IEA backtracks on oil market rebalancing forecast

Platts.com, 13th Sep 2016

* No market balance before second half 2017
* OPEC output surging as summer demand sags
* US tight oil to decline "for months"

The International Energy Agency on Tuesday pushed back its expectations of the global oil market finding balance to beyond the first half of next year, saying it expects demand to grow by just 830,000 b/d in the current quarter and 1.3 million b/d this year.

In its latest monthly oil market report, the IEA said OPEC output had surged, with Saudi Arabia now the world's top oil producer and crude output at record levels in Kuwait and the United Arab Emirates. On the demand side it highlighted "vanishing" growth in the OECD group of developed countries, coupled with China and India's demand slowdown.

Oil inventories in the OECD reached a new record high of 3.111 billion barrels in July, with crude oil stocks remaining unusually flat for much of the summer amid lackluster refining activity in the US and Europe, the IEA said.

Once again, this prestigious event will provide a cutting edge, market driven agenda mixed with exclusive networking opportunities to ensure our global participants are guaranteed with the highest quality, up-to-the-minute market intelligence and new business opportunities.

Elsewhere it said the global crude glut was being exacerbated by Brazil, Iran, Iraq and Russia increasing crude output while reducing their domestic refinery throughput.

As recently as June, the IEA had forecast that "assuming no further surprises, in H2 16 we expect the oil market to be balanced."

The latest report however highlighted "sharply deteriorating" demand in Europe in July and forecast a 120,000 b/d decline in European oil demand year on year in the third quarter. The data suggests "a return of the previously long-entrenched trends of falling European demand," it said.

While a weather-related uptick in global demand is likely in the fourth quarter, the current supply-demand dynamic "may not change significantly in the coming months," it said.

"As a result, supply will continue to outpace demand at least through the first half of next year. Global inventories will continue to grow," the report said.

The report forecast that oil demand in the current quarter would rise by just 830,000 b/d, compared with an estimate of 1.2 million b/d in last month's report. Its previous estimate of 2016 demand growth was 1.4 million b/d. "The severity of the Q3 16 slowdown has surprised," it said.

"After more than a year with oil hovering around $50/b, the stimulus from cheaper fuel is fading. Economic worries in developing countries haven't helped... Unexpected gains in Europe have vanished, while momentum in the US has slowed dramatically," the report said.

It said Chinese oil demand would rise by just 100,000 b/d in the current quarter compared with a year earlier, to 11.52 million b/d, due to the country's economic slowdown and restructuring, recent flooding, and factory shutdowns during the G20 summit meeting, intended to improve air quality.

Partly offsetting these factors, jet fuel deliveries had risen sharply in China, with air passenger numbers up by a quarter in the first half of the year, the IEA noted.

SILVER LINING

The IEA report noted some positive factors in terms of global rebalancing to offset the overall bearishness of its latest report, among other things taking a downbeat view of US tight oil production.

The US has shut in 460,000 b/d of high cost production since May and US tight oil production is likely to continue declining for months, recovering only in the second half of 2017, it said.

The report also highlighted a three-month high in annual US demand growth in June, of 240,000 b/d, as the US gasoil market appeared to bottom out.

Russian oil demand also rose by 50,000 b/d in June compared with a year earlier, led by industrial demand, suggesting Russia's economic slump "may be nearing an end," the report said.