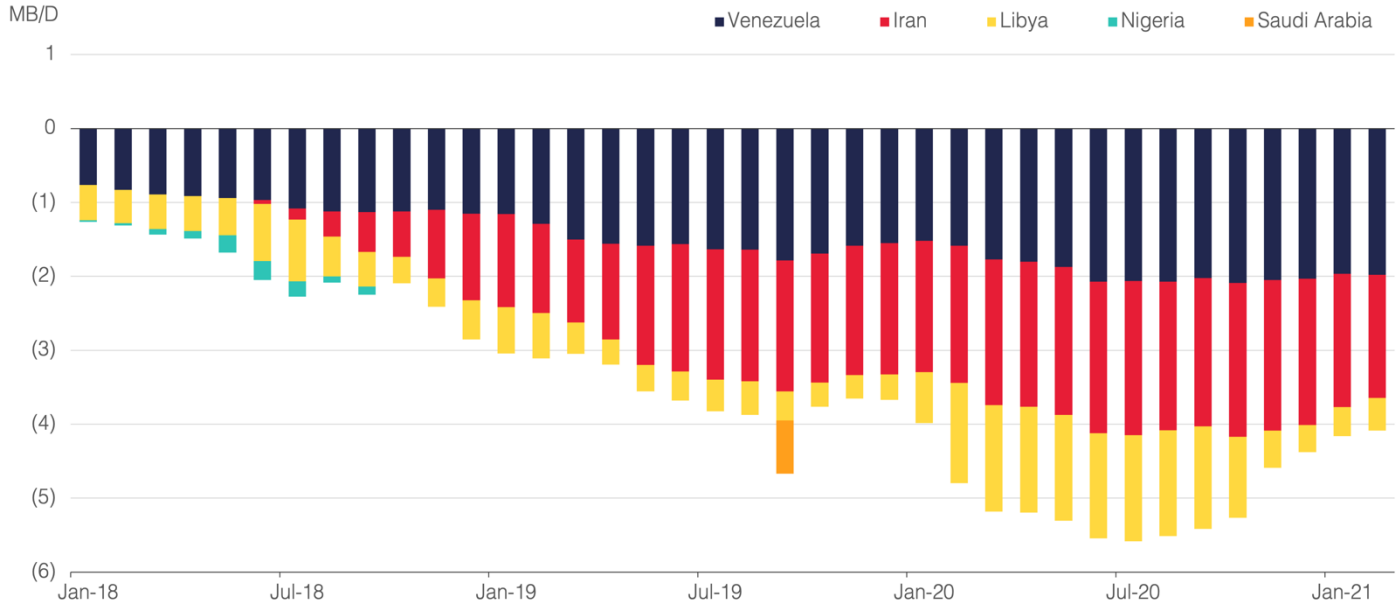


Notes: Forecast estimates are based on the OPEC+ deal in April 2020 and the latest decision in April 2021. Source: OIES

Iranian return gains traction, but geopolitical risks remain muted

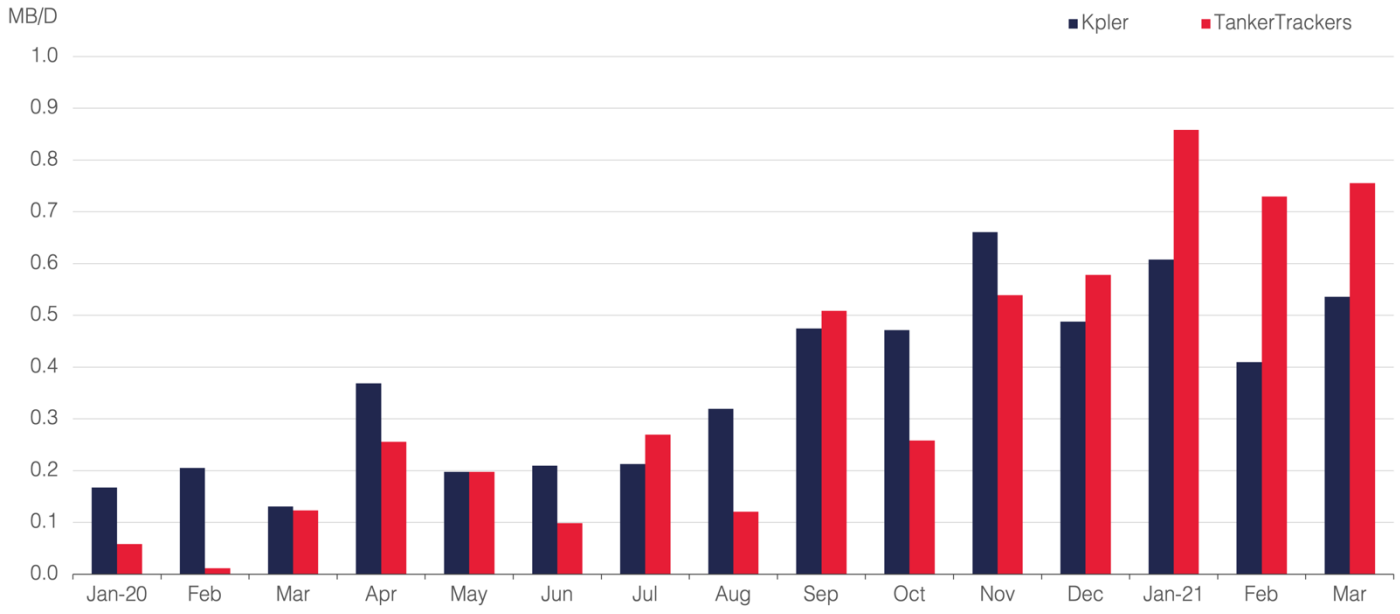
Iranian oil exports in recent months have been on the rise, with the bulk of the increase directed to China.

