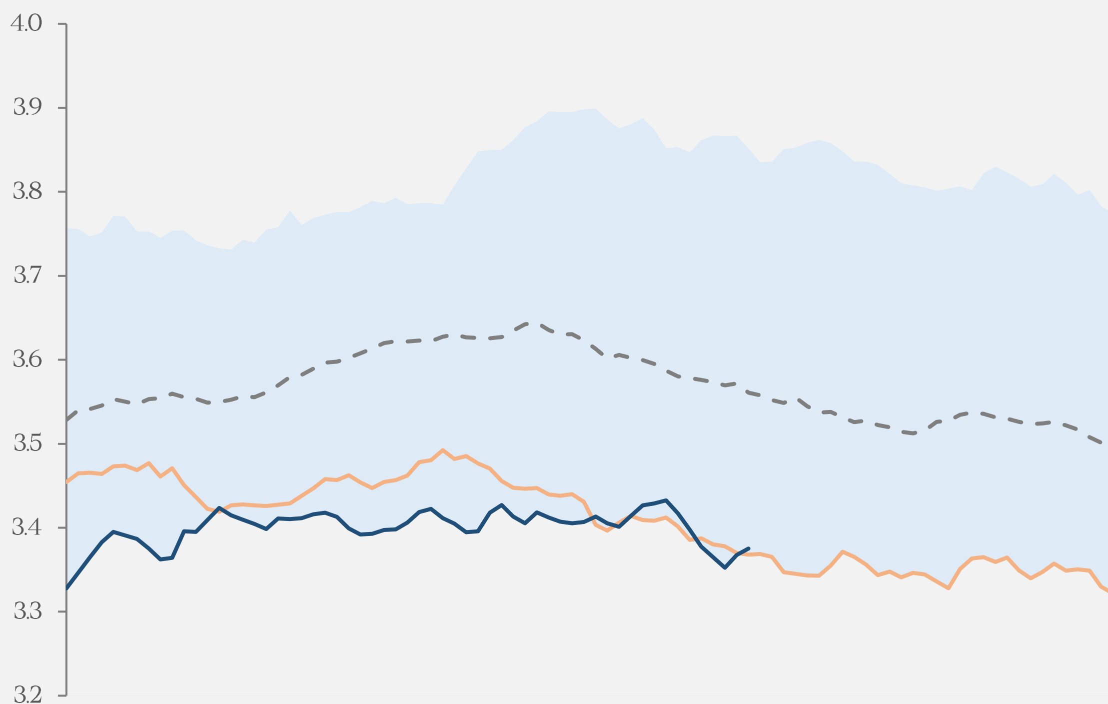
Weekend Flows

More OPEC Cuts? – August 26th, 2023

So the question – what is happening with inventories this week, and can the draws be stopped? Well, we cover that, to some extent in the previous two daily thoughts – but lets zoom out and look at the bigger picture today. Should OPEC cut more, or sit on the sidelines here? The market seems to be begging for further OPEC+ cuts, with flat prices barely clinging to $80/bbl, and the forward curves, while still backward, not as much as you'd *expect* with global inventory draws of 4mb/d as reported by Kpler, and now Vortexa. Last year, global crude inventories draw almost 180mb from peak to exit, while HTM is forecasting a year end around 3.25mb – all while prices stagnate – what gives? We think stocks are drawing in the wrong places (while OECD stocks account for most of global inventory, they are attributable to less than their share of the draws we model). Europe is massively short products (drawing an estimated 45mb YTD), while their crude inventories are only down ~15mb YTD (though down ~50mb from peak), while we see inventories drawing more weighted to East of Suez (with recent draws mostly being Chinese landed crude, and around 20mb of Asian oil on water). So should Saudi Arabia further cut their production, and send those searching for barrels into the Atlantic basin, to try and giddy-up OECD crude draws? Well, they probably should given where we see OPEC exports moving thru



Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | **$103.73** (+0.5%)
Synthetic | **$110.96** (-0.8%)
WCS | **$79.92** (-6.5%)

USD Priced Liquids

Bonny Lt. | **$87.99** (-0.7%)
LLS | **$82.45** (-1.1%)
MEH | **$81.60** (-0.6%)
NYMEX | **$79.05** (-1.7%)
WTI FOB | **$80.71** (+1.7%)

CAD Priced Gas

AECO | **$2.64** (-1.7%)
Alliance | **$2.63** (+15.9%)
Empress | **$2.64** (-1.5%)
Station 2 | **$2.64** (+8.1%)

USD Priced Gas

Dawn | **$2.24** (-3.0%)
Houston | **$2.37** (-2.1%)
Malin | **$2.37** (-37.1%)
PG&E | **$4.14** (-26.7%)
SoCal | **$3.58** (-54.1%)
Waha | **$2.59** (+1.8%)

