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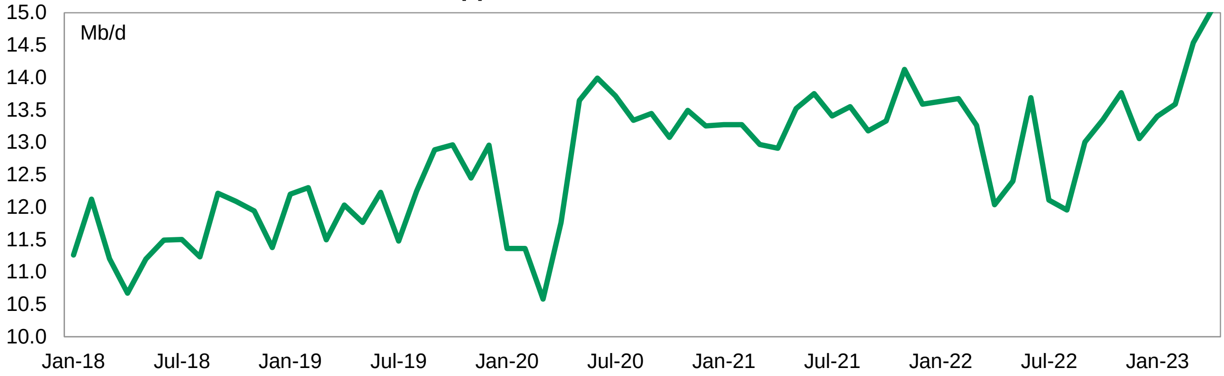
2023-2024 SCENARIO

Oil: the price recovery is playing hard to get

While the production cuts announced by OPEC+ have not had the expected effect on prices, they could well end up adding tension to the market over the second half of 2023 and into 2024, provided they are properly implemented.

Successive quota cuts by OPEC+ and the recent announcement by Saudi Arabia that it will cut a further 1m barrels a day in July have failed to boost prices above the USD80 a barrel mark. It has to be said that fears of recession are weighing on demand, particularly in OECD countries. While global demand for oil is set to rise by 2.2m barrels a day in 2023 according to the International Energy Agency, demand growth in OECD countries is unlikely to exceed 300k barrels a day**.** Asia therefore looks set to remain the key driver of growth in oil demand in 2023, as suggested by the increase in Chinese demand in March and April.

Oil apparent demand of China



Source: Crédit Agricole S.A./ ECO

Despite a stated desire to reduce production, OPEC+ is still unable to meet its targets. Combining the cuts announced in November 2022 and April 2023, OPEC+ is expected to produce 3.66m barrels less than in August 2022. According to data from the International Energy Agency, by May 2023, OPEC+ will have reduced its production by only 1.35m barrels per day compared to August 2022. While the four major producers in the Middle East (Saudi Arabia, Iraq, Kuwait and the United Arab Emirates) have cut their production by 1.9m barrels a day, other OPEC+ members are less disciplined. This is particularly true of Nigeria and Kazakhstan, whose oil is particularly popular in Europe as a preferred alternative to Russian oil. Iran, which is not subject to the quota systems, is also increasing its production despite the embargo. A few cracks are appearing in the cohesion of OPEC+. Several countries appear to be criticising the lack of transparency in the quota system set up by the Saudi-Russian axis. Many non-OPEC producer countries have also increased their oil production. This is the case in the US, with around 650k barrels per day between August 2022 and April 2023. Over the same period, the US also drew down the equivalent of 350k barrels a day from its strategic reserves, thereby offsetting most of OPEC+'s net production cuts.

Our scenario is based on relatively good cohesion within the OPEC+ group in 2023 and 2024, with Saudi Arabia always ready to defend the cartel it leads, by modulating its production in line with the group's other members. US production is likely to start to reach a possible plateau of around 19m barrels a day. We believe that the technologies needed to boost bedrock production will not yet be widely deployed in 2023 and 2024. To limit the effect on prices of the reduction of 1m barrels a day this summer during the peak

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driving season in the US and Europe, the US will continue to draw on its strategic reserves until the end of Q323, albeit at a lower rate than the 670k barrels a day between 25 February and 31 December 2022.

Assuming relatively good discipline and cohesion on the part of OPEC+, the ability of supply to adapt to an increase in demand should weaken. With demand for oil expected to increase by 1m barrels per day by 2024, the oil market should gradually tighten. **Our scenario is therefore based on an average oil price of USD83 and USD93 per barrel respectively in 2023 and 2024.**

Article published on June 30, 2023 in our quarterly
World – Macro-economic Scenario 2023-2024: normalisation plays hard to get

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