CIO continues to advise risk-taking investors to add long exposure via first-generation indexes or longer-dated Brent contracts, or to sell Brent's downside price risks.(UBS)

Crude oil: Still bullish, but near-term upside likely limited

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Though oil demand continues to remain strong, supply from several locations has surprised to the upside. We are therefore cutting our September and December oil forecasts by USD 5/bbl.

Many think oil prices are low because oil demand is weak. While demand growth in OECD countries has been lackluster in 1H23, this has been offset by strong demand growth in China, India, and the Middle East. But despite the solid demand recovery, global visible oil inventories did not fall in the first four months of this year because supply growth was also solid. Besides higher supply from Russia, as highlighted in our last report, the latest data from the Energy Information Administration has prompted us to raise our US supply forecast by around 0.2mbpd. Also, production in countries exempted from OPEC+ production cuts is running higher despite US sanctions. Production in Iran is close to 3mbpd, the highest level since late 2018, while Venezuelan production at 0.8mbpd stands at early 2020 levels.

However, we retain a positive outlook for oil prices as we see the oil market undersupplied thanks to the voluntary production cuts by OPEC+ countries implemented in May, and Saudi Arabia removing additional barrels from the market in July. Following a projected market deficit of 0.7mbpd in May, we expect a deficit of around 1.5mbpd in June and more than 2mbpd in July. Once these deficits become visible in on-land oil inventories, we expect oil prices to trend higher. We therefore continue to advise risk-taking investors to add long exposure via first-generation indexes or longer-dated Brent contracts, or to sell Brent's downside price risks.

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