

OPEC remains upbeat on oil demand recovery

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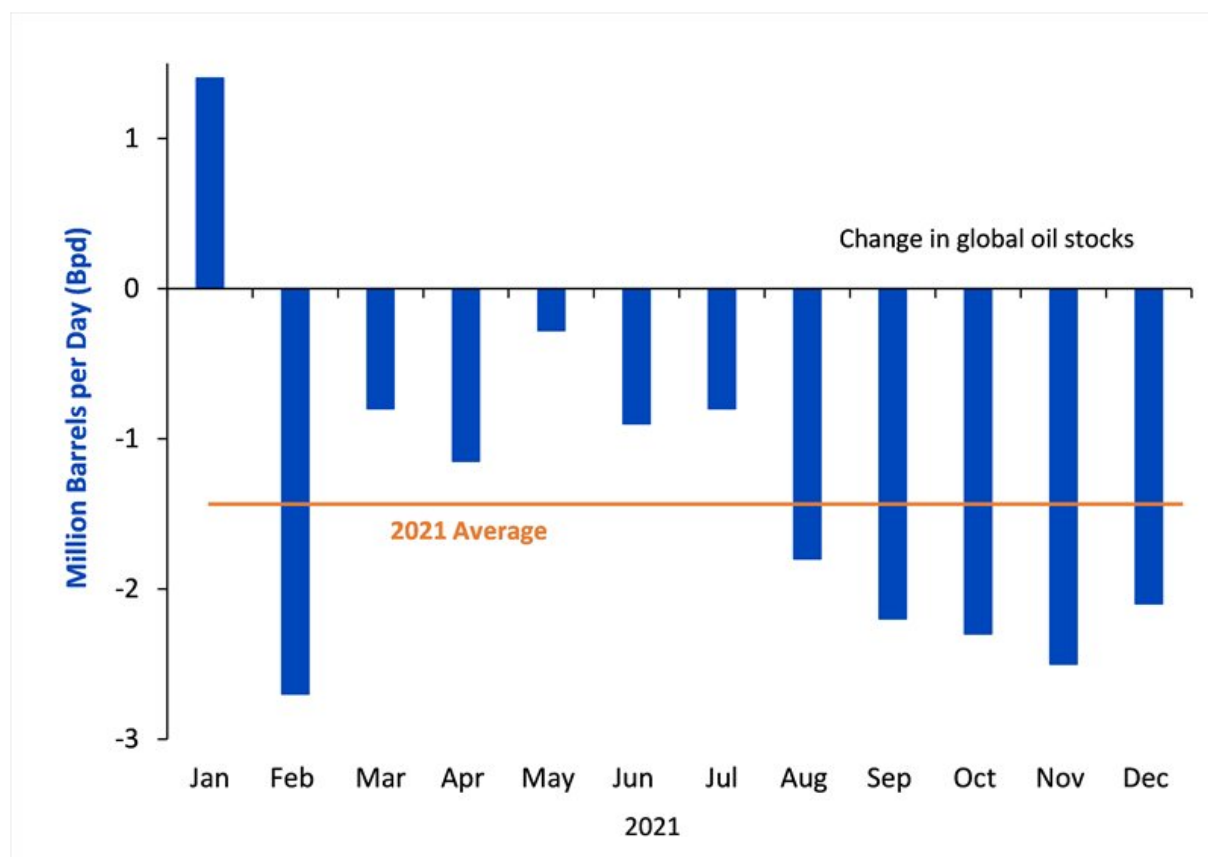
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Oil prices are trading at their highest level since 2018[1]. A revival in global oil demand, muted US shale oil response, restrictive supply from OPEC+[2] coupled with a delay in US-Iran talks are fuelling expectations that global oil markets will remain tight in the second half of this year. The narrative on the oil markets of rising demand amidst tight supply is sharply different to that of a supply overhang a year ago during the COVID pandemic. This view was echoed by comments from International Energy Agency (IEA) executive director Fatih Birol as he expected oil demand to be back at pre-crisis levels in a year. Previously the IEA had not expected oil demand to be restored until 2023. OPEC+ appears firmly in control after disciplined implementation of production quotas coupled with a weaker response to rising oil prices by non-OPEC producers.

OPEC+ meeting sounded a note of bullishness on demand recovery

Twenty minutes was all it took for OPEC+ to reach its decision to bring back supply amidst rising global demand at its latest monthly meeting[3]. Not only is this testament of the group's unity but also growing confidence in the current recovery of oil prices. OPEC+ agreed to carry out their planned production increases over the next 2 months. This should bring an additional 700k barrels per day (bpd) of supply onto the oil market in June and a further 841k bpd in July which should be easily absorbed by the market.

Figure 1: OPEC sees oil stocks declining fast in the second half of 2021.



Source: OPEC, Bloomberg as of May 2021.

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This would imply that OPEC+ will have expanded output by a good 2.1mn barrels per day since May. The OPEC+ meeting lacked clarity as to what the next July meeting would entail. We believe the ambiguity is largely owing to the variable COVID backdrop and the likelihood of an earlier than expected return of Iranian oil.

Iran Oil's slower return points to higher oil prices

Iran's potential return to the international oil market is an important factor weighing on the supply outlook. While Iranian nuclear talks in Vienna appeared to have reached a slowdown, parties involved remain optimistic for the meetings ahead. However ongoing elections in Iran are likely to complicate matters and embolden a hard-line stance during the negotiations. According to Iranian officials a deal is likely to be reached in August rather than their initial target of June. If a partial agreement is met in the coming months, that could allow the reintroduction of 500k bpd of Iranian supply.

According to data from the Commodity Futures Trading Commission (CFTC), net speculative positioning on Brent oil futures is down 96%^[4] over the prior month, as investors appear less convinced of an extension in the current oil price rally. That being said, both WTI and Brent futures are in backwardation yielding a positive roll yield of +0.3% and +0.6% respectively, suggesting tightness in the oil market.

1 OPEC: Organisation for Petroleum Exporting Countries. OPEC+: OPEC and its non-OPEC partners as of 3 June 2021

2 OPEC: Organisation for Petroleum Exporting Countries. OPEC+: OPEC and its non-OPEC partners on 1 June 2021

3 From 27 April 2021 to 25 May 2021, according to data from CFTC

4 From 27 April 2021 to 25 May 2021, according to data from CFTC

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