PICTET WEALTH MANAGEMENT

2024 Oil market scenario

A market dominated by demand from emerging economies

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FLASH NOTE

SUMMARY

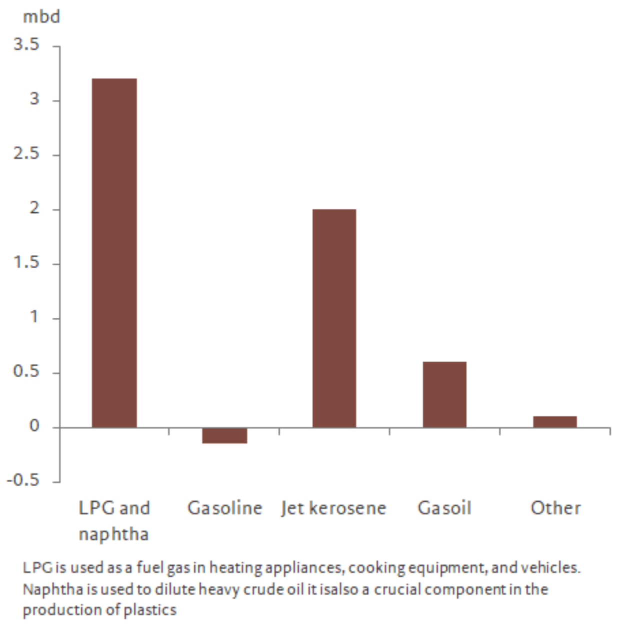
- As the energy transition gathers pace, demand for combustible fossil fuels is expected to peak this decade. The demand for car fuel could peak soon, followed by other transport fuels around the middle of this decade.
- By contrast, total oil consumption is likely to continue to grow through 2028 due to continued expansion in the demand for petrochemicals.
- The expansion in global oil demand next year is likely to be powered by faster-growing economies in the developing world, especially in Asia.
- Global oil demand is expected to increase by 1.5 mbd in 2024, down from a forecast 2 mbd in 2023 as world GDP growth moderates to 2.8% from 3.0% in 2023.
- However, there will be considerable divergence between demand contraction in advanced economies (-0.2 mbd next year) and a 1.7 mbd increase in oil demand in emerging economies.
- We see 1.3 mbd of additional supply coming from outside the OPEC+ cartel in 2024, notably from US, Brazil and Guyana. As a result, the OPEC+ countries will need to extend voluntary production cuts to support prices at their current level.
- As additional supply from non-OPEC+ comes on stream during the year, the global oil market is expected to become oversupplied by the end of 2024.
- The oil price is expected to remain supported at close to USD90 per barrel (for Brent crude) in H1 thanks to increased demand from emerging economies, notably China, before declining towards USD80 by the end of next year.
- Higher and earlier additional supply than expected from non-OPEC+ oil producers is one of the main risks to our central scenario. A disappointing Chinese recovery is also an important risk to consider. Overall, our central forecast for the oil price faces downside risk.

THE ENERGY TRANSITION GATHERS PACE

Growth in oil demand is expected to lose momentum over the 2022-28 period as the energy transition gathers pace. According to the International Energy Agency, 2023 will mark a peak in car fuel consumption, while other forms of transport fuel will have peaked by 2026. Several factors are expected to moderate annual growth in transport fuel demand. These include tighter efficiency standards, the accelerating penetration of electrical vehicles (EVs) and structural changes to the global economy. From 2026 on, declines in fuel demand for road transport are expected to outweigh increases in demand for jet and marine fuels. Fuel efficiency is likely to continue to improve and will have a larger overall impact on oil demand than EVs. By 2028, EVs are set to account for over a quarter of total car sales (which are forecast to reach 26 million). This will displace 2.3 million barrels per day (mbd) of incremental petrol use and 0.6 mbd of diesel demand in the period 2022-2028. Over half of EVs are likely to be sold in China. In addition, demand for car transport fuel is being affected by the rise in home working and the increased use of video conferencing in advanced economies.

