Oil markets will remain undersupplied this summer. (ddp)

Energy

Oil markets remain tight boosting oil prices, energy stocks

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The global reopening and recovery is boosting economies' thirst for oil, particularly in the US and Europe, with demand topping 97mbpd. But since OPEC+ has failed to agree on production increases, the market will remain undersupplied this summer. We reiterate our advice for investors with a high risk tolerance to be long Brent and retain a preference for energy stocks.

The global economic reopening and recovery is boosting oil demand, particularly in the US and Europe, with demand now topping 97 million barrels (mbpd) per day and possibly exceeding the level of 99mbpd later this year. In the US, on the Independence Day holiday gasoline demand soared to a record 10mbpd, based on preliminary data. US flight activity is now only 17% below 2019 levels on a 7-day average—a huge improvement versus –60% at the start of the year.

But while production increases still look likely at some point, which would result in a modest price setback toward the end of the year, the failure to reach an agreement at the last OPEC+ meeting means that oil producers won't increase their crude production in August. So investors should expect the following:

A tighter oil market this summer will push prices up: With the oil market already in deficit and demand growth outpacing supply growth, the crude market will likely tighten further this summer. Hence, we believe ongoing declines in global oil inventories could boost Brent to USD 80/bbl and WTI to USD 77/bbl between now and September.

The undersupply will only ease toward year-end: We anticipate a modest setback in prices toward the end of the year based on our expectation of higher OPEC+ production (including Iran). We expect this to result in a decline in Brent to USD 75/bbl and WTI to USD 72/bbl.

No visibility yet on next year's production level: We see upside risks to our 2022 forecasts but prefer to wait for better visibility on the guidance from US shale producers before reviewing those forecasts.

With markets remaining undersupplied this summer, and Brent crude expected to rise to USD 80/bbl, we reiterate our advice for investors with a high risk tolerance to be long Brent, add exposure to longer-dated oil contracts, or sell its downside price risks. Against this backdrop, we also retain our preference for energy stocks within our global equity strategy, along with other cyclical parts of the market, such as financials. For more on positioning for recovery and reopening, click here.

Original report - Crude oil: Tight summer,15 July 2021.