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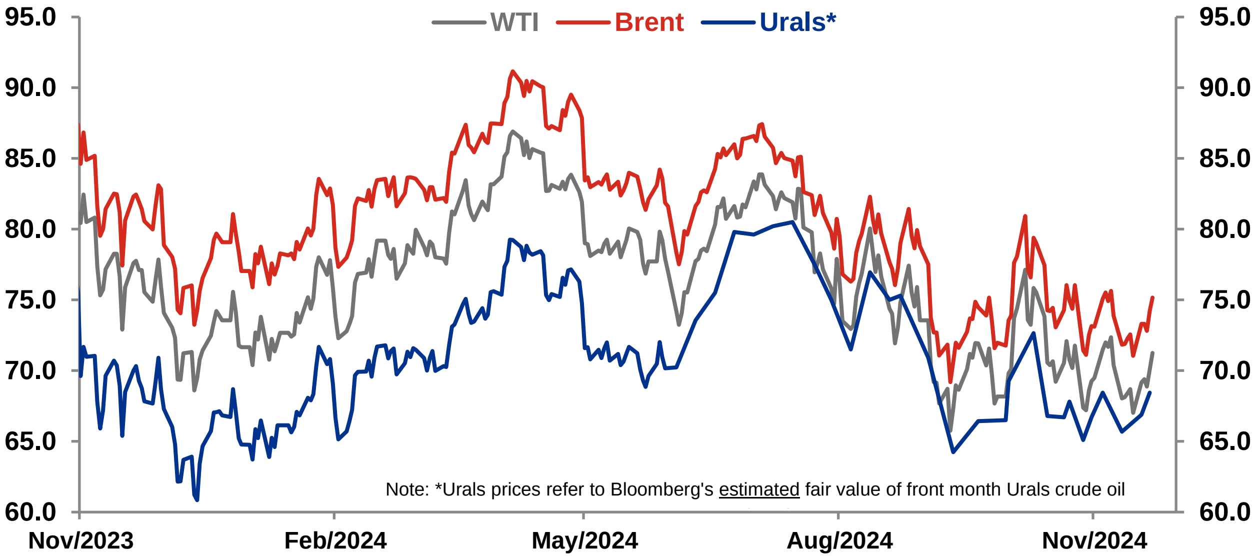
The Oil Market – 2024/25

This past year has been another rather mixed one for crude prices, with geopolitical risks and OPEC+ cuts providing support, whilst ongoing uncertainty on the outlook for global demand especially with China's economic recovery continuing to look tepid at best, combined with a strong US dollar has kept the upside limited too. In this piece we summarize the current state of the oil market and what may lie ahead in 2025 and beyond.