OPEC geopolitical supply disruptions



Source: OIES

Iran oil exports to China



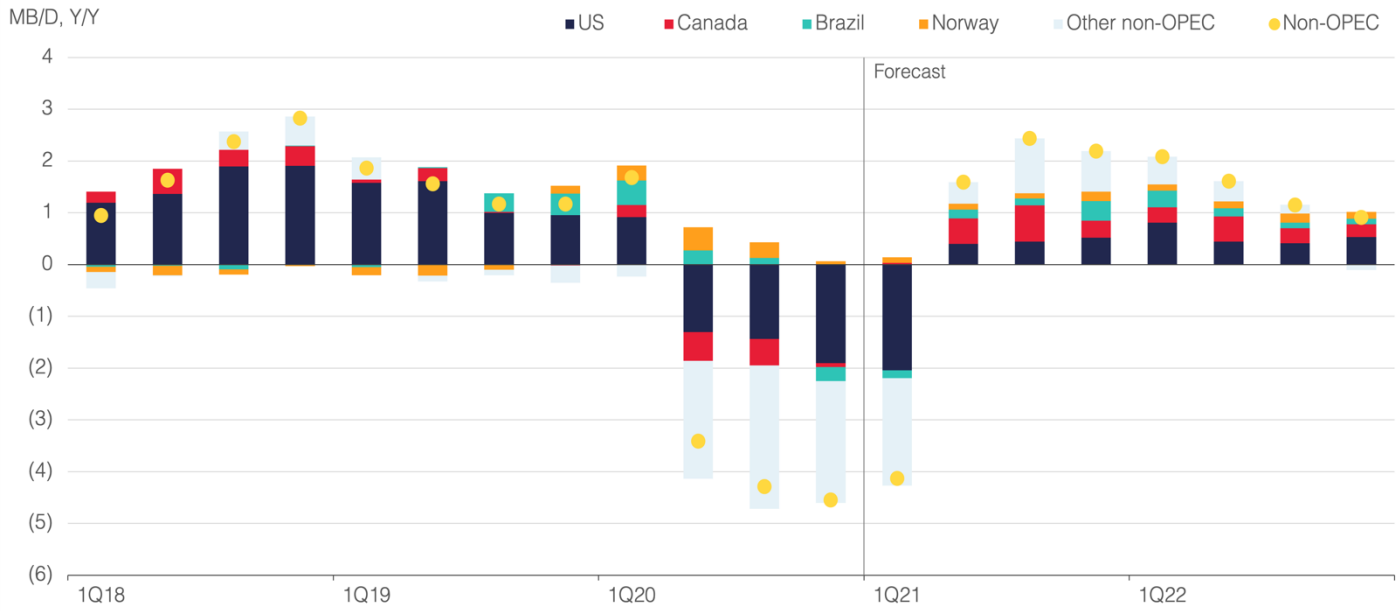
Source: Kpler, TankerTrackers, OIES

Non-OPEC

Non-OPEC supply growth slow progress

Despite a slow response at the start of the year, non-OPEC outlook finds support from improved US shale prospects, but a material rebound is expected from 2022 onwards.

Non-OPEC supply



Notes: Crude oil only. Source: OIES

Non-OPEC supply[1]
MB/D

	Total	Y/Y	US	Y/Y
2020	51.2	(2.6)	11.3	(0.9)
± prev	+0.03	+0.03	0.00	0.00
2021	51.7	0.5	11.1	(0.2)
± prev	-0.29	-0.32	+0.02	+0.02
2022	53.2	1.4	11.7	0.5
± prev	+0.20	+0.49	+0.19	+0.17

[1] Includes crude oil and condensates only.

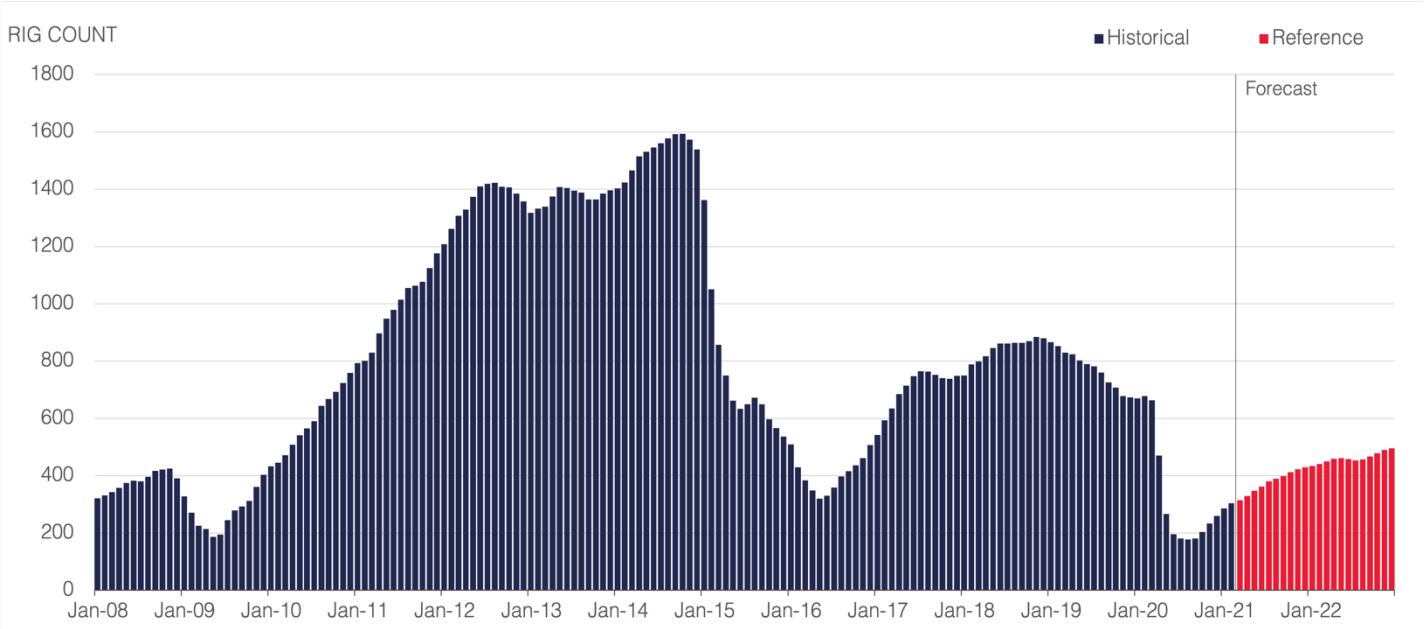
Non-OPEC supply is seen growing by 0.5 mb/d in 2021 and 1.4 mb/d in 2022

Although the recovery of US supply remains a wildcard, improvements in the economics of US shale and the cash flow of operators under the recent price environment provide a more optimistic view about the US outlook, which is likely to see more of an upwards than a downwards revision in the coming months.

