Statement by the

Organization of the Petroleum Exporting Countries (OPEC)

to the

Intergovernmental Group of Twenty Four (G-24)

Meeting of Ministers and Governors

April 2023

The Organization of the Petroleum Exporting Countries (OPEC) would like to provide the distinguished delegates to the **G24 Ministers and Governors Meeting** an update on **current oil market conditions and developments**.

Global oil market remains **well supplied** by OPEC and the non-OPEC countries participating in the **Declaration of Cooperation (DoC).** Regular monitoring of oil market fundamentals has repeatedly provided **clarity and assurance to the market**, and hence **reduced market volatility**, which in turns has **benefited both producers and consumers**. Moreover, the DoC joint efforts contribute to **global energy security**, which is a key enabler for economic activity, an essential element of **energy access**, and a cornerstone of **stability in energy markets.** Indeed, the world oil demand is expected to grow firmly in **2023** by **2.3 mb/d**, following a solid growth in **2022**, amid sustained global economic and oil demand growth that was consolidated by China's reopening of its economy.

However, monetary policies from leading central banks and recent **sell-offs in major financial markets** caused by the banking system turmoil have clouded the global economic and energy demand outlook. This has amplified **volatility in the futures markets**, including crude oil. Unfortunately, **liquidity** in oil futures markets remains relatively low, despite the recent slight recovery, and is a concern for the efficiency of **price discovery**, as well as for the overall functioning of the oil market.

While multiple challenges are expected to dampen global economic growth in **2023** when compared to **2022**, the **1Q23** dynamic has been solid. Steady US growth – in particular the services sector; the positive effects from China's reopening; and better-than-expected growth in the Euro-zone were all supportive developments. India is also likely to perform relatively well in **2023**, supported by government spending plans that include a rise in infrastructure spending, income tax cuts and other measures. Brazil and Russia are forecast to face challenges in 2023, but are likely to be supported by structural reforms, fiscal support measures and commodity income.

Although global GDP growth was better than expected in **1Q23**, it is forecast to slow in **2023** to **2.6%** from **3.2%** in **2022**. This deceleration comes amid elevated global inflation, continued monetary tightening by major central banks, and increasingly limited fiscal room to counterbalance the deceleration. The recent turbulence in the banking sector adds to the expectation of further economic challenges in **2023**.

The US economy is forecast to slow considerably. Following growth of **2.1%** in **2022**, the economy is forecast to grow by **1.2%** in **2023**. Similarly, the Euro-zone's economic growth is anticipated to decline significantly from **3.5%** in **2022** to **0.8%** in **2023**. Japan's economic growth estimate for **2022** stands at **1%**, and the economy is forecast to expand by **1.2%** in **2023**. China's economic growth stood at **3%** in **2022**, largely impacted by COVID-19 lockdown measures, but the economy is forecast to rebound sharply following the country's reopening efforts and grow by **5.2%** in **2023**. India's 2022 economic growth stood at **6.7%** on a calendar year basis, and is forecast to slow to **5.6%** in **2023**. Brazil's economic growth was reported at **2.9%** for **2022**, and is forecast so decelerate to **1%** in **2023**. Russia's statistical office reported a contraction of **2.1%** in **2022** and is expected to contract by **0.5%** in **2023**.

In **2022**, **global oil demand** is estimated to have increased by **2.5 mb/d** to average **99.6 mb/d**, supported by the economic recovery. With the exception of China, whose strict zero-COVID-19 policy led to reduced economic output and mobility, demand was driven by improvements in jet/kerosene, diesel and gasoline. In the OECD region, OECD Americas drove demand growth by **0.7 mb/d** y-o-y, and Europe saw a healthy y-o-y increase of **0.4 mb/d**. OECD Asia Pacific lagged behind, impacted by the negative developments in the region's major trading partner, China. Overall, oil demand in the OECD increased by **1.2 mb/d**, y-o-y. Oil demand in the non-OECD is estimated to have increased by a **1.3 mb/d**, y-o-y, despite a y-o-y contraction, mainly in China. China's oil demand contracted due to the extension of the zero-COVID-19 policy.

Despite the apparent slowdown in economic growth in several regions towards the end of the previous year, world oil demand growth in **2023** is forecast to increase by around **2.3 mb/d** to average **101.9 mb/d**. This will be largely due to China, where the abandonment of the zero-COVID-19 policy in **December 2022** and subsequent reopening is expected to considerably boost demand for transportation and industrial fuels.

Despite some macro-economic headwinds, oil demand in the **OECD** is anticipated to rise by around **0.2 mb/d**, with most of the increase occurring in OECD Americas and some pick-up is expected in OECD Asia Pacific. However, oil demand in OECD Europe is expected to stagnate due to the anticipated slowdown in economic activity and supply-chain-related as well as geopolitical developments. In terms of products, jet/kerosene is projected to be the driver of oil demand, with road transportation fuels – diesel and gasoline – also growing.

In the **non-OECD** region, oil demand is expected to soar by around **2.1 mb/d**, with the re-opening of China having a substantial impact on the region's oil demand, followed by Other Asia and the Middle East. However, this forecast remains subject to many uncertainties, including the pace of global economic activity given the current challenges and geopolitical developments.

Non-OPEC liquids supply in **2022** is estimated to grow by **1.9 mb/d** from the previous year. The main drivers for growth were the US, Russia, Canada, Guyana, China and Brazil. Crude and product exports from Russia have proved more resilient than expected. US production is estimated to increase by **1.2 mb/d y-o-y**. Estimations show **global E&P capex spending** for **2022** rising by about **18%** y-o-y to average $500 billion, much lower than the $886 billion recorded in 2014, but 27% more than in 2020.