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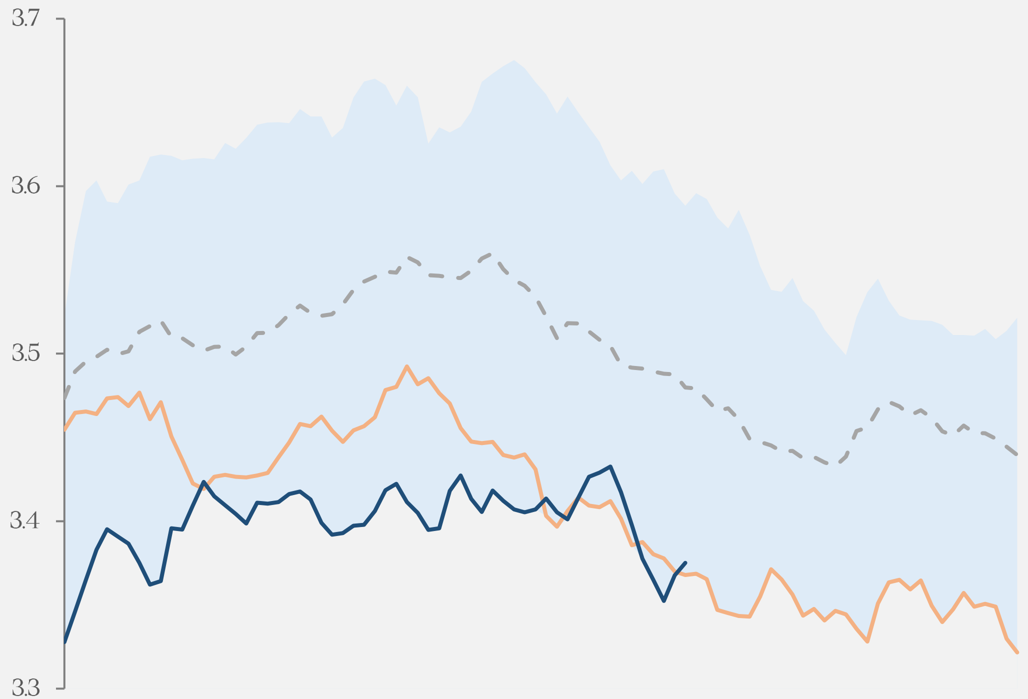
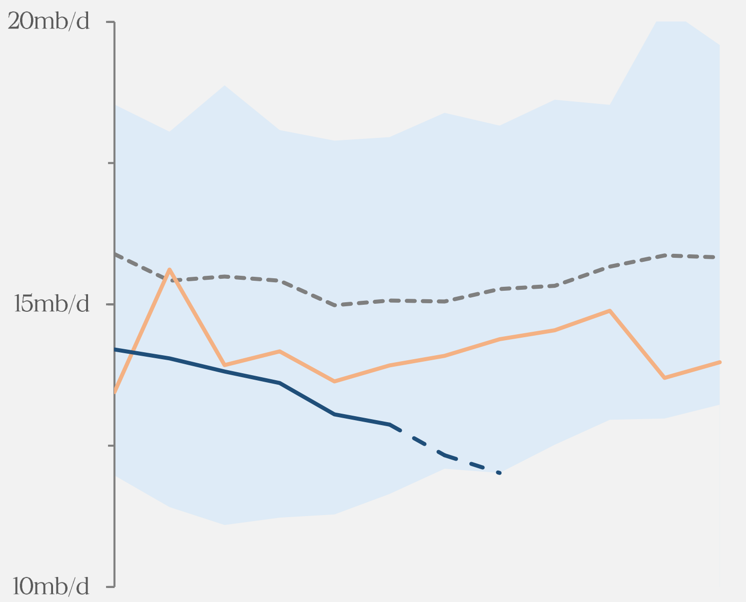
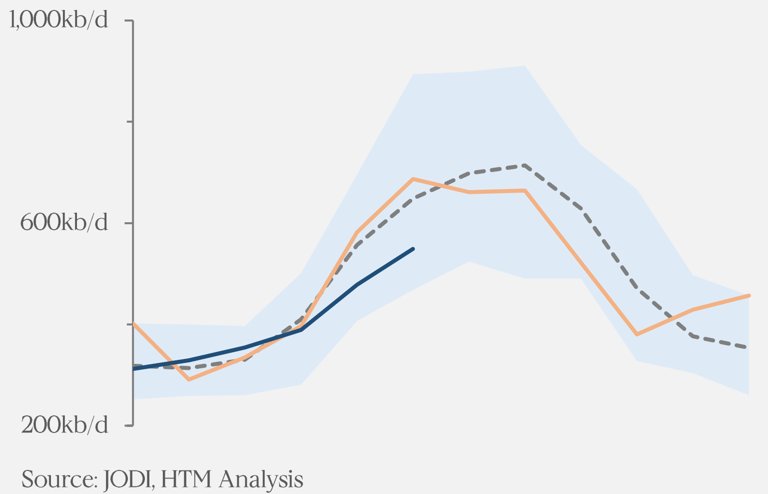
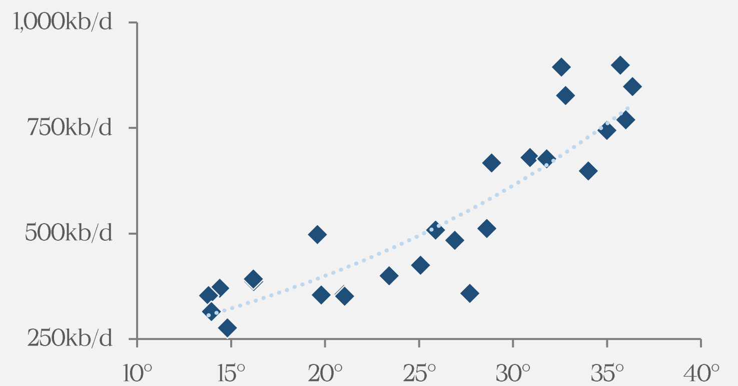
the remainder of the year, coupled with what would be a likely beneficial move in both flat prices, and spreads (with the thinner inventories as a bonus). In normal years, into the end of the year, crude draws, and builds into mid-year – this isn't shocking, it's just seasonality. Refiners ramp into late August, then cool into the winter, before starting their uptrend again in the following spring. So to see this year's crude draws start in August, well, is entirely expected. But, this means fewer runs into the winter, and less direct use, so crude exports are counter-seasonal to local demand (i.e. stronger in the winter), so we would view any incremental OPEC cuts, as more of a seasonal adjustment, than a truly mega-bullish event. While yes, it would absolutely be bullish (especially so medium-term), our view is that the strong pace of demand adds we've seen YTD should soften, well, very soon. Of course, the cuts we would expect to be reversed in 2024, and with additional production mostly meeting our modeled demand growth (from Kazakhstan, Guyana, Brazil, and OPEC), we see a tight, but looser market after this summer, with what we believe as China front running most of their short-term demand growth (though not saying they are done, entirely, what we estimate as .95mb/d annualized from January 2022 to January 2024, we see as 0.65mb/d annualized during 2024). With some OPEC slack (not a complete reversal), we see manufactured tightness in 2024, but at a controllable level. After 2H23, we see OPEC to be in a comfortable spot strategically, where they can begin to puppet the market. Something that looks like quick stockpile declines (now), followed by a slower bleed in future years. This is wholly price supportive, and again, we reiterate our $82/bbl crude outlook for the second half of 2023 – we also believe that OPEC wants to see shale stay modestly in the money (on the edge). So while there is expected incremental export