Higher oil prices and improved economics lift optimism about US shale

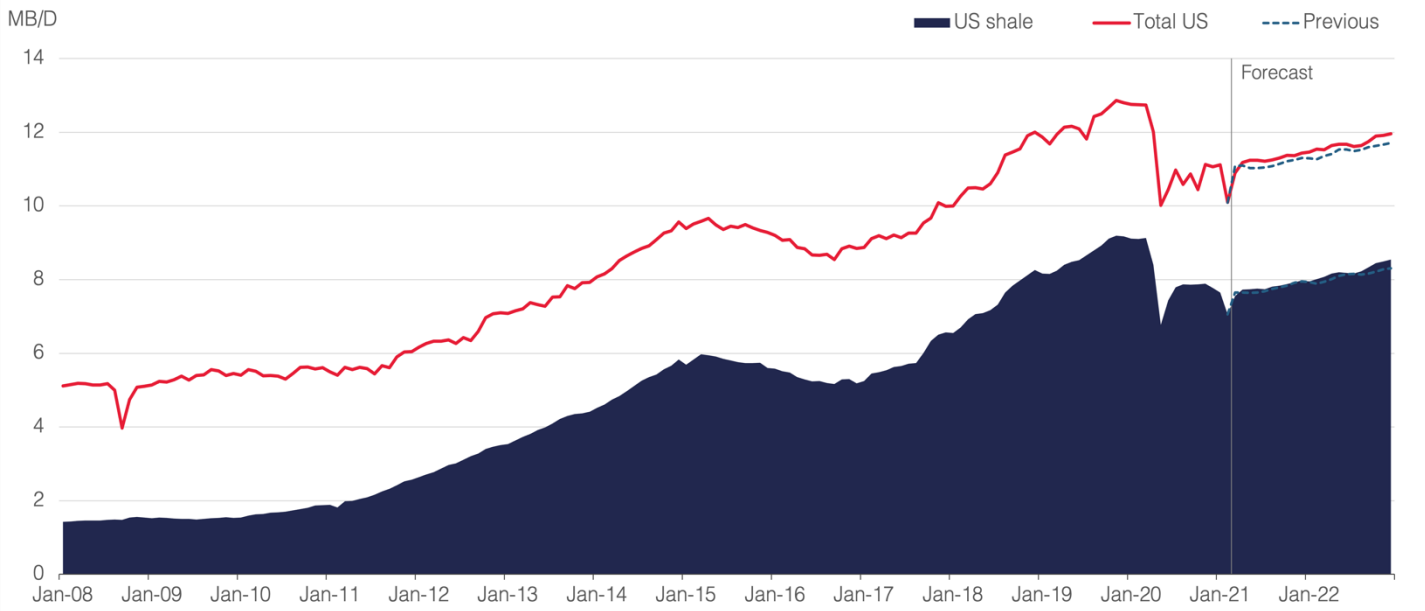
US activity continues an upward trajectory in Q1 as optimism rises, but modest increase in capex is expected to constrain the rebound seen in previous cycles.

US drilling activity



Source: OIES

US supply

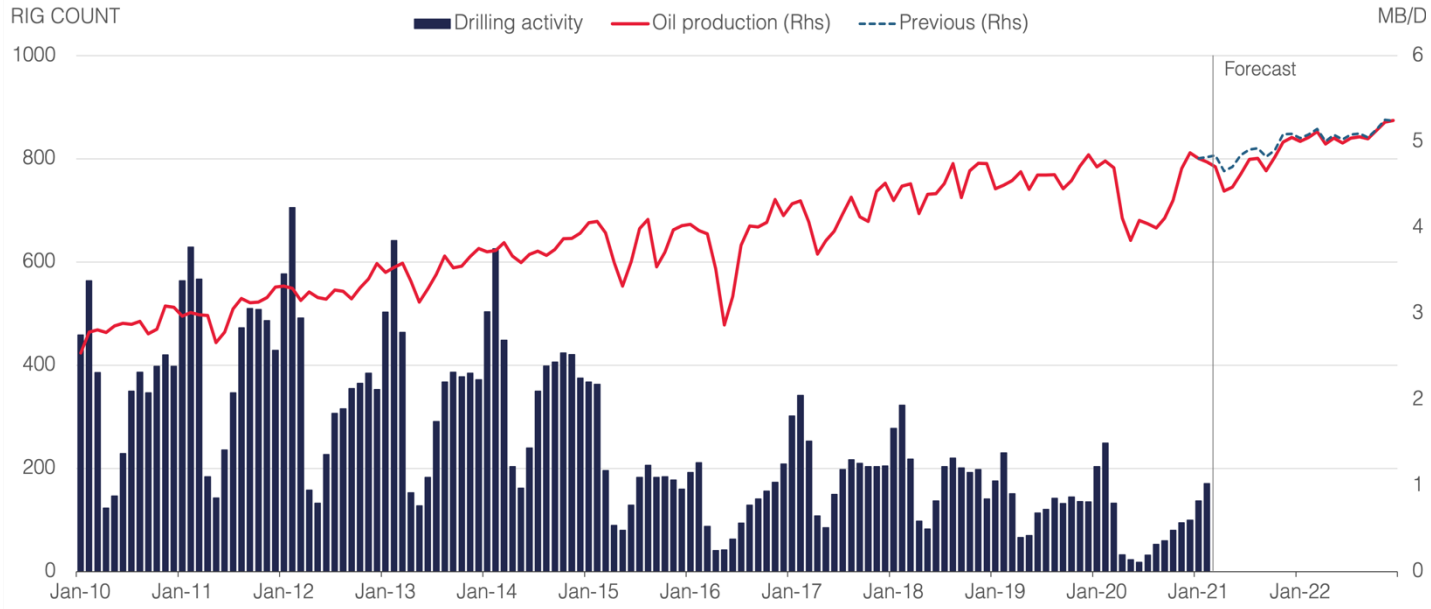


Notes: Crude oil only. Source: OIES

Canada momentum slows

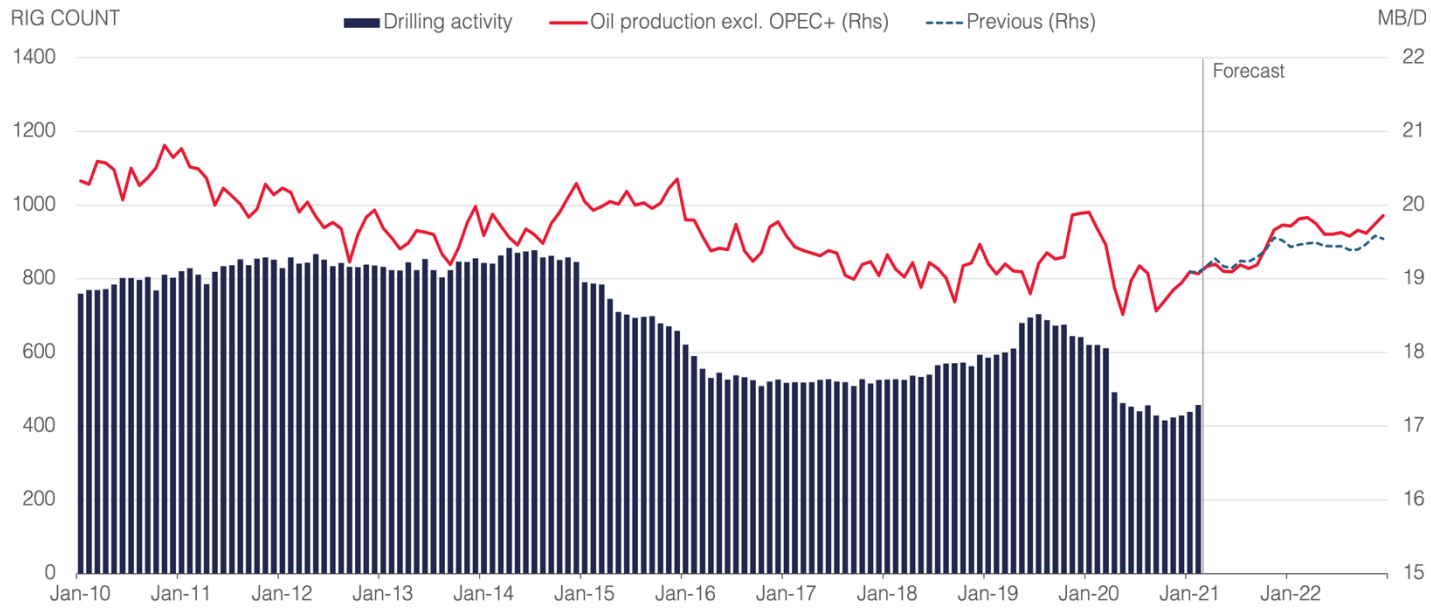
Weak February data and a planned 0.4 mb/d cut in March-April for maintenance dampen Canadian outlook, while outside NAM material gains are confined to Q4.

