PUBLIC

Economic Brief | 3 April 2024

Oil prices rise in March on improved sentiment linked to OPEC+ supply cuts

Oil prices rallied for a third consecutive month in March, helped by ongoing OPEC+ voluntary cuts and their extension to end-Q2, which have noticeably tightened the oil market. The IEA in March again raised its 2024 oil demand growth, to 1.3 mb/d, to reflect better-than-expected oil consumption amid solid US and non-OECD economic activity. The price outlook has materially firmed on the opening up of a supply deficit this year, with the balance of risks tilted to the upside.

- Oil prices rallied for a third straight month in March, supported by tighter supplies, a resilient global economy and continued geopolitical uncertainty. Brent futures closed up 4.6% in March to $87.5/bbl (+13.6% ytd). (Chart 1.) Backwardation in the forward curve (where near-term prices exceed those for later deliveries) began widening again mid-month, a sign that markets perceived increased near-term supply tightness. Meanwhile, local marker Kuwait Export Crude (KEC) gained 5.5% in March to $86.3/bbl (+8.5% ytd).

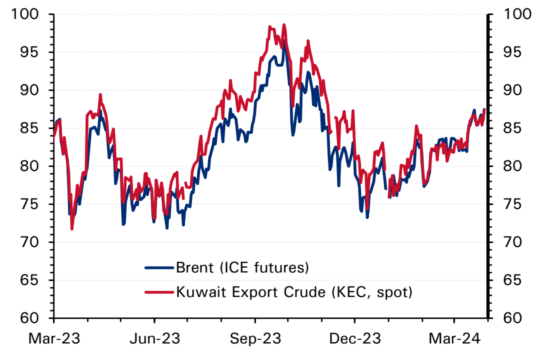
- Trading in Brent futures and options increased substantially in Q1, with 'open interest' rising to 2.3 million contracts as of 19 March, its highest level in two and a half years. (Chart 2.) Sparked by OPEC's extension and deepening of 2023's production cuts, bullish positions have increased markedly, propelling net length—the difference between the number of 'long' contracts (speculating on oil prices rising) and the number of 'short' contracts (prices falling)—to its highest in almost a year (289k).

- Oil demand growth forecasts for 2024 remain solid, albeit slowing from 2023. The International Energy Agency (IEA) in March again revised up its projection for oil demand growth, by 110 kb/d to 1.3 mb/d. (Chart 3.) The IEA cited an improved US economic outlook including a resilient labor market as the basis for its revision. Its forecast is still some way below OPEC's bullish estimate of 2.25 mb/d, which the latter has maintained since mid-2023. OPEC has stood by its belief that oil demand will be robust on the back of growth momentum in non-OECD economies, while potential interest rate cuts by central banks later in the year should also support an improved global macroeconomic outlook.

- On the supply side, combined data from OPEC secondary sources and S&P Global show aggregate OPEC+ crude production (quota members) largely unchanged in February at 34.42 mb/d (+10 kb/d m/m). Among OPEC-9 members, Nigeria recorded the largest monthly increase (+47 kb/d to 1.48 mb/d), followed by Saudi Arabia (+18 kb/d to 8.98 mb/d). OPEC-9 output gains were largely offset by declines among non-OPEC-9 countries, primarily South Sudan, which experienced an almost 50% reduction in output (-70 kb/d) due to a pipeline blockage. Compliance with the latest round of OPEC+ cuts was weakest in Kazakhstan, which has yet to effect any cuts at all, and Iraq, whose crude output of 4.20 mb/d remained more than 200 kb/d above its quota. Among quota-

Chart 1: Oil prices

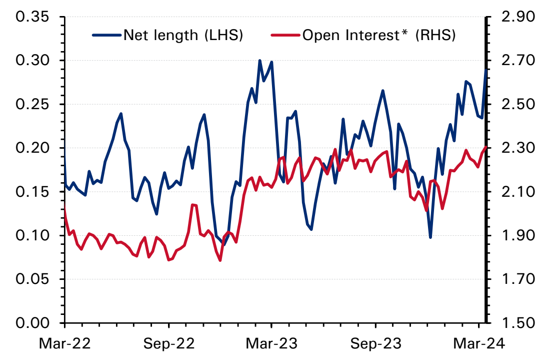
($/bbl)



Source: Refinitiv, KPC

Chart 2: Brent money manager net length

(million futures and options contracts)



Source: Bloomberg. *Futures contracts only

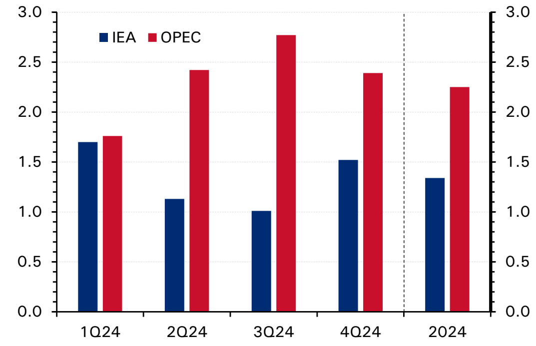
Mohammad Al-Shehri | Omar Al-Nakib
Assistant Economist | Senior Economist
+965 2229 5373, MohammadAlshehri@nbk.com | 2229 5360, OmarNakib@nbk.com

exempt members, both Libya and Venezuela notched up output gains in February, of 144 kb/d to 1.17 mb/d and 16 kb/d to 0.82 mb/d, respectively. For Libya, this large increase came after production at the Sharara field was restarted, and for Venezuela, February's gain was the fifth consecutive. Production in Iran, however, fell for the second month in a row (-15 kb/d to 3.15 mb/d).

