

2023-2024 SCENARIO

Oil: the wait is over, and prices leave their sting

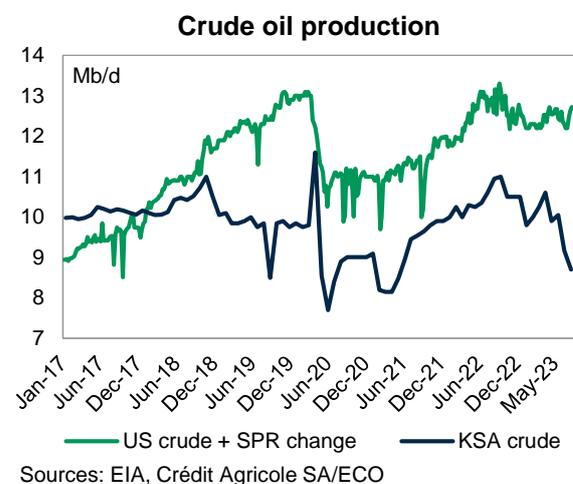
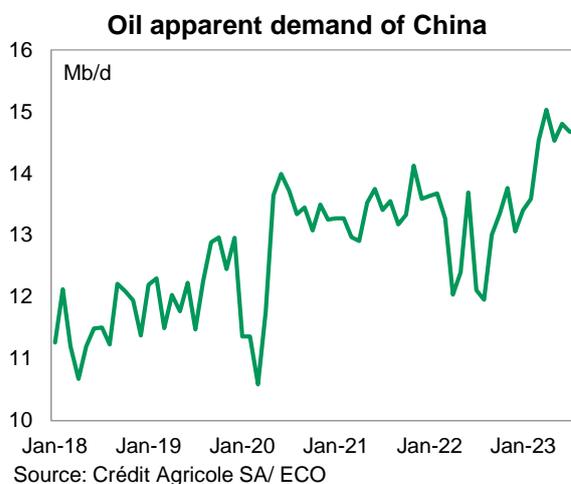
Saudi Arabia's latest production cutback was the driving force behind this summer's high oil prices. With no competing suppliers, OPEC+ remains in control.

Saudi Arabia's unilateral decision to cut its production by an additional 1m bpd starting in July had a big impact on oil prices. Generally, Saudi production increases during the summer to meet the seasonal uptick in demand of up to 500k bpd from Saudi thermal power stations. So this summer, the market was left 1.5m bl short, sending a shock through the demand market and driving prices up steeply (+24% between June and September for Brent crude). This is a win from a budget standpoint (the 10% production cut was offset by a 24% oil price increase), so it is no surprise that Saudi Arabia is extending this cut until year-end.

The US has not been able to make up for the OPEC+ production cuts, handing control of the oil market over to Saudi Arabia and its main ally, Russia. The US has stopped drawing on its strategic reserves, which had relieved market pressure at a rate of 800k bpd in the summer of 2022. Fracking in the southern US has lost the momentum it had in 2014-19. Today, annual growth in crude oil production in the Permian Basin is only a third of what it was in 2018.

Our scenario for 2024 is based on an increase in Saudi production of 1m bpd and slow growth in US oil production, which should just about meet the projected increase in demand of 1m bpd. This means the market will stay tight in 2024, with oil prices close to where they are now. The increase in cracks (ie, the difference between petroleum product prices on leaving refineries and oil prices on arrival at refineries) since the start of H23 could persist throughout this year and into 2024.

In the short term, Russia's announcement that it is cutting back on petroleum product exports could exacerbate the inflationary pressures of cracks on prices at the pump. **Our scenario puts average oil prices at USD95/bl for 2024.** However, this USD10/bl jump in oil prices from 2023 to 2024 could go higher if Saudi cuts are repeated or if supply dwindles further.



Article published on October 6, 2023 in our quarterly [World – Macro-economic Scenario 2023-2024: a delicate balance](#)

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