Canada supply



Source: Baker Hughes, OIES

Non-OPEC supply outside NAM



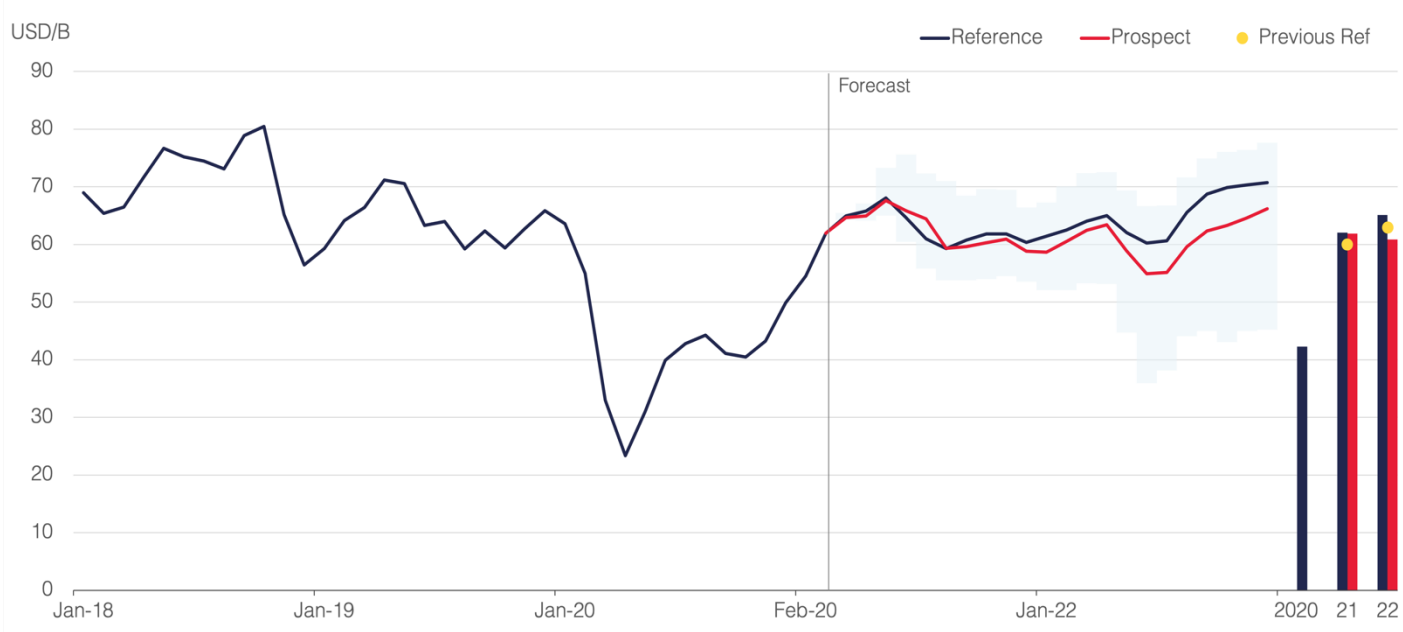
Source: Baker Hughes, OIES

Price Outlook

Oil price momentum eased but $60/b price a solid floor

Market fragilities in the face of persistent virus concerns ease price momentum in Q2, but $60/b price floor expected to hold despite OPEC+ gradual increase.

Brent price outlook



Source: OIES

Key assumptions

		2021	2022
Geopolitics MB/D	**IRN**	2.32	2.55
	VEN	0.55	0.61
	LBY	1.15	1.23
Supply %, Compliance[1]	**OPEC+**	100	100
Demand %, Y/Y	**GDP[2]**	6.0	4.4

[1] Average OPEC+ compliance. [2] Based on IMF WEO.

Our Brent price forecast is upgraded at $62/b for 2021 and $65/b for 2022

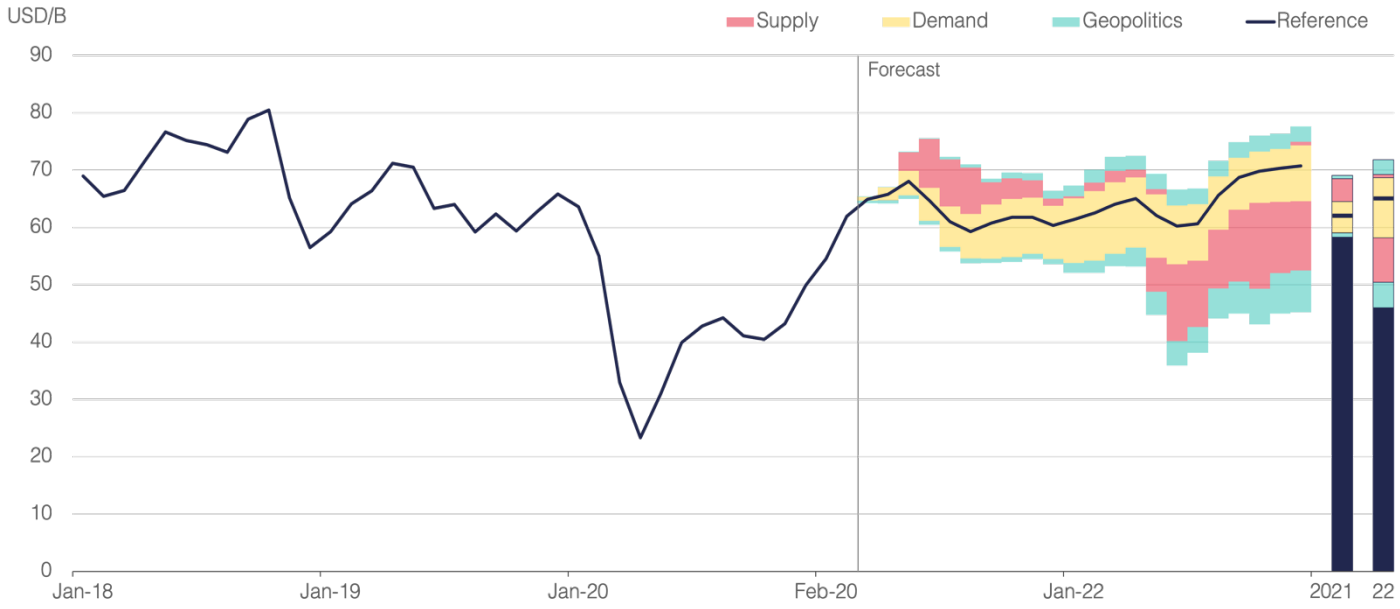
The Brent prospect that takes into account the underlying uncertainty surrounding our outlook, has now fully converged towards the reference price in 2021, averaging $61.9/b for the year, on the back of the latest OPEC+ decision and producers' flexibility in adjusting output in the face of changing market conditions.