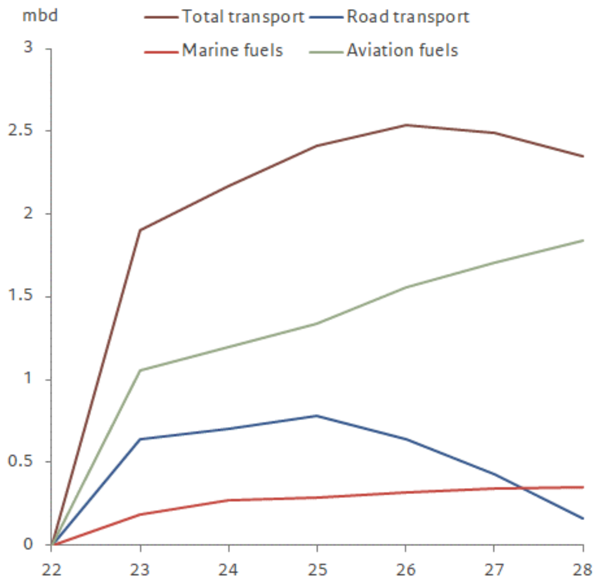
Increased use of natural gas and renewable sources for electricity production will also dent oil consumption. The biggest changes in power generation could be seen in the Middle East. Several countries in the region (including Saudi Arabia, Kuwait, and Iraq) have ambitious plans to move away from their dependence on oil-fired power plants.

Cumulative growth in global oil demand by fuel type 2022-28



Source: International Energy Agency (IEA), 'Oil 2023 – Analysis and forecast to 2028', as of 8 December 2023

Cumulative growth in global transport fuels demand, 2022-28, by sectors



Source: IEA, 'Oil 2023 – Analysis and forecast to 2028', as of 8 December 2023

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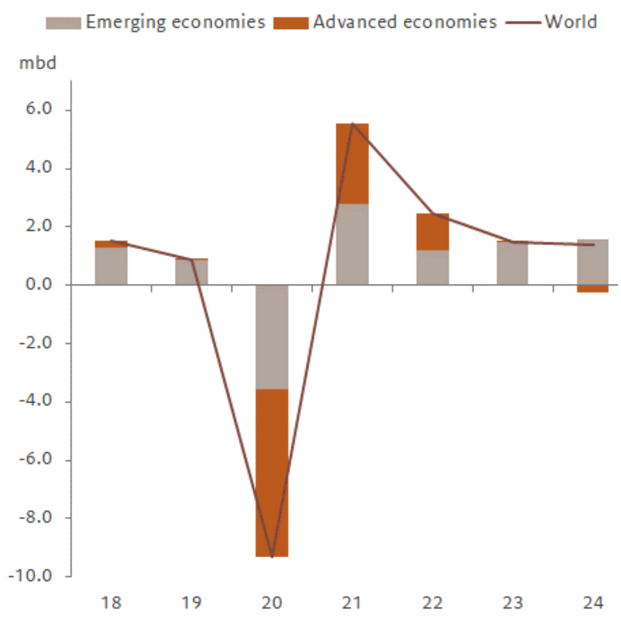
By contrast, rising demand for petrochemicals feedstocks should mean total oil consumption rises slowly until 2028. Petrochemical feedstocks are expected to account for more than 40% of the overall gains in oil demand in 2022-2028.

The expansion in global demand is likely to be powered by growth in the developing world, especially in Asia, with India expected to surpass China as the main source of oil consumption growth by 2027. By contrast, oil use in advanced countries is likely to contract.

DEMAND EXPECTED TO LOSE MOMENTUM IN 2024

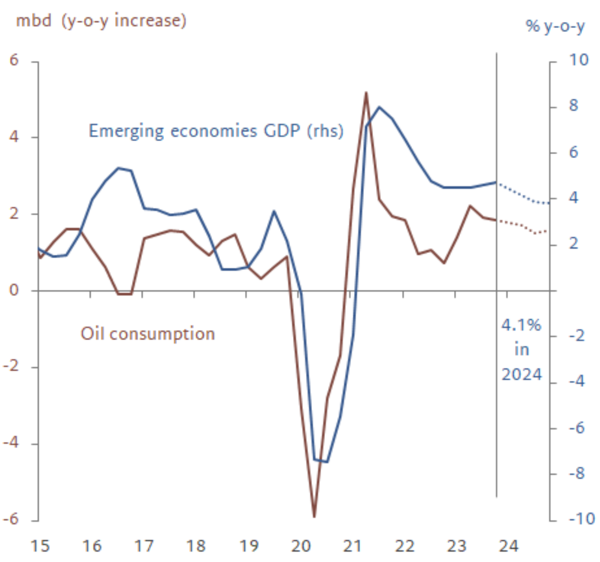
Global oil demand is likely to increase by 1.5 mbd in 2024, compared to forecast growth of 2 mbd in 2023 on the back of modest world real GDP growth that we forecast will decline to 2.8% next year from an expected 3.0% in 2023. However, there will be considerable divergence, with demand in advanced economies likely to contract by 0.2 mbd on the back of subdued growth (1% real GDP growth expected in 2024) and the energy transition. By contrast, oil demand in emerging economies, where GDP could rise 4.1% next year, is expected to increase by 1.7 mbd in 2024, up from 1.5 mbd in 2023.

