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PICTET WEALTH MANAGEMENT

Oil market in 2025

The rapid pace of electrification in Asia is reducing demand for oil

27 NOVEMBER 2024, CIO OFFICE & MACRO RESEARCH

FLASH NOTE

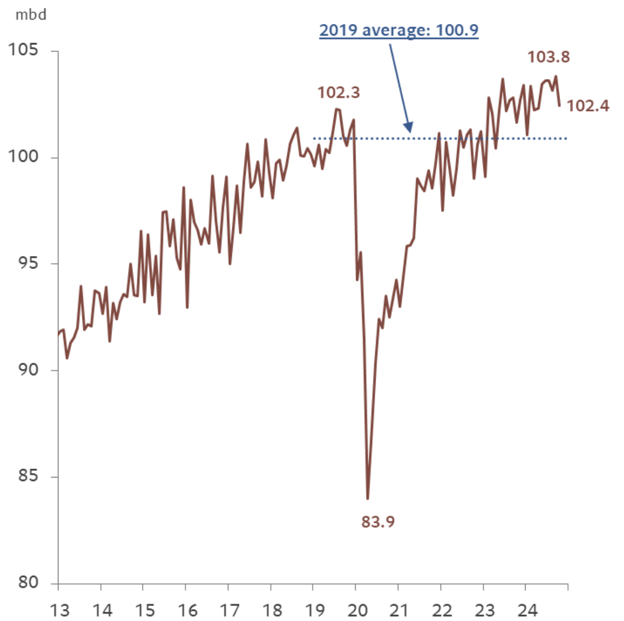
SUMMARY

- Global oil demand remains weak, with a decline in growth since March 2024, primarily from Asia. The rapid pace of electrification and increased use of sustainable energy sources is reducing China's dependence on oil.
- Oil supply remains abundant, with non-OPEC+ countries such as the US, Canada, and Brazil consistently increasingly their output. Indeed, OPEC+ is caught between increased production in non-member countries and its attempts to support prices by limiting its own output.
- The market is expected to remain oversupplied in 2025, which implies a negative impact on oil prices. Factors such as trade wars and a strong dollar could further dampen the outlook. We anticipate the price of Brent to decline to USD65 per barrel by the end of 2025. If OPEC+ proceeds with phasing out voluntary cuts, the price could drop below USD60. Geopolitical factors remain a significant risk. A decline in Iranian oil production back to 2020 levels could partially rebalance the market.

WEAK OIL DEMAND LIKELY TO PERSIST

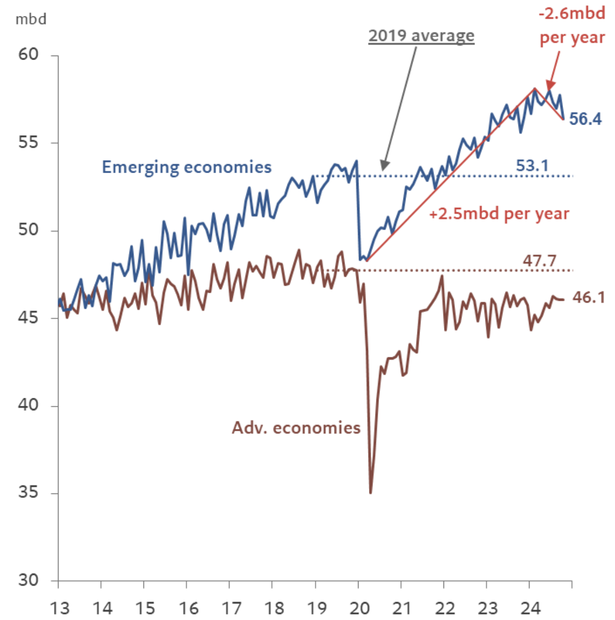
Global oil demand has remained weak, with an increase of only 0.8 million barrels per day (mbd) in the first 10 months of this year *(chart 1)*. There is a clear downward shift in the demand for oil in emerging economies. Prior to the pandemic, oil demand was growing at an average rate of 2.5 mbd per year. However, since March 2024, the trend has reversed, declining at an annualised rate of 2.6 mbd *(chart 2)*. Asia is the primary contributor to this decline, with demand in emerging Asia excluding China dropping by 0.5 mbd since June. Additionally, demand in China has decreased by 1.7 mbd since December 2023. While subdued growth explains part of this phenomenon, the rapid pace of electrification is another factor that is increasingly reducing the country's dependence on oil.