Balance of Risks

Market fragility persists well into 2022

OPEC+ cautious approach to market management offsets renewed virus concerns and a potential demand fallout in 2021, but fragilities beyond the near-term persist.

Balance of risks



Notes: Brent price. Source: OIES

Balance of risks
USD/B

	2021	2022
Reference	**62.1**	**65.1**
Supply risks[1]	4.0	(7.2)
Demand risks[1]	(1.7)	(3.3)
Geopolitical risks[1]	(0.2)	(1.9)
Balance or risks	**2.1**	**(12.4)**

[1] On balance.

On balance, risks around our outlook in 2021 have now tilted to the upside and stand at $2.1/b

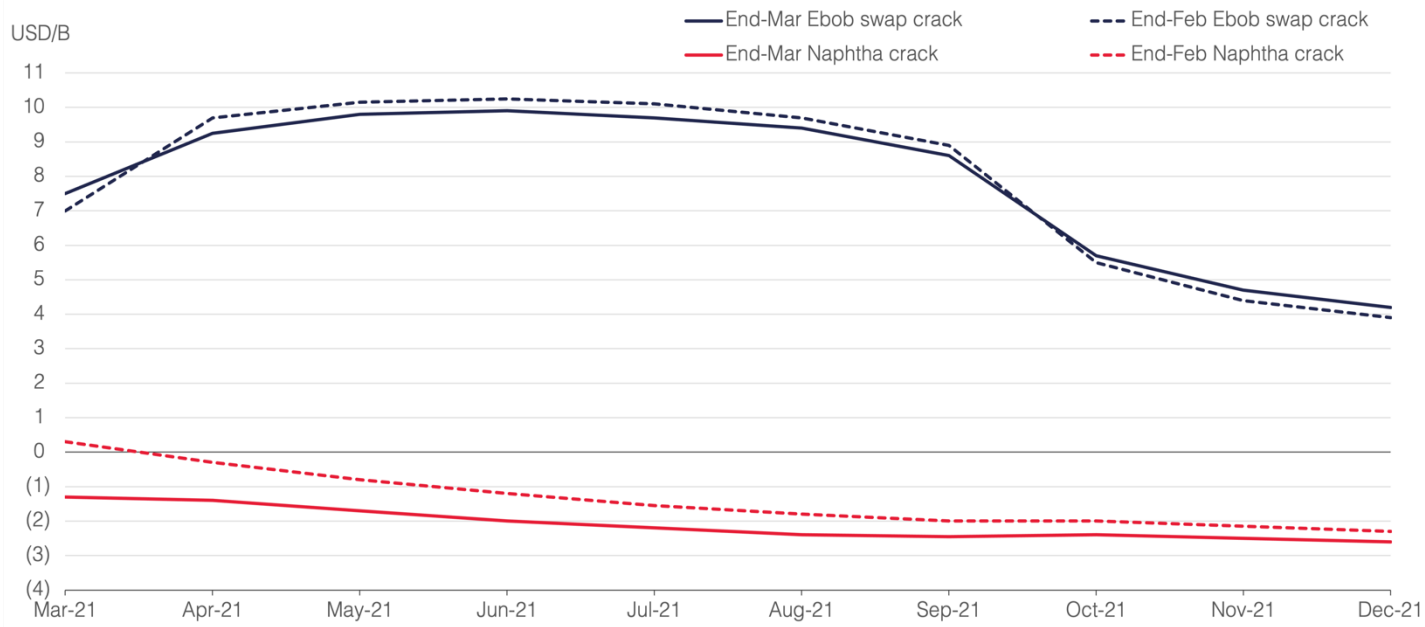
Although on balance demand-side downside risks in 2021 remain unchanged (-$1.7/b), concerns over a protracted impact of the pandemic on global demand return for 2022 (-$3.3/b), constituting OPEC+ market management beyond the very near-term critical.

Cracks

Small and uneven improvement in product margins

Given overall poor margins, mainly due to poor gas oil cracks, any run-cuts could give gasoline cracks a boost.

European gasoline (Ebob) and naphtha CIF NWE cracks



Source: OIES

Key product cracks forward curves[1]
USD/B

	Gasoline	Naphtha	Gasoil	FO 3.5%
Mar-21	7.50	(1.30)	4.25	(8.45)
± end-Feb	+0.50	-1.60	-2.05	-0.85
Apr-21	9.25	(1.40)	4.50	(8.70)
± end-Feb	-0.45	-1.10	-2.60	-1.05
May-21	9.80	(1.70)	5.15	(8.40)
± end-Feb	-0.35	-0.90	-2.45	-0.70

[1] NWE as they appear on the graphs. OIES estimates.

