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Oil Market Outlook for 2023

~ Recession risk, OPEC Plus production cuts, and the Ukraine conflict ~

< Executive Summary >

Tetsuo Morikawa, PhD

Senior Economist and Oil Group Manager

Fossil Energies & International Cooperation Unit

The Institute of Energy Economics, Japan

Key points of the report

1. Although growth is small due to slower GDP growth, in 2023 oil demand will exceed pre-pandemic levels at 101.4 million barrels per day (mb/d). OPEC Plus production cuts will also curb the growth of oil supply, bringing supply to 100.9 mb/d in 2023.
2. The international crude oil (Brent) price in 2023 is projected to hover around \$90/bbl. Weaker demand due to the economic slowdown, further OPEC Plus production cuts, and the situation in Ukraine are key uncertainties.

Oil demand

3. Global oil demand increased by 1.9 mb/d (1.9%) in the 3Q 2022 year on year (y/o/y), nearly restoring demand to pre-pandemic levels. However, the pace of demand growth has slowed recently due to the impact of declining demand in China.
4. Chinese demand fell by 0.6 mb/d (4.3%) to 13.8 mb/d in the 3Q 2022 y/o/y. Demand was sluggish due to the economic slowdown and frequent lockdowns. Imports of Russian crude oil have been increasing since the outbreak of the war in Ukraine, with imports in the 3Q 2022 up 0.3 mb/d (18.9%) y/o/y to 1.83 mb/d.
5. World oil supplies increased by 4.7 mb/d (4.8%) to 101.1 mb/d in the 3Q 2022 y/o/y. OPEC Plus and the U.S. production increases have resulted in growth exceeding demand.
6. At its meeting in December 2022, OPEC Plus decided to continue production cuts of 2 mb/d. They will assess the effect of the price cap on Russian crude oil. The

real surplus production capacity remains extremely low, and the ability to respond to supply disruptions is vulnerable.

7. U.S. crude oil production increased by 0.94 mb/d (8.4%) to 12.03 mb/d in the 3Q of 2022 y/o/y. The U.S. Energy Information Administration (EIA) forecasts that production in 2023 will recover to pre-pandemic levels of 12.31 mb/d.
8. In December 2022, the G7, EU, and Australia set a price cap of \$60/bbl for Russian crude oil transported by sea. On the same day, the EU introduced a Russian oil embargo. A price cap will also be set for Russian petroleum products on February 5, 2023. Uncertainties are significant, including the effectiveness of the price cap and the possibility of a retaliatory Russian embargo.
9. The Organisation for Economic Co-operation and Development (OECD) inventories in October 2022 totaled 3.99 billion barrels (2.76 billion barrels in commercial inventories and 1.23 billion barrels in government stockpiles). Although commercial inventories are on the rise due to the release of 300 million barrels of stockpiles and increased U.S. production, they remain well below the five-year average.

Macroeconomic and Financial Markets

10. Global GDP Growth is projected to slow from 3.2% in 2022 to 2.7% in 2023. Stock prices are volatile in light of the risk of a recession in 2023, but if the pace of U.S. interest rate hikes eases, a weaker dollar could provide support for oil prices.

Contact : report@tky.ieej.or.jp