Chart 1: World crude and liquid fuels consumption



Source: Pictet Wealth Management, US Energy Information Administration, as of 25.11.2024

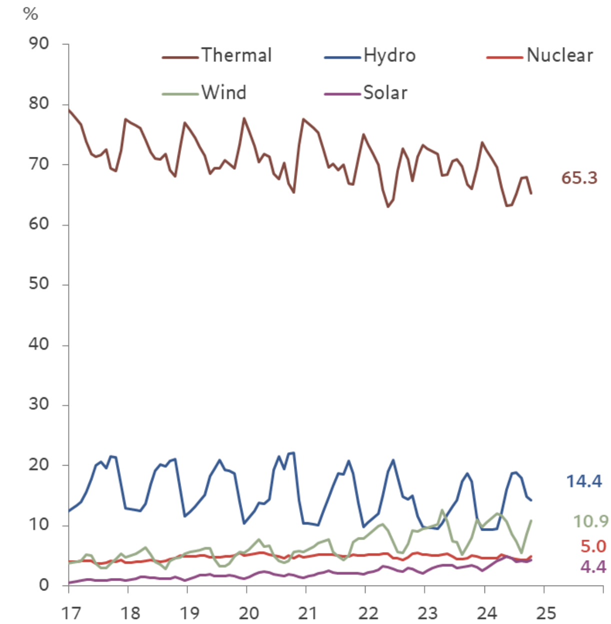
Chart 2: World crude and liquid fuels consumption



Source: Pictet Wealth Management, US Energy Information Administration, as of 25.11.2024

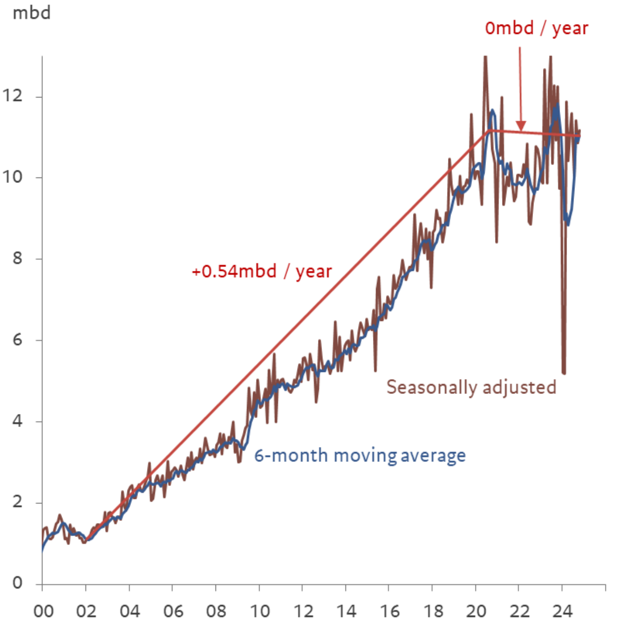
Wind and solar power generation is growing at double digits, with wind turbines accounting for 11% of China's power generation, more than twice the amount generated by nuclear power (5%). Meanwhile, solar energy (which now supplies 4% of China's electricity) is closing the gap with nuclear *(charts 3)*.