The long-term picture remains relatively poor

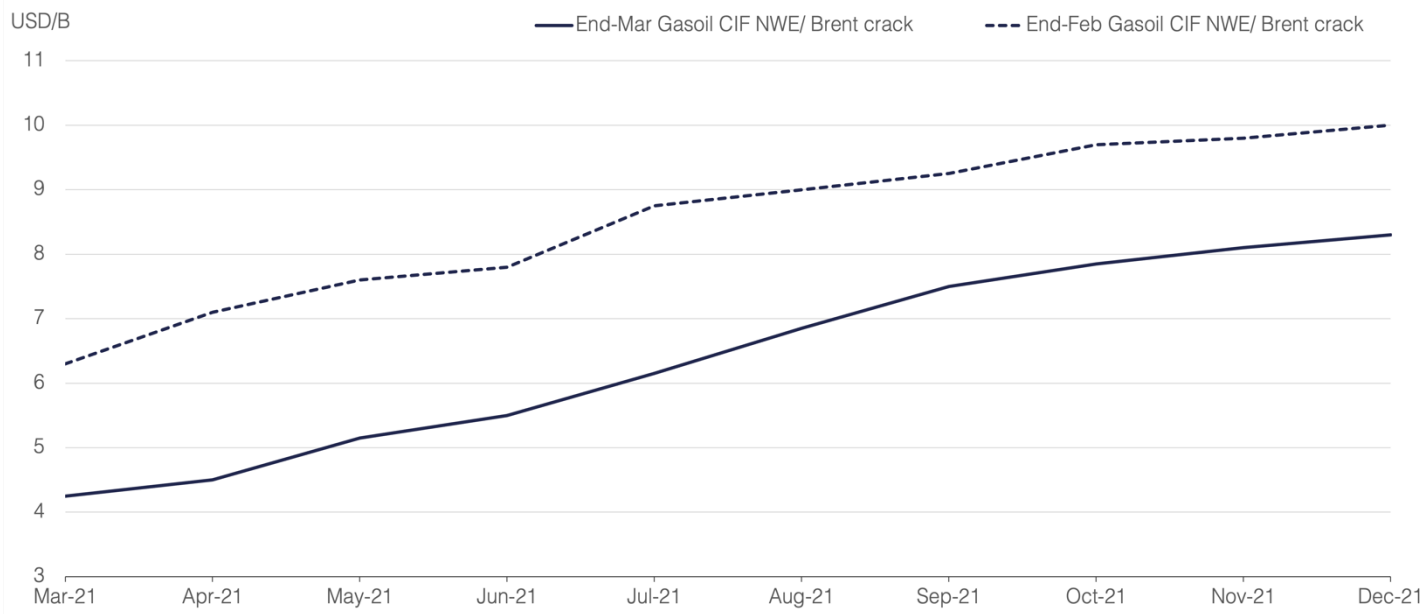
Prompt gasoline had some support on good US buying following a drop in the COVID-19 infections and increase in driving. Naphtha cracks remained disappointing however, in spite of the fact that the summer grade gasoline should give it some support.

Outlook

Gasoil and FO cracks continue to suffer

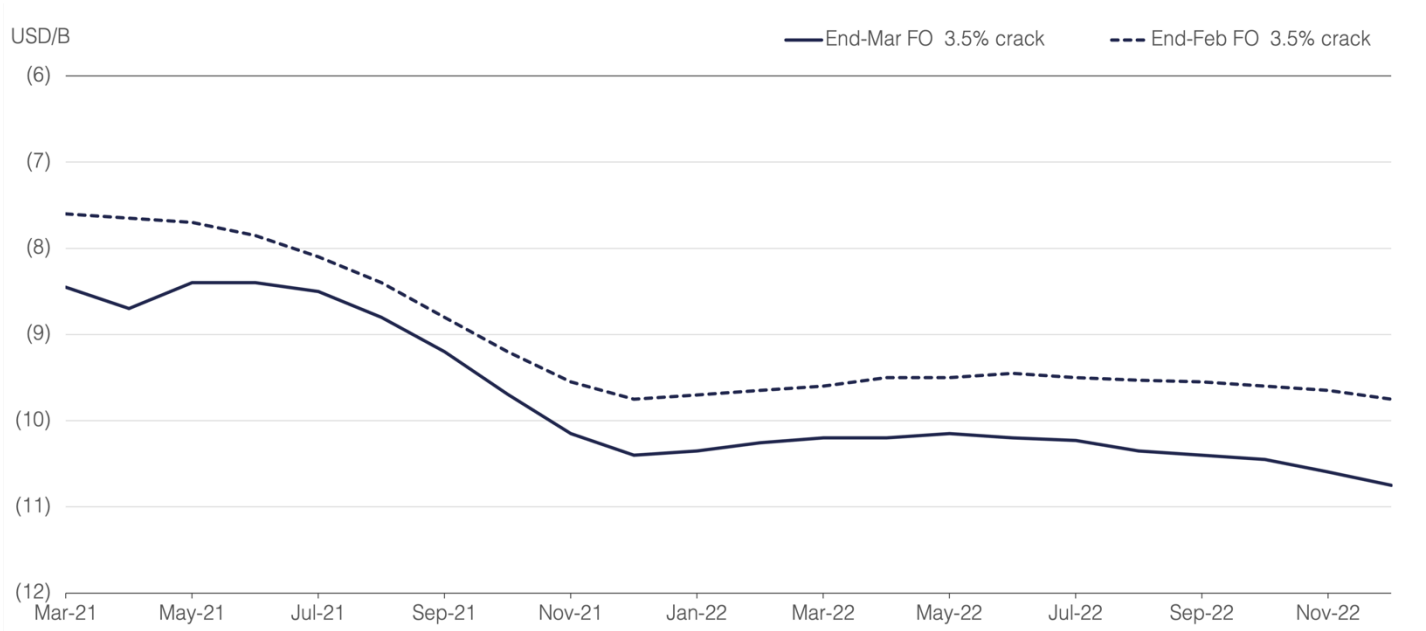
Gasoil faced a big sell off on the back of the growing European lockdowns, while FO weakened on higher Venezuelan exports and in anticipation of the OPEC+ tapering.