Oil Price Performance in US$ - Nov 2023 to Nov 2024



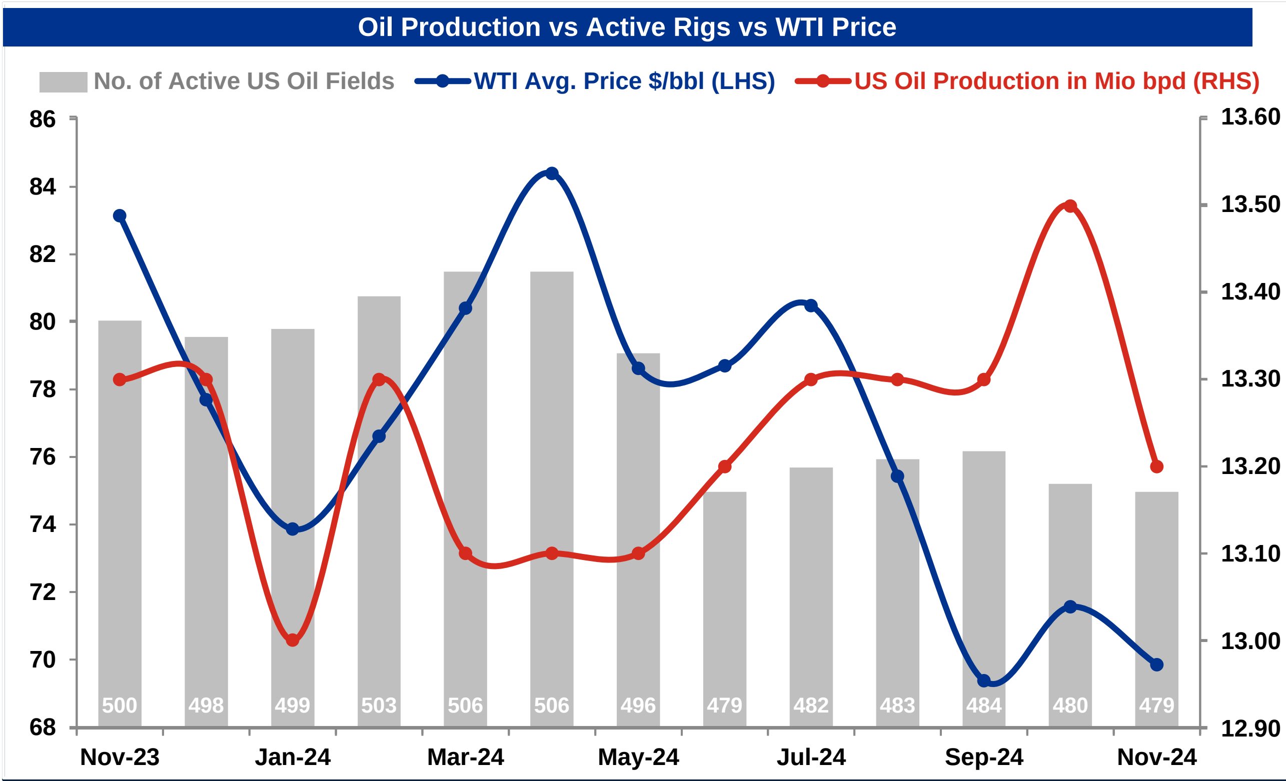
Demand & Supply

It should be noted that price movement this year has not completely reflected market fundamentals and been driven in part by speculative paper positioning too. Admittedly, demand from China (the world's largest crude importer) has been weaker than expected due to various reasons including its still sluggish economic recovery, as well as growing EV adoption which has led to a reduction in domestic demand for transport fuels there. However, global demand for petrochemicals continues to expand, particularly in India, which also looks set to overtake China as the primary driver of oil demand growth by 2027. According to BP, India will account for 25% of global consumption growth in 2024 and 2025, supported by the country's petrochemical sector which is expected to grow at an average rate of 11% per annum over the next decade as rapid urbanization and widening middle class has triggered a jump in demand for products like polymers, synthetic fibers and plastic.

Certain other areas of the products' market are also looking reasonably healthy, with November's fuel oil prices in Asia and Europe at their highest seasonal level since 2022 and 2010 respectively. Meanwhile, the global jet fuel market is predicted to expand by a compound annual growth rate of 12.19% until 2029, supported by strong air travel demand which has seen this year's passenger numbers rise above those achieved in 2019. So, despite weakness in China and rather nascent economic growth in Europe, the EIA still sees overall demand for oil and related liquids averaging 103.10 million bpd in 2024 (another new record) and this is forecast to rise to 104.50 million bpd in 2025. On the supply side the EIA expects this to have averaged 102.62 million bpd this year although also sees it expanding to 104.66 million bpd in 2025 resulting in a small surplus.

US Production

According to data published by Baker Hughes, the number of active oil rigs operating in the US on the 22nd of November 2024 stood at 479, which is 21 rigs lower than the same time last year and more than 70% below the peak achieved back in 2014. Meanwhile, as we predicted in our previous annual outlook it does appear that the very sharp rate of production growth in 2022 and 2023, has slowed this year with total US output looking set to average 13.20 million bpd in 2024 compared to 12.90 million bpd in 2023. Admittedly the EIA sees this rising to 13.50 million bpd next year, albeit down from their previous forecast of 13.67 million bpd.