Chart 3: China - Power generation by source



Source: Pictet Wealth Management, National Bureau of Statistics of China, as of 25.11.2024

Chart 4: China – Crude oil imports



Source: Pictet Wealth Management, China custom, as of 25.11.2024

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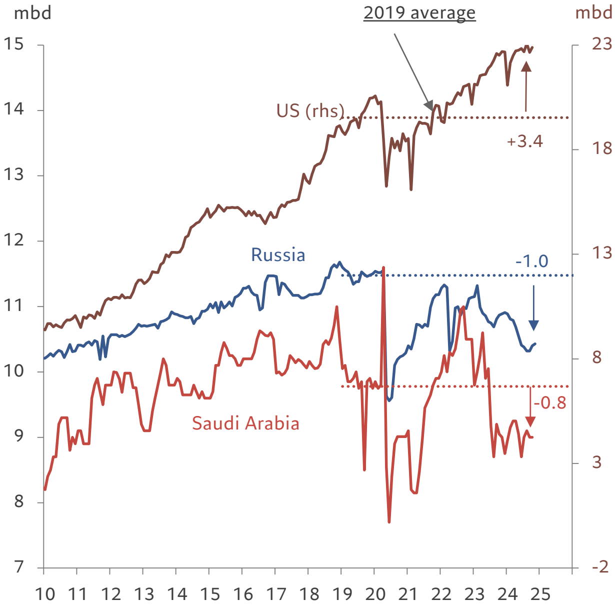
Therefore, there has been an impressive shift in Chinese oil dependency. While crude oil imports grew by 0.5 mbd per year between 2002 and 2020, they have remained flat since August 2020. This trend is expected to continue, resulting in an increased displacement of oil by sustainable energy sources in the coming years *(charts 4).* In other words, electrification should continue to displace oil. Its reduced use in road transport should weight on global consumption of oil, which could plausibly peak before 2030. In the shorter run, global oil consumption is expected to remain weak in 2025, increasing by a modest 1 mbd.

OIL SUPPLY REMAINS ABUNDANT

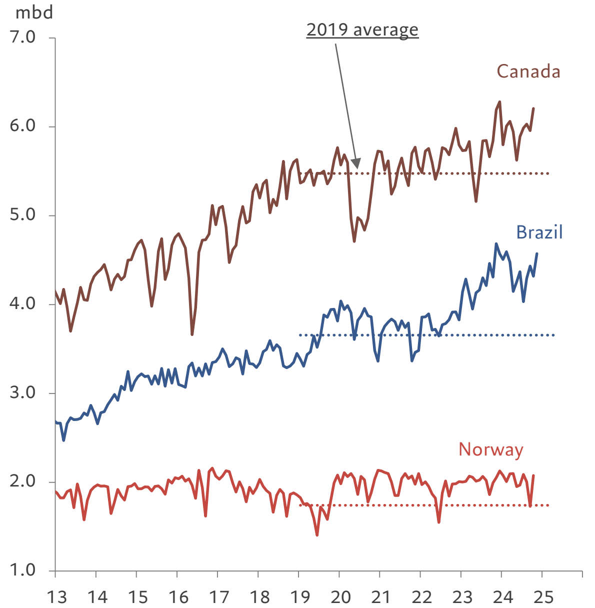
OPEC+'s policy of voluntarily restricting production to support prices is reaching its limits. It has resulted in an increase in the market share of non-OPEC+ producers, aided by increased shale oil production in the US and new oil projects in countries like Brazil and Guyana. Indeed, supply from non-OPEC+ countries has grown at a sustained pace. Year-to-date (to end October), it has risen by 0.9 mbd in the US, by 0.4 mbd in Canada, and by 0.3 mbd in Brazil. Conversely, OPEC+ countries have chosen to postpone the phasing-out of its voluntary production cuts *(charts 5 & 6).*

Chart 5: Crude oil and liquid fuels supply



Source: Pictet Wealth Management, US Energy Information Administration, as of 25.11.2024

Chart 6: Crude oil and liquid fuels supply



Source: Pictet Wealth Management, US Energy Information Administration, as of 25.11.2024

In addition, supply from non-OPEC+ producers is likely to grow further. In the US, notably, the break-even price for shale oil is likely to fall (from USD38 for existing wells and from USD62 for a new well in the Permian) if the Trump administration implements tax cuts and deregulation. In this context, the market is unlikely to be able to absorb the additional oil that would come from OPEC+'s unwinding of its voluntary cuts (more than 2mbd).