Gasoil CIF NWE / Brent crack



Source: OIES

Fuel oil barges NWE 3.5% crack



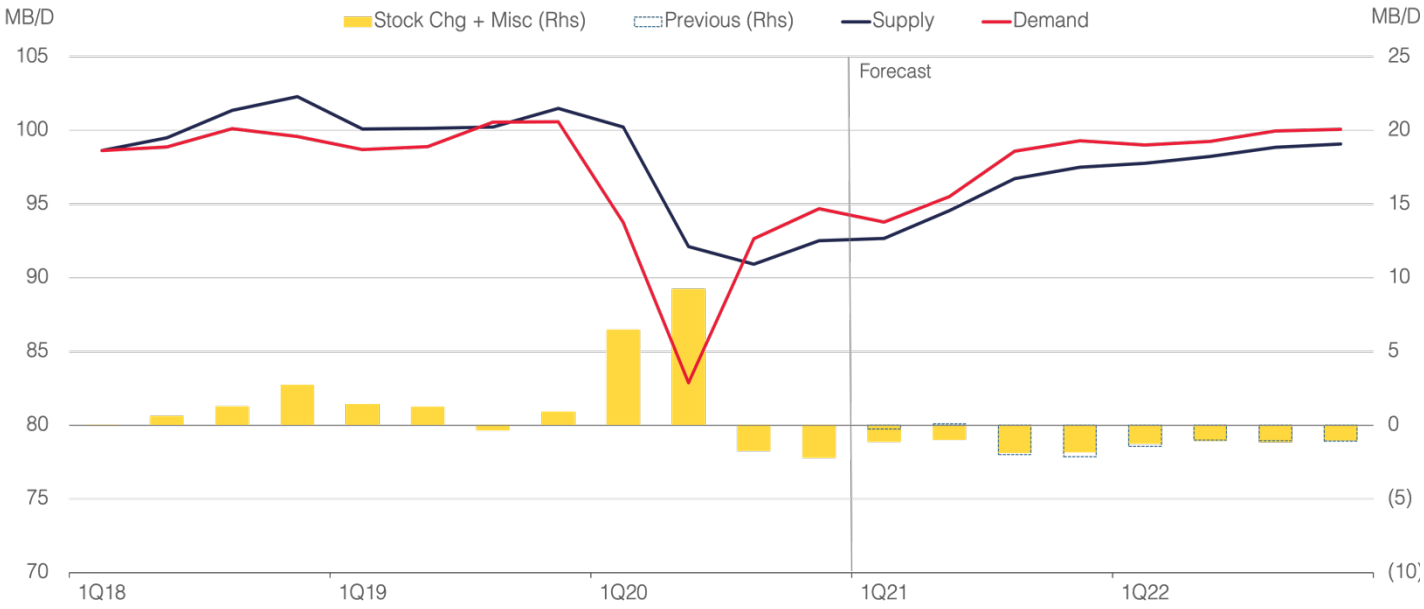
Source: OIES

Global Balance

OPEC+ managed to tighten a soft first half of the year

OPEC+ cautious stance tightens the market in a fragile first half of the year, with the pace of the oil demand rebound in H2 dictating the market rebalancing.

Global balance



Source: OIES

Global balance
MB/D

	Demand	Supply	Balance
2020	91.0	93.9	2.9
± prev	-0.01	-0.04	0.00
2021	96.8	95.4	(1.4)
± prev	+0.06	-0.30	+0.15
2022	99.6	98.5	(1.1)
± prev	+0.52	+0.57	+0.01

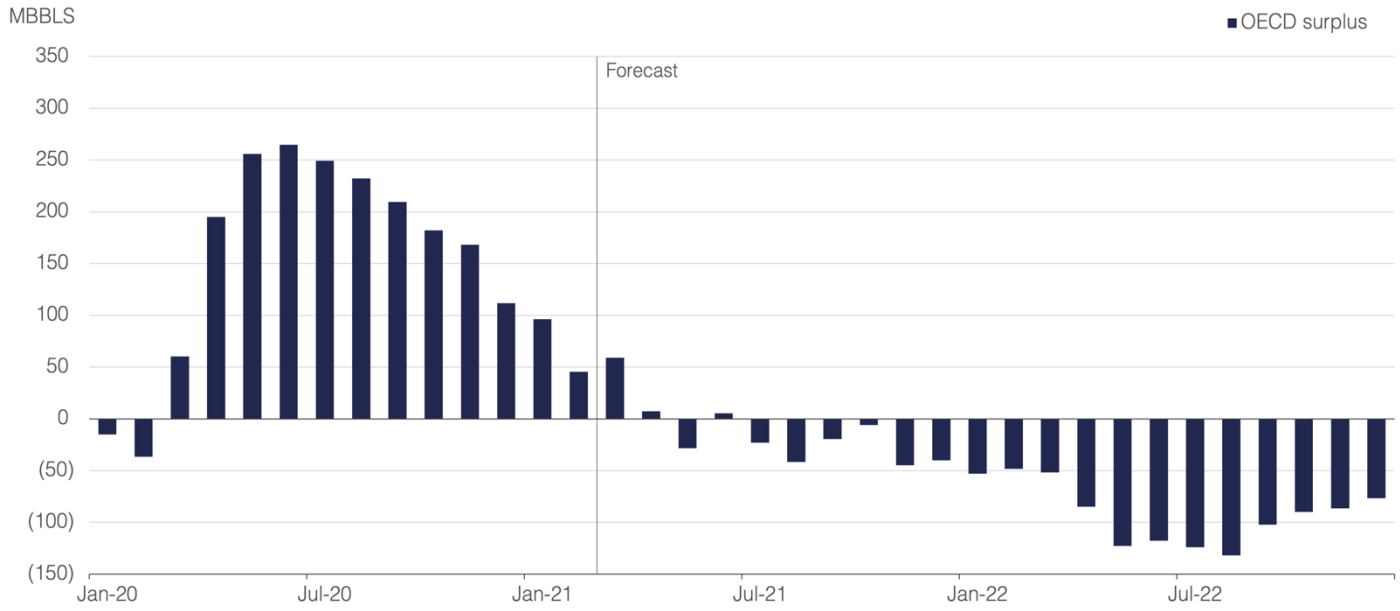
We now project a 1.4 mb/d market deficit in 2021 and a 1.1 mb/d deficit in 2022

Global balance assumes 100% OPEC+ compliance with the latest output cut deal, that sees the return of 2.14 mb/d of OPEC+ production back into the market in May-July.

OECD stocks nearing their 2015-2019 average

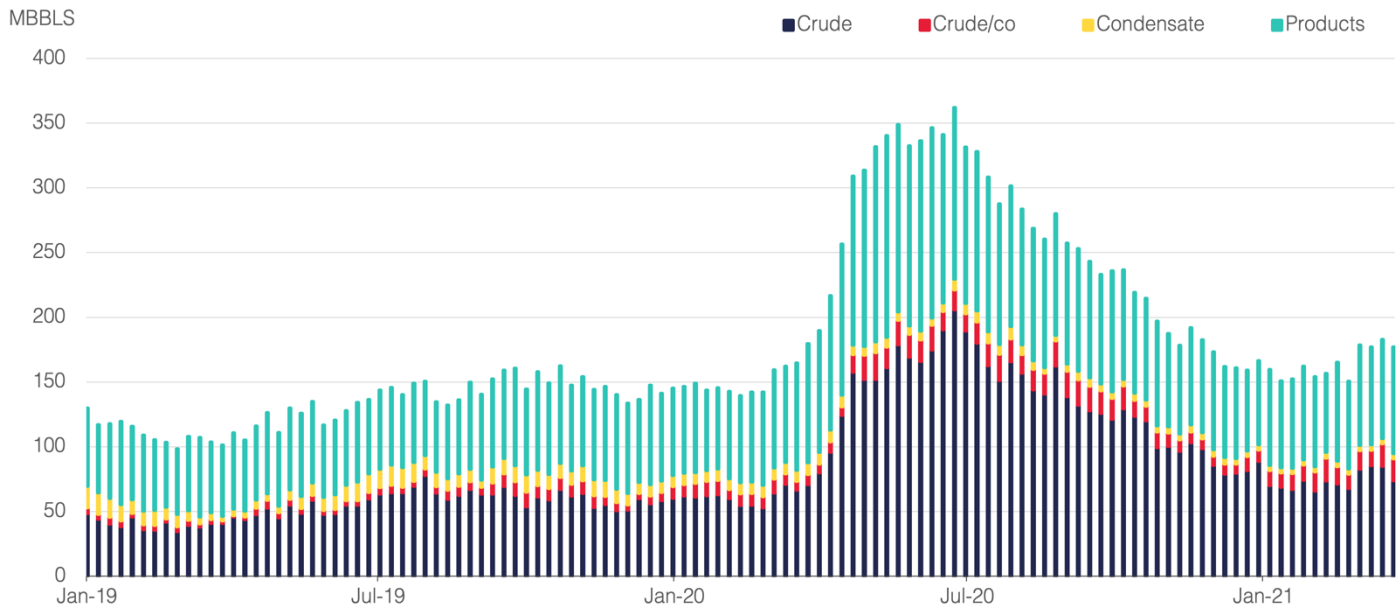
Significant draws in US product stocks offset weaknesses elsewhere, potentially clearing total OECD stocks to their 2015-2019 average sooner than anticipated

