Non-OPEC crude oil supply will be subdued in 2023

Non-OPEC crude oil production growth 2023

With all major oil producers except the Chinese majors, Sinopec and PetroChina, having updated their capital expenditure and upstream production plan for 2023, the non-OPEC+ supply growth for oil and gas of the 21 largest oil and gas producers is set to be around 700k boepd. This figure excludes private companies and 59% of it is oil production vs. 41% gas production. Considering that the Chinese majors will likely increase their production somewhat and private players might do so as well, let's assume non-OPEC oil production, excluding gas, is set to increase by around 600k bopd in 2023 (the Chinese majors mainly increased gas production last year by 4-11%, while keeping oil production relatively stable. They have massive shale oil and gas reserves discovered in recent years though, hence could become crucial in terms of future oil and gas supply). This, however, stands in contrast to OPEC's belief prior to the production estimates being published by that non-OPEC supply will climb by 1.4mio bpd. At the same time, we will see Russia cutting production by 500k bopd, while the US SPR release in Q2 23 will amount to 290k bopd. Taking into account that not all production growth from non-OPEC comes online in Q2 23 and the SPR release will stop in Q3 23, oil supply will therefore likely be pretty stable. On the other hand, according to the February OPEC monthly oil market report, oil demand will climb by 2.32mio bpd vs. IEA's estimate of 2mio bpd[1]. This leaves oil prices entirely in the hands of OPEC, which claim to have only 3.4mio bpd in spare capacity, of which only around 1.8mio bpd is of "short-order" spare capacity.

[1] https://www.iea.org/reports/oil-market-report-february-2023

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Non-OPEC+ capex & oil production FY 22 vs. FY 23

Company	FY 22 capex in $ mio	FY 23 capex in $ mio	FY 22 production boepd (000)	FY 23 production guidance (000) boepd	Oil production in %
Shell	8,143	8,300	2,864	2,900	63%
ExxonMobil	17,002	18,000	3,737	3,850	65%
BP	8,505	9,000	2,300	2,300	57%
Chevron	9,565	11,000	3,000	3,000	60%
ConocoPhilips	10,159	11,000	1,758	1,780	52%
TotalEnergies	10,027	11,000	2,296	2,500	64%
Eni	6,362	6,250	1,610	1,666	48%
Repsol	2,127	2,350	550	550	34%
Equinor	7,000	8,500	2,039	2,100	50%
Occidental Petroleum	3,844	4,500	1,159	1,180	53%
Pioneer natural resources	3,586	4,600	650	685	53%
Hess	2,487	3,700	376	360	61%
EOG	4,607	6,000	908	986	51%
Devon energy	2,600	3,700	636	650	50%
Diamondback energy	1,940	2,600	386	435	60%
Chesapeake energy	1,823	1,800	676	650	10%
Marathon oil	1,480	2,000	343	395	50%
Petrobras	11,000	13,300	2,684	2,600	80%
PEMEX	16,400	11,585	2,853	2,954	67%
Sinopec					
PetroChina					
Summary	**128,657**	**139,185**	**30,825**	**31,541**	**59%**

Source: Quarterly reports of individual companies

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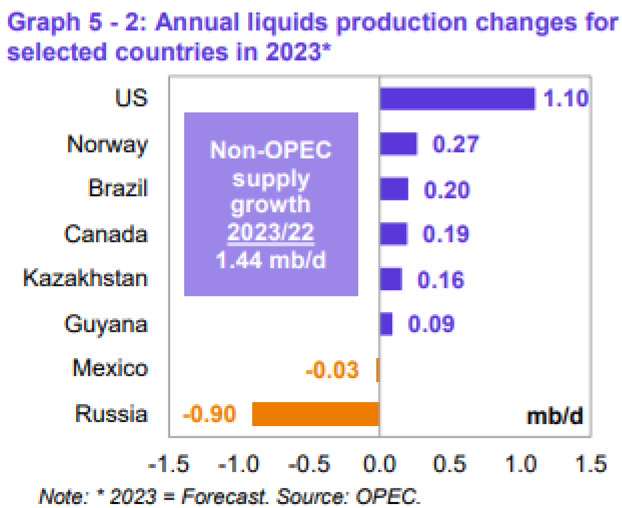