Source: US DOE/ Baker Hughes/FAB

One key question for 2025 is what impact Donald Trump's more friendly oil and gas policies will have on US production in general. At this point we believe any easing of regulations around drilling activity will probably benefit the domestic gas sector more than crude, at least initially. Over the past few years, shale oil operators have been far more focused on generating positive cashflows than expanding their activities and have thus restricted output to their most efficient and productive wells. This was highlighted in comments made by the head of Exxon's upstream division, who suggested during the November 2024 Energy Intelligence Conference in London that, "*We're not going to see anybody in 'drill, baby, drill' mode. A radical change in production is unlikely because the vast majority, if not everybody, is focused on the economics of what they're doing.*" Another less discussed issue worth mentioning, is that US refineries were originally built to process heavier crude grades, and consequently can only absorb a certain amount of the lighter shale oil in their blending processes.

Global Inventories

Commercial oil inventories in the US were sitting around 423 million barrels at the end of November 2024, while the country's gasoline stocks stood at 214 million barrels which are roughly 5% and 4% below their five-year seasonal averages respectively. Meanwhile, OECD crude inventories are also below their average level for this time of year, with the IEA's most recent monthly report stating that these had fallen by 36.40 million barrels to 2,799 million barrels in September 2024, which was 95 million barrels below the five-year average.

OPEC+

The OPEC+ grouping continues to be the most important support platform for crude prices but is still underestimated by many analysts when it comes to the determination of the organization to keep prices stable. At their final meeting for 2024, members agreed to extend the additional production cuts until the end of Q1 2025 which is logical, because it will give the market more time to develop a better picture on the potential economic impact of Trump's tariff policies and if he will indeed reinstate maximum pressure on Iran. We also don't feel that this latest extension should be viewed as being driven by growing expectations of weaker physical demand by OPEC+, but rather as the group's attempt to manage current trader sentiment. Admittedly though, and aside from the US, certain other non-OPEC+ members have managed to increase their oil and condensate production this past year. This includes Canada, whose average daily output of its heavy sour grade crude rose to 5.76 million bpd in 2024 (driven by the expansion of the Trans Mountain pipeline) of which more than 4 million bpd is exported to the US. Meanwhile, Guyana is now producing an estimated 660,000 bpd compared to 400,000 bpd last year.

Geopolitics

Whilst a 60-day ceasefire in Lebanon recently came into force, and fresh attempts are being made to establish a similar halt to the fighting in Gaza, the overall geopolitical environment in the **Levant** region remains fragile. The risk of a fresh exchange of missile fire between **Iran** and **Israel** lingers, and while we still feel a full-blown war between these two adversaries remains at the lower end of probability it cannot be completely ruled out. The sudden threat by Tehran to speed up its uranium enrichment program in response to the IAEA's recent censure of the country, would almost certainly be a red line for Jerusalem and might just encourage Netanyahu's right-wing administration to act, particularly perhaps during the so-called 'lame-duck' period before Biden departs the White House and Donald Trump take his seat in the oval office again. The incoming Trump administration also seems likely to restore its maximum pressure campaign on Tehran in 2025, which in turn would have an impact on Iran's oil exports that are estimated to have averaged 1.70 million bpd during the first ten months of 2024, compared to 970,000 bpd in 2019. Then over in the semi-autonomous Kurdistan region of **Iraq**, hopes are growing that its own 450,000 to 500,000 bpd of oil exports via Turkey could restart in early 2025, following recent progress towards an extraction and transport costs agreement between Irbil and the federal government in Baghdad. Kurdistan's oil exports have been suspended since March 2023.

