



CIO retains a positive view on oil prices, and continues to advise risk-taking investors to add long positions in longer-dated Brent contracts or to sell Brent's downside price risks. (ddp)

Crude oil: High level of "oil on water"

22 November 2022, 3:15 pm CET, written by UBS Editorial Team

Oil prices are trading at the lowest level since early October. Prices have sunk due to growth concerns linked to further central bank rate hikes and worries that surging COVID-19 cases will prompt new mobility restrictions in China, the second largest oil consumer.

CIO still expect Brent prices to rebound above USD 100/bbl over the coming months as US strategic petroleum reserve (SPR) sales end, the European ban on Russian crude exports comes into force, and oil demand continues to rise.

While US inventories of crude oil, refined products, and strategic oil reserves stand at the lowest level since 2004, oil on water—which includes oil transiting in tankers from producer to consumer and oil stored on a tanker (so-called floating storage)—has increased considerably in recent months. In our view, this build-up has been driven by higher crude exports from OPEC countries and by US SPR sales, which have boosted US crude exports. Another likely factor stems from the upcoming European Union ban on Russian crude imports. Russia is diverting larger quantities of its crude to non-EU countries ahead of the ban, while Europe is importing its crude from further locations; longer routes mean the shipped oil spends more time on a tanker. While Russian crude export could rise again this month before the European ban comes into force on 5 December, we expect oil-on-water inventories to fall later this year as OPEC+ countries cut their production and exports and the US SPR sales end.

Upside scenario

Brent crude oil June 2023 target: USD 140–170/bbl

Upside risks to our forecasts include a large, long-lasting disruption of Russian crude production and destabilizing political events in oil-producing regions such as Libya, Venezuela, Nigeria, and the Middle East, which could trigger a sharp drop in supply for a sustained period. A faster-than-expected oil demand recovery as mobility picks up and a slow production response (i.e., increase) from the US would also be price-supportive.

Downside scenario**Brent crude oil June 2023 target: USD 50–80/bbl**

Downside risks include a sharp price increase over the coming months due to large disruptions in Russia, which could trigger a recession. Renewed extended mobility restrictions that weigh on the oil demand recovery are another risk. A potential hard landing of the Chinese economy in 2023 would also pose a downside risk as emerging Asia has been the engine of oil demand growth in recent years. Another concern is that capital discipline in the US could start to erode. Also, the return of oil production in Venezuela and Iran, which has been disrupted, could weigh on prices.

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Content is a product of the Chief Investment Office (CIO).

Original report - [Crude oil: High level of "oil on water", 22 November 2022.](#)

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