

Global Oil and Gas

Updating Agency Data and Our Latest Views on Crude

Based on updated data from IEA, EIA and OPEC and rapidly spreading Delta variant we reevaluate near-term S/D fundamentals.

- **Demand.** A key question which investors are trying to understand is the direct impact to global crude demand from spread of the Delta variant. IEA recently lowered 2H21 oil demand by over 500 mb/d driven primarily by worsening pandemic conditions. IEA lowered 3Q 21 demand outlook to 97.4MMb/d from 98.1MMb/d and lowered 4Q 21 demand outlook to 98.9MMb/d from 99.4MMb/d. In its latest oil market report, OPEC did not make any material change to oil demand forecast for 2021; the same is true for EIA short-term energy outlook that did not lower 2H 21 demand forecast. Our views are aligned with the IEA and we see the Delta variant lowering 2H 21 demand by 500-750mb/d. We expect Jet fuel demand to be most impacted by spread of the Delta variant.
- **Supply.** In our [note published a day after the new OPEC+ deal was reached](#) we had highlighted why we believed the deal took out the blue sky price scenario (crude at ~\$80/bbl) from the equation. We continue to believe the most recent OPEC deal went a long way in fixing the S/D imbalance. World oil supply rose by 1.7 MMb/d in July to 96.7 MMb/d. OPEC supply was up 637 mb/d MoM as Saudi brought back self-curtailed barrels. Saudi production was up ~497mb/d MoM. While OPEC is expected to add ~2MMb/d by year-end, we also expect higher volumes from Canada as seasonal turnaround in oil sand projects have started to taper.
- **US Balances.** Looking at the US crude inventory data alone, we saw inventory draw by ~46.7MMbbls between 4/23/2021 and 7/9/2021, which equated to ~950mb/d of imbalance in the US. However, since then, inventory has only drawn by 2MMbbls, which is less than 100mb/d of imbalance. We are seeing the pace of inventory depletion drop significantly. There are two things investors should be aware of as it relates to US crude inventory: 1) Startup of ENB line 3 (replacement line) by Sep end which allows ~350mb/d of incremental Canadian crude to get to US Mid-West / Mid-Con; and 2) Almost 800-900mb/d of US refining capacity will be offline for a planned turnaround in the month of October, and this will have a negative impact domestic crude demand.
- **Are we bearish crude?** Last week, after we published our note, [Underperformance of Energy](#), a number of investors wanted to know if we were bearish on crude. We would like to clarify, just because we do not believe crude is going to \$80/bbl that does not make us bearish. We actually expect Brent to average \$75/bbl and WTI to average \$72/bbl in 2H 21. However as this stage, supply is forecasted to rise at a faster rate than demand and so pace of inventory drawdown is slowing, we expect market to reach equilibrium by 1H 22.
- **What would make us more bullish?** In its monthly report, OPEC did not acknowledge that the Delta variant could lead to lower demand, and so we see a lower probability that OPEC pauses its next planned production increase. Given the discourse we saw last time around, we don't think that it would be easy to convince all members to be on board for pausing production increases. However, if OPEC does stop raising volumes (temporarily) that would be bullish. A sharp drop in the Covid-19 case count will certainly make us more bullish on Energy.

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Research Analysts

Manav Gupta

William Janela, CFA

Chris Baker, CFA

Vera Tang, CFA