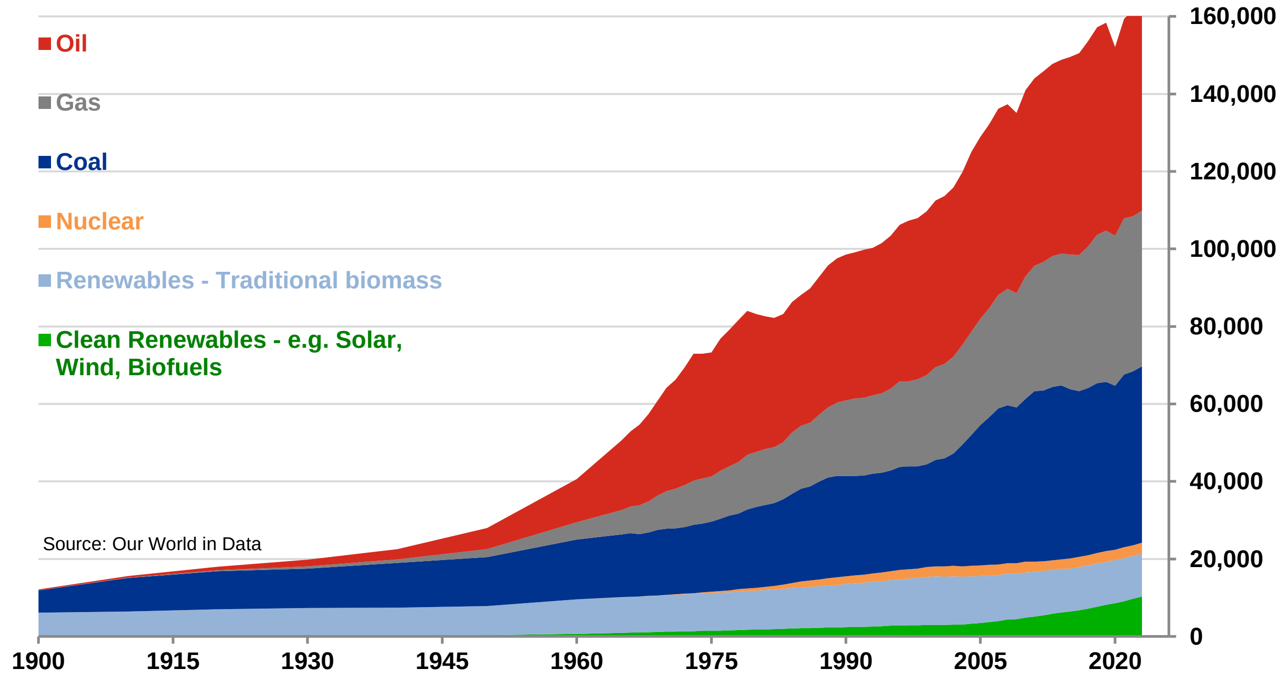
Meanwhile, **Russia** has been able to stabilize its crude output at around 9 million bpd this year, although its seaborne oil exports dropped by an average of 150,000 bpd last month to its lowest level since July 2024 and due in part it seems to lower demand for Russian crude by one of its key buyers India. However, Russia's oil product exports averaged 2.30 million bpd in November, an 18% increase compared to October. If the war in Ukraine ends next year, which does appear to be likely, it still remains to be seen how quickly a peace deal could be reached, and even if a lifting of the G7 sanctions on Moscow were to follow, it's unlikely there would be a sudden and significant rise in Russian oil supplies hitting the market. Another issue to watch next year, is how the US President-elect handles relations with **Venezuela.** During his first term in office Trump waged a pressure campaign against the government of Nicolas Maduro with limited results, but this time around he may just attempt the same strategy again, especially as Maduro appears to be in a weaker political position now then he was back in 2017 and which in turn would squeeze the south American country's oil production. Or Trump could perhaps see a potential deal on the issue of migrants in the offing. An estimated 8 million Venezuelans have left the country in the past ten years, with many attempting to enter the US, so a deal with Maduro on this specific issue which was one of Trump's campaign promises cannot be ruled out either.