OECD commercial stocks vs 2015-2019 average



Source: OIES

Global floating storage



Source: Kpler, OIES

Tables

Oil prices

							Forecasts					
	2019	1Q20	2Q20	3Q20	4Q20	**2020**	1Q21	2Q21	3Q21	4Q21	**2021**	**2022**
Price outlook												
USD/b												
Brent price	**64.0**	50.5	31.4	42.7	44.5	**42.3**	60.5	66.2	60.3	61.3	**62.1**	**65.1**
Brent prospect	**64.0**	50.5	31.4	42.7	44.5	**42.3**	60.4	66.1	61.1	60.0	**61.9**	**60.8**
Price drivers							**Price risks**					
USD/b							USD/b					
Geopolitics	**2.3**	1.3	1.0	-0.8	-2.1	**-0.6**	-0.3	-0.5	-0.2	0.3	**-0.2**	**-1.9**
Supply	**4.0**	-0.6	6.4	8.5	2.6	**10.2**	0.0	3.9	6.7	2.6	**4.0**	**-7.2**
Demand	**-9.0**	-8.7	-27.6	6.9	0.9	**-21.2**	0.1	-0.6	-2.1	-3.1	**-1.7**	**-3.3**
Speculative	**-5.3**	-4.1	1.1	-3.3	0.4	**-10.1**	-	-	-	-	**-**	**-**
Balance of risks	**-**	-	-	-	-	-	-0.2	2.8	4.4	-0.1	**2.1**	**-12.4**
Brent low	**-**	-	-	-	-	-	60.3	63.2	54.5	54.0	**58.0**	**46.0**
Brent high	**-**	-	-	-	-	-	60.6	72.0	70.6	68.5	**67.9**	**71.8**

Global balance

							Forecasts					
	2019	1Q20	2Q20	3Q20	4Q20	**2020**	1Q21	2Q21	3Q21	4Q21	**2021**	**2022**
Global balance												
mb/d												
OECD	**47.7**	45.4	37.6	42.3	43.1	**42.1**	43.0	43.7	46.1	46.8	**44.9**	**46.4**
Non-OECD	**52.0**	48.3	45.3	50.4	51.6	**48.9**	50.7	51.8	52.5	52.6	**51.9**	**53.2**
Total Demand	**99.7**	93.8	82.9	92.7	94.7	**91.0**	93.8	95.5	98.6	99.4	**96.8**	**99.6**
(y/y chg.)	**0.4**	-4.9	-16.0	-7.9	-5.9	**-8.7**	0.0	12.6	5.9	4.6	**5.8**	**2.8**
OPEC	**29.5**	28.2	25.6	23.9	25.0	**25.7**	25.1	25.6	27.1	27.3	**26.3**	**27.4**
Non-OPEC	**53.8**	55.1	49.8	49.4	50.5	**51.2**	51.0	51.4	51.9	52.7	**51.7**	**53.2**
Of which:												
US	**12.2**	12.7	10.8	10.8	10.9	**11.3**	10.7	11.2	11.3	11.4	**11.1**	**11.7**
Brazil	**2.8**	3.0	2.9	3.0	2.8	**2.9**	2.9	3.1	3.2	3.2	**3.1**	**3.2**
Canada	**4.6**	4.7	4.0	4.1	4.6	**4.4**	4.8	4.5	4.8	5.0	**4.7**	**5.1**
Norway	**1.4**	1.7	1.7	1.7	1.7	**1.7**	1.8	1.8	1.8	1.9	**1.8**	**2.0**
Others	**32.8**	32.9	30.4	29.9	30.4	**30.9**	30.8	30.8	31.0	31.2	**30.9**	**31.2**
Total crude	**83.3**	83.3	75.4	73.4	75.5	**76.9**	76.1	77.0	79.0	80.0	**78.0**	**80.6**
NGLs	**13.6**	13.9	13.4	13.7	13.7	**13.7**	13.5	13.9	13.8	14.0	**13.8**	**14.2**
Biofuels/Misc.	**3.6**	3.0	3.3	3.9	3.4	**3.4**	3.1	3.6	3.9	3.6	**3.5**	**3.7**
Total Supply	**100.5**	100.2	92.1	90.9	92.5	**93.9**	92.7	94.6	96.7	97.5	**95.4**	**98.5**
(y/y chg.)	**0.0**	0.1	-8.0	-9.3	-9.0	**-6.5**	-7.5	2.5	5.8	5.0	**1.4**	**3.1**
Global Balance	**0.8**	6.5	9.2	-1.7	-2.2	**2.9**	-1.1	-1.0	-1.8	-1.8	**-1.4**	**-1.1**
Memo:												
OPEC call	**28.7**	21.7	16.4	25.7	27.2	**22.7**	26.2	26.6	29.0	29.1	**27.7**	**28.5**

Notes:

1/ OPEC estimates are based on current membership throughout. Assumes 100% compliance with OPEC+ deal.
2/ Non-OPEC crude supply includes crude oil, condensate and processing gains. OPEC includes crude oil only.
3/ NGLs and biofuels/misc. are global estimates and are excluded from OPEC, non-OPEC and country-specific crude supply estimates.
4/ Global balance is equivalent to global stock change.
5/ The OPEC Call equals the arithmetic difference between total demand and non-OPEC crude plus NGLs and other liquids.

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April 2021