For **2023**, the **non-OPEC liquids supply** is expected to grow by **1.4 mb/d**. The main growth contributors are expected to be the US, Brazil, Norway, Canada and Kazakhstan. Global E&P capex spending for **2023** is forecast to grow by around **13%** y-o-y to average $566 billion, just over pre-pandemic levels. More upstream investment is still required to meet the demand outlook and strengthen spare capacity.

Amid supply chain issues and inflation in the US, public operators and the oil majors are still expected to focus on paying down debt and increasing returns to investors. Nonetheless, given the ongoing geopolitical developments in

Eastern Europe and US shale liquids production prospects, there is a great deal of uncertainty surrounding the **non-OPEC supply forecast** for **2023**.

Meanwhile, **OPEC NGLs and non-conventional liquids** production in **2022** is estimated to have grown by **0.1 mb/d** to average **5.4 mb/d**, and is expected to grow by **50 tb/d** to average about **5.4 mb/d** in **2023**. In February 2023, **OPEC crude oil** production rose by **117 tb/d** m-o-m in February to average **28.92 mb/d**, according to secondary sources.

In February, **refinery margins** reversed course and underwent a counter-seasonal downturn to show solid losses in all main trading hubs. This occurred despite rising offline capacities as maintenance works intensified. In the **US Gulf Coast, Rotterdam and Singapore**, margins declined by **$13.06/b** vs WTI, **$7.64/b** vs Brent, and **$5.45/b** vs Oman m-o-m, to average **$30.40/b, $12.86/b,** and **$6.76/b** respectively. Most of the weakness stemmed from the middle section of the barrel as a result of high middle distillate volume arrivals in Europe, mainly from the East. The high product availability in Europe, amid weaker US product exports and strong refinery output levels in Asia, led to considerable stock builds and caused jet fuel and gasoil margins to experience massive losses across regions.

Global refinery offline capacities in February rose by **1.7 mb/d** to average **8.7 mb/d**, according to preliminary data. Accordingly, **global refinery** runs extended their downward trend and fell by **646 tb/d** to average **79.5 mb/d** compared to 80.1 mb/d registered in the previous month. However, y-o-y, intakes were **94 tb/d** higher. **Going forward, global** refinery intakes are expected to drop further as offline capacities rise during heavy maintenance, which is projected to peak around April. Consequently, product balances are set to contract, which should improve product performance and refinery economics in the coming month.

US crude imports in February declined from a three-year high the month before to average **6.4 mb/d**, according to weekly data. In contrast, preliminary data shows **US crude exports** reached a record high of **4.3 mb/d** in February. **US product imports** fell from an 11-month high the month before to average **2.2 mb/d**. Gains in gasoline and jet fuel were outpaced by declines in other products. In **Japan**, the latest data shows crude imports fell from a four-month high to average **2.7 mb/d** in January. Product imports, including LPG, were little changed after reaching an 11-month high the month before. Japan's product exports recovered further, averaging **562 tb/d**. Gasoil, gasoline and fuel oil saw gains, while kerosene and jet fuel declined.

Estimates based on secondary sources showed crude imports into the **OECD Europe** region were ample in February, with supplies coming in from South America, West Africa, North America and the Middle East. Crude imports into the region from Russia have been focused on Turkey and countries along the southern leg of the Druzhba pipeline.

China's crude imports declined from the highs seen at the end of 2022, averaging **10.2 mb/d** in January, then picked up again to **10.6 mb/d** in February. Product exports remained at elevated levels in February, averaging **1.7 mb/d**. Although down from the almost three-year high at the end of last year, product outflows were sharply higher compared to the same month last year. **India**'s crude imports rose 2% in January to average **4.7 mb/d** as refiners returned from maintenance and continued to increase inflows of discounted Russian grades. India's product exports erased much of the previous month's gains, averaging **1.1 mb/d**, with declines across the barrel.

Total OECD commercial oil stocks rose by **14.1 mb** m-o-m in February for the sixth consecutive month. At **2,865 mb**, they were **237 mb** higher than the same time one year ago, **18 mb** above the latest five-year average, but **54 mb** lower than the 2015-2019 average. Within the components, crude stocks rose m-o-m by 28.9 mb, while product stocks fell m-o-m by 14.8 mb.

At **1,442 mb**, **OECD commercial crude stocks** were **180 mb** higher in February than the same time a year ago, **57 mb** above the latest five-year average but **6 mb** lower than the 2015-2019 average. **OECD product stocks** stood at **1,424 mb, 57 mb** higher than the same time a year ago, **38 mb** lower than the latest five-year average and **48 mb** below the 2015-2019 average.

In terms of **days of forward cover**, OECD commercial stocks rose by **1.0 days** m-o-m in February to **62.9 days.** This is **4.9 days** above February 2022 levels, **1.8 days** below the latest five-year average but **0.3 days** higher than the 2015- 2019 average. All three OECD regions were below the latest five-year average: the Americas by **1.1 days** at **62.3 days**; Asia Pacific by **3.1 days** at **47.2 days**; and Europe by **2.9 days** at **72.4 days**.

In closing, **OPEC** would like to reaffirm its **long-standing commitment to supporting oil market stability** for the mutual benefit of consuming and producing nations, as well as the global economy. Given the current level of economic uncertainty, and the increased volatility observed in the oil market, OPEC and the non-OPEC countries in the DoC will continue to closely monitor market developments and remain poised to make adjustments within its existing mechanisms in order to support oil market stability.