(UBS)

Are markets are underestimating oil demand growth?

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OPEC+ on Thursday extended the voluntary output cut by three more months until April 2025 and the full unwinding of cuts by a year until the end of 2026.

The decision marked the third time the oil-producing group has delayed adding barrels back to the market amid weaker-than-expected demand.

The outcome of the latest meeting of OPEC+ members surprised us positively. The main conclusions for us are the following: The extension of the production cuts shows the group remains united and is still targeting to keep the oil market in balance. The group still has a desire to bring back barrels over the coming year, but only if the market is able to absorb those additional barrels.

At the meeting, the eight member states with additional voluntary production cuts decided to extend the cuts by another three months. The first production additions are now planned for April. Additionally, the UAE agreed to delay the start of its quota increase of 300kbpd by three months, and the phase-in will now be implemented over 18 months versus nine months before. The eight countries still intend to bring back supply to the market starting from 2Q25, but the supply increase would be more gradual than before with the group planning monthly increases over 18 months (instead of 12 months before). The group reiterated its stance that these supply additions can be paused or reversed, depending on market conditions. The latest delay in the production increase also allows the group to get more clarity on the first policy decisions of US President-elect Donald Trump, in our view. Compensation cuts of countries which overproduced in the past remain a focus of the group. Lastly, all OPEC+ member states agreed to extend their production cuts by another 12 months until the end of 2026. We think this decision shows the group wants to continue to focus on its “precautious, proactive, and pre-emptive" market stance, aiming to keep the oil market in balance. The next ordinary ministerial meeting will take place on 28 May 2025, while the Joint Ministerial Monitoring Committee (JMMC) meeting will take place in February 2025.

Our view: We believe that markets are underestimating oil demand growth, with further interest rate cuts and fiscal stimulus measures likely to offset the associated economic growth drags from US President-elect Donald Trump's policy on tariffs. We also believe that US supply is unlikely to increase much next year amid the ongoing focus on capital discipline. With still elevated geopolitical risks and low positioning of financial investors, we continue to expect Brent crude oil to recover to USD 80/bbl in a roughly balanced market in the coming months.

For more, see **OPEC+ extends production cuts**, 6 December 2024.