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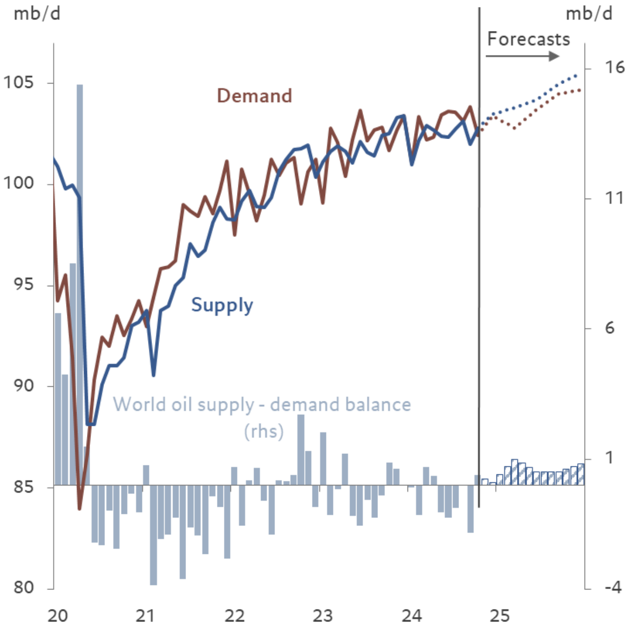
THE MARKET IS EXPECTED TO REMAIN OVERSUPPLIED IN 2025

These conditions are expected to persist in 2025, leading to an oversupplied market *(chart 7)* and putting downward pressure on oil prices. There are additional factors that could further dampen the outlook. A tariff war would have a detrimental impact on international trade and, consequently, economic growth, which could reduce oil demand. A persistently strong US dollar will also weigh on oil demand.

As a result, we anticipate that the price of Brent crude will decrease to USD65 per barrel by the end of 2025. If OPEC+ proceeds with its plan to phase out voluntary cuts, the oil price could drop below USD60 *(chart 8).*

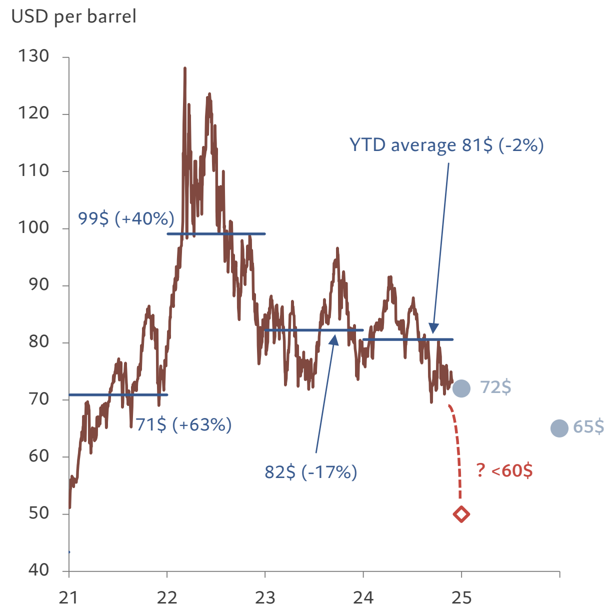
Geopolitical factors remain a significant risk to this forecast. A decline in Iranian oil production, whether due to Israeli air strikes or measures taken by the Trump administration, could help to rebalance the market partially. The 1.4 mbd increase in Iranian oil production that occurred during the Biden Administration is at stake. In other words, events that bring Iranian production back to its 2020 level could be a game-changer for the price of oil.

Chart 7: Global oil supply – demand balance



Source: Pictet Wealth Management, US Energy Information Administration, as of 25.11.2024

Chart 8: Brent price forecast



Source: Pictet Wealth Management, Bloomberg Finance L. P., as of 25.11.2024

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