Across in Africa, **Nigeria's** oil and condensate production averaged an estimated 1.30 million bpd during the first three quarters of 2024, which was still below its OPEC+ output allocation of 1.50 mio bpd. The oil and gas sectors are of crucial importance to the Nigerian economy, contributing more than 85% of export earnings and about 30% of budget revenues. Unfortunately, the country is still battling to end oil theft and pipeline vandalism in the Niger Delta, as well as the very high cost of extraction which the House of Representatives Committee on Finance, said was hovering around US$48 a barrel earlier this year. And then finally, **Libya's** oil and condensate output recently hit a record high of 1.386 million bpd, but challenges remain there too. These primarily concern the ongoing fragile security situation, highlighted by the disruption to around 50% of Libya's oil output back in August and September 2024 due to blockades at several key fields and linked to the longstanding political divisions between the country's two rival administrations.

The Energy Transition – 'Peak Oil Demand is Yet to Appear'

Global energy consumption grew by 2% y/y in 2023 and despite an increase in the use of renewable and clean energy, fossil fuels still made up 81.50% of the energy mix which was only slightly lower than 2022, according to data published by S&P Global. Oil, gas and coal therefore remain the world's primary energy sources, and although the IEA expects the demand for these three fossil fuels to peak by 2030, we still feel that this prediction remains somewhat optimistic. In fact, due to the continued growth of both the petrochemical and specialized fuel sectors as outlined above, we currently do not see the global demand for crude oil itself peaking until 2035 at the earliest.

Global Fuel Consumption – 1900 to 2023 in Terawatt Hours



OPEC is even more assertive in terms of its own views on peak oil demand, with the organization's Secretary General, Haitham al-Ghais, suggesting back in September this year that *"there is no peak demand on the horizon,"* and adding that *"the fantasy of phasing out oil and gas bears no relation to fact."* Meanwhile, the respected research house, Wood Mackenzie opined in its latest Energy Transition Outlook, that *"progress toward a low-carbon energy system is stumbling on multiple fronts, leaving the world dependent on fossil fuels for longer,"* with Jonathan Sultoon (the head of Wood Mackenzie's head of transition) also pointing out that *"China's the lower-cost producer in clean tech. Either the rest of the world needs to rely on Chinese manufacturing to speed the transition, or the West will pay a higher cost or, in fact, delay the transition. And it looks far more likely to be that latter situation than the former."*

The World Economic Forum has also acknowledged in its own report, that the overall speed of the energy transition had slowed this year, stating that *"economic volatility, heightened geopolitical tensions and technological shifts have all had an impact, complicating its speed and trajectory."* However, whilst the pace of transition is clearly facing fresh challenges in many places around the world, it's perhaps also worth highlighting that both the UAE and Saudi Arabia continue to make significant progress in increasing their own domestic power capacities which are provided by cleaner and more sustainable sources of energy. This was underlined by the two GCC countries recently improved positions on the WEF's energy transition index, which measures a country's policy environment, the level of political commitment and the investment climate, as well as access to capital, consumer engagement, and the development and adoption of new technologies.

Conclusion & Forecast

At the time of writing, Brent has managed to average just under US$81 a barrel this year, but as outlined above there are numerous factors to consider when attempting to predict the average price of crude in 2025. On the one hand the EIA expects global oil supply to come in slightly above demand next year, there is ongoing uncertainty on the outlook for the global economy, especially if a major trade war breaks out should Donald Trump's tariff plans backfire, and the US dollar looks set to remain strong going into the new year. Conversely, OPEC+ has agreed to extend its additional output cuts into Q1 2025 (which should help further reduce global inventories), the rise in US shale oil production has slowed as has it seems the global energy transition, while the demand for petrochemicals and certain fuel products such as kerosene looks set to expand.

Therefore, bearing all this in mind and barring any major surprise on the geopolitical front, we have slightly adjusted our original 2025 forecast for Brent and now look for it to average US$75 next year. On a side note, this would mean a WTI price of about US$70 which roughly equates to a US regular grade gasoline price of about US$3.00 per gallon, a level that might just keep President Trump satisfied and away from applying political pressure on OPEC.

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