World crude oil and liquid fuels consumption



Source: Pictet Wealth Management, IEA, as of 8 December 2023

Emerging economies: Oil consumption and real GDP growth



Source: Pictet Wealth Management, IMF, US EIA, as of 8 December 2023

The recent measures taken by the Chinese authorities to revive economic momentum are encouraging[1]. Fiscal support from the central government is likely to provide breathing room to local governments, improve household sentiment and support investment at local level. Even if structural issues remain, the measures introduced will likely help to stabilise the property sector so that it is less of a drag on

[1] For further details, please see 'China: 2024 macro outlook'

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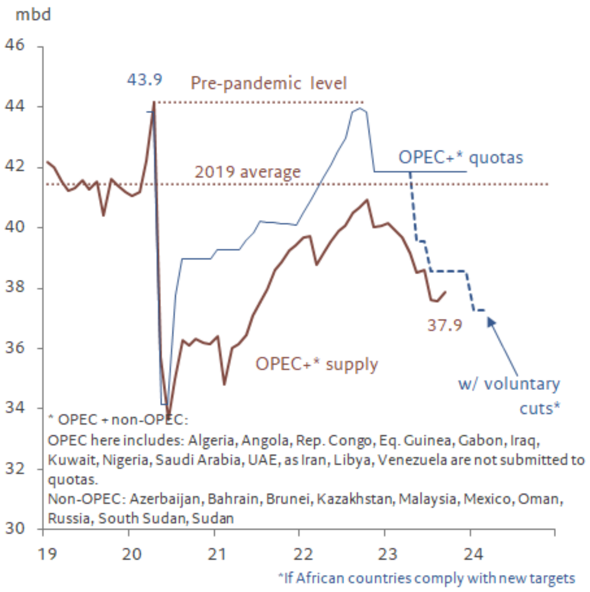
the overall economy in 2024. The health of the Chinese economy is a key element in our scenario for oil demand, not just in China but for most of the rest of Asia and parts of Latin America as well.

SUPPLY: OPEC+ WILL NEED TO MAINTAIN VOLUNTARY PRODUCTION CUTS

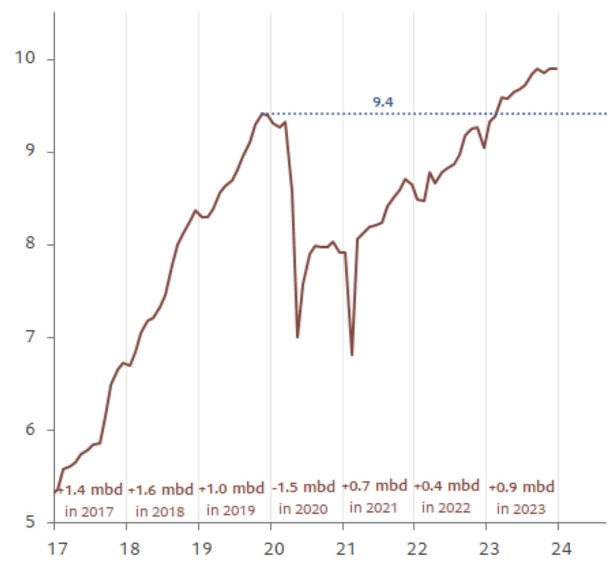
We expect additional oil supply next year to come essentially from non-OPEC+ countries. The 13 fastest-growing drilling projects (each expected to produce over 100,000 barrels per day (kbd) in 2024-26), are likely to account for 60% (3.3mbd out of 5.6mbd) of the total new production forecast to come on stream in the same period. The largest contributions are set to come from deepwater projects in Brazil and Guyana, as well as from US shale. In 2024, we expect OPEC+ to continue to limit production in order to support oil prices, although compliance with existing voluntary production cuts has been faltering. Clearly, it is in the cartel's interest to remain united in order to avoid a repeat of the 1990s, with Brent falling below USD10 per barrel in December 1998.

OPEC+ crude oil and oil products production and targets



Sources: Pictet Wealth Management, OPEC, as of 8 December 2023

US shale oil production



Source: Pictet Wealth Management, Rystad Energy, Bloomberg Finance L. P., as of 8 December 2023

MARKET WILL BE SLIGHTLTY OVER-SUPPLIED AT END-2024

In 2024, non-OPEC+ countries are likely to add 1.3 mbd to global oil supply (US 450 kbd, Brazil 280 kbd, Guyana 210 kbd, Canada 180 kbd, Norway 170 kbd). This increased supply will not be enough to meet the 1.5 mbd increase in global demand we expect (+1.7 mbd from emerging economies, -0.2 mbd from advanced economies). New production in the US is clearly losing momentum. The additional 450 kbd