Source: OPEC February 2023 report

Rising inventories after price declines

Since we had Russia's first invasion of Ukraine (Crimea) in 2014, the subsequent price dynamics of crude oil is therefore a very important episode to learn from[2]. Back then, oil prices first consolidated towards the end of January 2015, rising slightly into the summer, before dropping further in H2 2015[3]. Since January 2023, US oil inventories ex-SPR have been building aggressively – at a rate that is consistent with past price declines and US$ strength. Therefore, the rise in inventories is consistent with past rises in inventories after a 6-month slump in oil prices. Different to 2014, US shale oil production is increasing at a much slower pace of around 6-700k bopd in 2022 vs. over 1mio bopd in 2014. The slump in US henry hub natural gas prices has already led Chesapeake Energy to reduce the number of planned drill rigs for 2023[4]. The production plans of US shale players also suggest further drilling slowdown – in contrast to OPEC's production growth forecast for the US.

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[2] https://www.eia.gov/finance/review/annual/
[3] https://www.aozorastep.com/2023%20Macro%20Outlook%20-%20Historic%20Analogies.pdf
[4] https://www.reuters.com/business/energy/chesapeake-energy-reduce-driling-lower-natural-gas-prices-2023-02-22/

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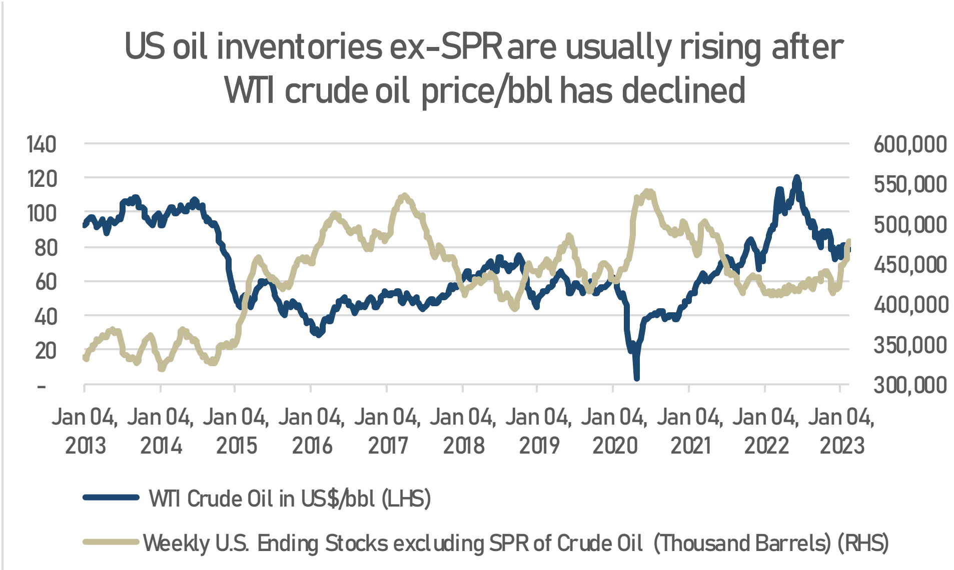

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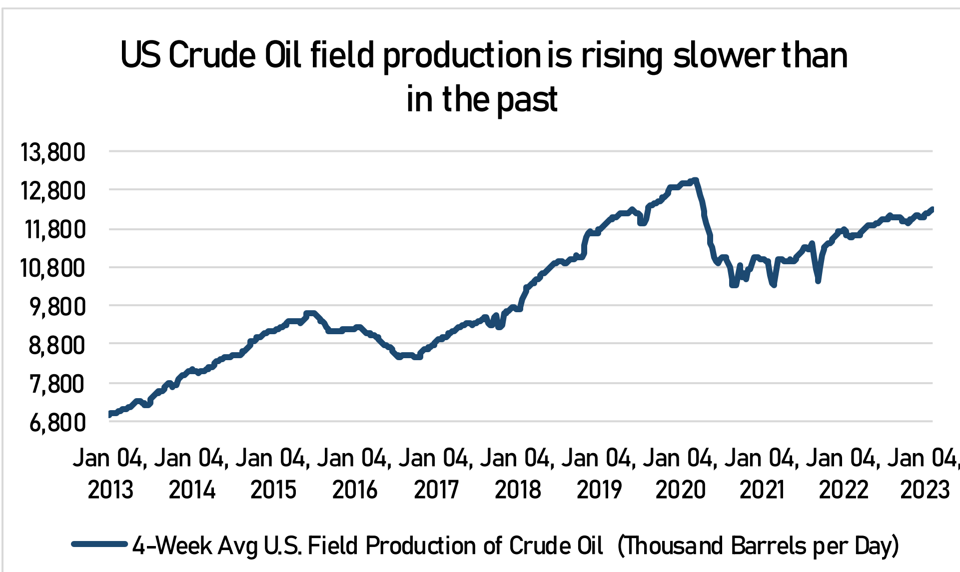