- In terms of the impact of OPEC's production cuts on oil market balances, the effect has been to flip the market from a surplus in Q4 2023 to a deficit in Q1 2024. Aggregate OPEC-12 output in Q1 has so far averaged 26.47 mb/d, well below the 26.92 mb/d the IEA estimates the group needs to supply to balance the market. Using the IEA's oil demand and non-OPEC supply estimates, a supply deficit of 0.45 mb/d opened up in Q1. For the rest of the year, the IEA has extrapolated the impact on market balances of a base case scenario in which OPEC+ cuts are extended beyond Q2 to end-2024. It sees deficits in every quarter of the year and by as much as 0.72 mb/d in Q3. OPEC+ will decide on any extension or unwinding of its 2.1 mb/d of cuts in June. (Chart 4.)
- In Kuwait, a record volume of refined petroleum products was produced in January. According to official data released through the Joint Organizations Data Initiative (JODI), this reached 1.20 mb/d, helped by the ramping up of operations at the Al-Zour refinery. (Chart 5.) Product exports, the largest of which by volume consist of gasoil/diesel, kerosene and naphtha, surged to their highest level, 1.02 mb/d, since 2009. At this rate, average product export volumes in 2024 should surpass last year's high of 0.96 mb/d and translate into export revenues in excess of the record $25 billion generated in 2023. That said, these refined product gains have come at the expense of crude exports, which according to January's figure of 1.24 mb/d, look to have fallen to their lowest level in more than twenty years. With Kuwait's crude production capped by OPEC+ policy, to tap into the higher value product exports, such as distillates, KPC has had to divert crude volumes destined for exports to the local refinery for processing into products. The trade-off has been worth it in terms of export revenues.
- In the US, crude oil output fell slightly to 13.1 mb/d in March from the record 13.3 mb/d seen in Jan/Feb—but in line with the US Energy Information Administration's (EIA) average output projection for 2024. Crude stocks in the US Strategic Petroleum Reserves continued to increase in March: by the 21st of the month, they were up more than 8.6 mb in 2024 to 363.05 mb, reflecting the Department of Energy's aggressive crude repurchase program, which has been helped by its decision to raise its target price to +$79/bbl from $65-72/bbl last year.
- The outlook for oil prices has improved compared to the start of the year. While the global economy has demonstrated resilience, carrying with it better-than-expected oil consumption, it is largely due to OPEC+ supply cuts that the market has tightened—and looks likely to remain tight throughout 2024. Speculator interest has turned more bullish, with the balance of price risks shifting to the upside while OPEC+ restrains output. Downside risks, from robust non-OPEC/US supply and a de-escalation in global geopolitical tensions to a potentially underperforming global economy or an aggressive unwinding of the OPEC+ cuts in July, remain present, however. We see Brent averaging around $85/bbl in 2024.

Chart 3: Oil demand growth forecasts

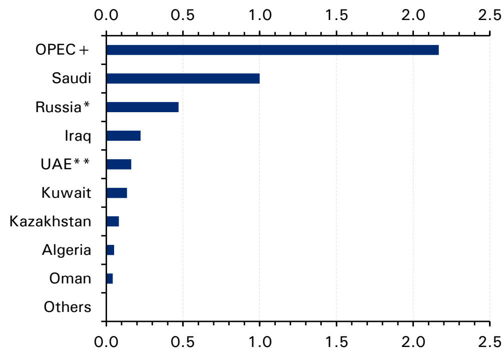
(mb/d)



Source: IEA, OPEC

Chart 4: OPEC+ output cuts through Q2 2024

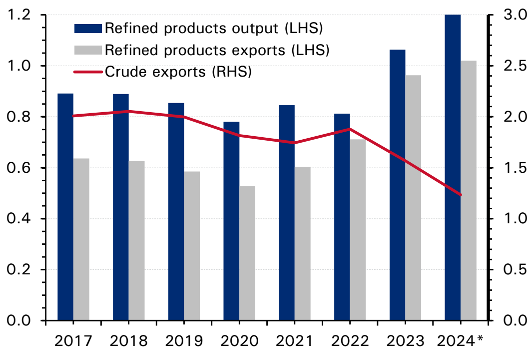
(mb/d)



Source: OPEC; *Russia cut by June; **before baseline increase

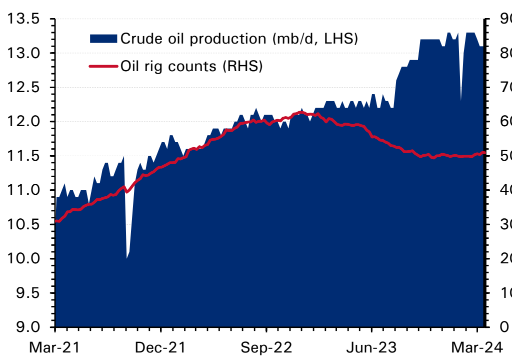
Chart 5: Kuwait refined products

(mb/d)



Source: JODI; *January 2024

Chart 6: US crude production and rig counts



Source: EIA, Baker Hughes

Head Office

Kuwait
National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2222 2011
Fax: +965 2229 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France
National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353