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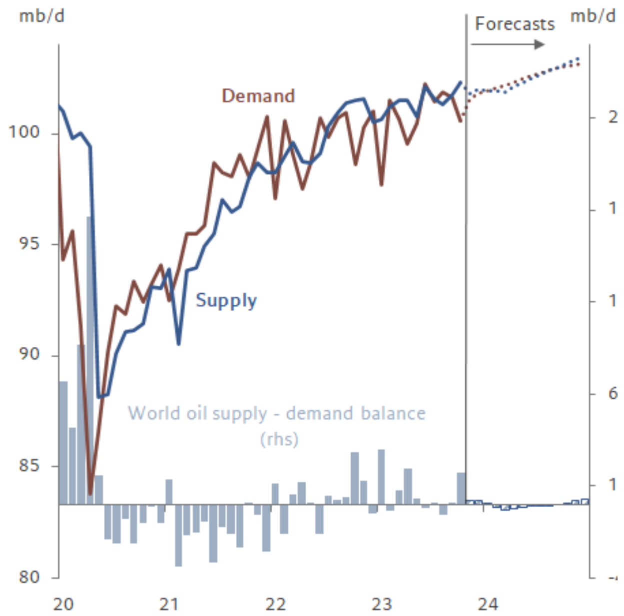
expected in the US in 2024 will be down sharply from the 1.3 mbd in new production forecast for 2023. Indeed, the production of US shale oil has virtually stagnated since August, rising by only 0.1 mbd since then compared with 0.8 mbd between December 2022 and August 2023. The rig count has declined continuously since November 2022 (-122 to 505 in November) and US companies' continued investment discipline suggests a rapid significant rebound in shale oil production appears unlikely.

Additional supply in 2024	**kbd**
US	450
Brazil	280
Guyana	210
Canada	180
Norway	170
Total	**1290**
Additional demand in 2024	**1500**
Balance	**-210**

Sources: Pictet Wealth Management, US EIA, as of 8 December 2023

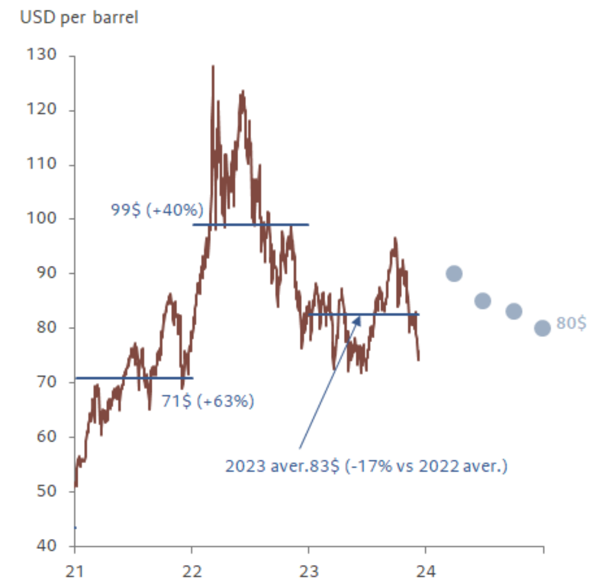
For the oil market to remain in balance, the OPEC+ cartel will have to maintain its current level of production. This will mean prolonging the current voluntary cuts. Non-OPEC+ production is likely to rise progressively in 2024, climaxing at the end of the year. That is why we expect the global oil supply-demand balance to flip into oversupply by the end of next year.

Global oil supply – demand balance



Source: Pictet Wealth Management, US EIA, as of 8 December 2023

Brent price forecast



Source: Pictet Wealth Management, Refinitiv, as of 11 December 2023

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Accordingly, our oil price scenario envisages Brent oil being sustained close to USD90 per barrel in early 2024 on the back of increased demand in emerging economies, led by China. Then, slight oversupply is likely to push the barrel of Brent down towards USD80.

RISKS: POSSIBLE ADDITIONAL SUPPLY FROM NON-OPEC+

The main risks to our central scenario are higher and earlier than expected additional supply from non-OPEC+ and weaker Chinese economic growth than we are forecasting. Such developments could put downward pressure on oil prices.

Risks to the scenario

Negative for oil prices	Positive for oil prices
Higher supply from non-OPEC+ than expected	US shale oil stalls
Israel – Hamas conflict remains contained	China strong rebound
China recovery stalls	US dollar weakens more than expected
Deeper global recession than expected	Western economies avoid recession
OPEC+ reopens the tap	Middle East conflict repercussions
Resolution of the war in Ukraine	Russia – Ukraine war escalation
Regime change in Iran	

Source: Pictet Wealth Management, as of 11 December 2023

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