Source: EIA

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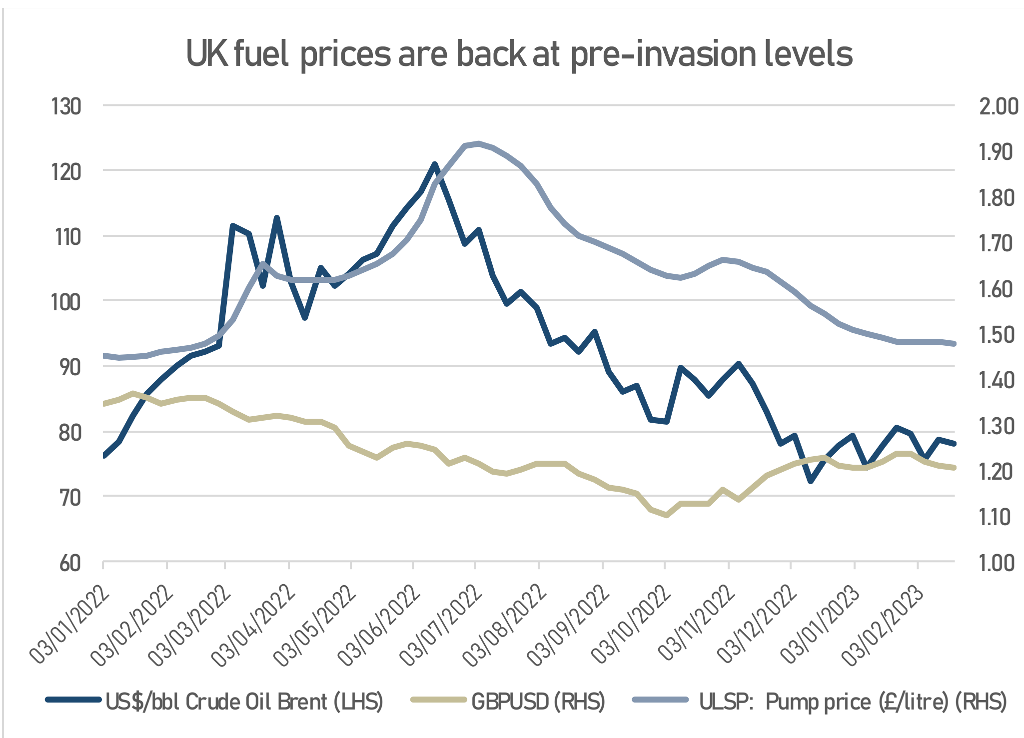
The difficulty of forecasting demand

December 2022 oil demand hit an all-time-high growing by 1.3mio bpd to 99.8mio bpd[5], mostly driven by 500k bpd from Japan and increased demand in South Korea and Indonesia[6]. However, there is a risk of this additional demand to subside as the winter ends, since much of this additional crude oil demand might have come from fuel switching amidst high gas prices and LNG being diverted from Asia to Europe. If OPEC's and IEA's demand growth forecasts of 2-2.32mio bopd in 2023 is correct, oil prices will likely increase again. In order for that to happen, we would need to see US$ weakness, US inventories to stop rising, and/or Russian output cuts to exceed 500k bopd. While all of these outcomes are somewhat hard to estimate, given the low production growth in 2023 and the low SPR inventory levels, oil prices are likely either to stay rangebound or move higher into the summer.



Source: FRED St. Louis, UK Gov.uk

[5] https://www.iea.org/reports/oil-market-report-january-2023
[6] https://www.ief.org/news/global-oil-demand-climbs-to-an-all-time-high-in-december-jodi-data

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