capacity from OPEC in the coming months, we expect the cartel to manage it carefully. We've frequently highlighted the role that Saudi Arabia's oil consumption for electricity plays. On average, between the summer, and the winter, there is an additional 400kb/d for export (i.e. not used locally) – and this year has been no different. Now with Iraq no longer export-constrained (the south is their pinch point, with Kurdish barrels flowing through Turkey, there's 400kb/d of additional export capacity) the question is – will Iraq, which has typically been reasonably compliant with their OPEC export quota, decide to fall out of compliance? For context they are underproducing their voluntary quota by ~300kb/d (around the throughput of the Ceyhan pipeline) – we think these barrels slowly find their way back to the market, along with local Saudi barrels that will, in the coming months no longer be needed for power. It's been extremely hot in Saudi Arabia, so we estimate their summer average direct consumption at 625kb/d (adjusting for increased gas consumption), which would see an additional ~300kb/d available for export through YE. We think we see most of these barrels. With that, there is around 600kb/d of low hanging fruit in the Gulf countries (without bringing additional supply online, besides the currently shut in Kurdistan-region) which should work to generally temper the massive draws we've seen in the past weeks.



Of course, product demand is still quite strong (and part of the reason, we will see draws) – though we expect that the rolling 30-day average draw pace abates soon after pushing 4mb/d in the August 20th and forward period (with some of that being crude to products, which again, the world has less clarity on). The model that we use to drive our oil price forecasts is shown to the left. We see draws back at <1mb/d by the winter, which would see 2H23 averaging draws of ~1.5mb/d.

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