



Salih Yilmaz

Senior Equity Research Analyst - Energy, Oil & Gas,
Transition, ESG, Bloomberg Intelligence

China is opening, but...

While China is opening up, we expect it to be gradual with enough supply – especially with OPEC+’s spare capacity to support rising demand. When we look at H2 this year, our balance suggests that we may actually be in a much bigger deficit than the first half of this year. Do we have enough supply to meet that kind of deficit? I think so, but then beyond that, once we exhaust more of OPEC+’s spare capacity, is there more non-OPEC supply coming online to meet that demand? A little bit, yes. But then come end of 2024, if we see resilient demand and if we see China with a pre-pandemic appetite, then we might be in a little bit more trouble in terms of seeing where that supply comes from. That in itself could be enough to make markets very anxious.

Next step for the curve?

We need to remember that a lot of oil producers are operating at the back end of the curve, which still has relatively low prices. This may be one of the main reasons why the supply response we’ve been expecting hasn’t really been as big as some thought. There is some spare capacity, especially after OPEC+ decided to bring 2mn b/d worth of cuts back into the market. On the demand side, China’s lockdowns really helped the markets remain balanced.

Surprise supply...

The market may have gotten a little complacent about how little disruption there has been to Russian supply, because we really were expecting it to drop a lot more than it did. We were talking about perhaps 1mn b/d. That hasn’t happened. It’s mainly because Russia was able to find other buyers, even if it did sell at significant discounts. Nonetheless, the supply disruption we were expecting didn’t materialize – at all, really. ■

**Paraphrased Comments*

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