Crude Oil demand slowdown

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Global oil market

The oil market focus recently has been on the demand side as growth weakens amidst uncertainty around the global economy. There has been a downward revision of prospects of oil demand for the rest of 2019 and 2020 by oil majors in the last few days.

In its monthly oil market report, **OPEC** has revised its estimates. The cartel expects world oil demand to grow by 1.02 million barrels per day (mb/d), which is 0.08 mb/d lower than last month's projection in 2019. The drop is attributed to weaker-than-expected data displayed during 1H19 (January- June) by various global demand centres and slower economic growth projections for the remainder of the year. Both OECD and non-OECD demand growth forecasts have been revised lower, by 0.03 mb/d and 0.05 mb/d, respectively. World oil demand growth in 2019 is now pegged at 1.02 mb/d, with total global consumption at 99.84 mb/d.

OPEC has also revised world oil demand forecast for 2020 which is projected it to increase by 1.08 mb/d (cut by 0.06 mb/d from the previous month's assessment). World oil demand growth in 2020 is now anticipated to reach 100.92 mb/d.

Along with OPEC, **EIA** too has revised its demand outlook for the remaining 2019. Global oil demand growth has been revised downwards to 0.9 mb/d which is 0.1 mb/d lower than the August forecast. Demand has been revised due to low GDP forecasts and lack of demand from OECD countries.

According to **BP,** global oil demand is expected to grow by less than 1 mb/d in 2019 as consumption slows. Mounting trade tensions between the United States and China and increased signs of global economic recession are also set to weigh on oil refining margins.

IEA on the other hand has stayed put their 2019 and 2020 global oil demand growth forecasts at 1.1 mb/d and 1.3 mb/d respectively but has noted that the demand growth in the first 6 months of this year came in at just 0.5 mb/d.

Indian oil market

In the current financial year India has imported 4.5 mb/d (April-July) of crude oil which is 0.1 mb/d less as compared with our import levels in the same corresponding period in the previous financial year. The compliance of US sanctions on Iran, May 2019 onwards has led to a decline in India's imports. Iran was India's third largest crude oil supplier.

Despite the decline of crude imports which is supposed to be considered favourable for the Indian economy, import dependency based on consumption has increased from it being 83.4% to 84.9%.

Fall in crude imports has led to the domino effect of decline in the country's crude consumption and increase in the overall imports of petroleum products. Crude oil processed by Indian refineries has declined by 2.3% and the overall imports of petroleum products have increased by 22.5%. There has been a sharp increase in petrol and diesel imports by 298% and 363.5% as well in order to make up for the subdued refining activities.

Table: Oil Statistics

			Change (y-o-y)	
	2018-19*	2019-20*	2018-19	2019-20
Crude Oil Consumption (mb)	633	618	6.0%	-2.3%
Oil Imports (mb)	559	548	7.4%	-2.0%
Total Petroleum Products Imports (TMT)**	11,029	13,515	-9.1%	22.5%
MS Imports (TMT)	164	653	-5.6%	298.0%
HSD Imports (TMT)	1232	900	-84.2%	363.5%

Source: PPAC

*April-July ** & Others in import include Paraffin wax, Petcoke, Petroleum Jelly, Aviation Gas, MTBE, Reformate etc. mb- million barrels TMT thousand metric tonnes

According to the oil ministry, crude oil imports from the OPEC decreased to 78% of total imports during first 4 months of FY20 compared with 83.2% during the corresponding period a year ago. On the other hand India's crude oil imports from the US have increased by 213% in the same time frame.

Outlook for FY20

India has so far consumed 5.1mb/d in the current financial year. **If the same trend is to continue we expect crude consumption to fall by 1.2% and imports of crude oil to decline by 1.1% during FY20.**

- In in the start of the year we had estimated the processing of crude oil is to rise by 3.7% to 1,956 million barrels which was to lead an increasing in crude oil imports by 3% to 1,711 million barrels during FY20.
- Given the disruption of supply from Iran and Venezuela and slowdown in the demand prospects in general we need to cut our forecasts. Cumulatively crude oil processing/consumption to be 1862 mb and imports to be 1643 mb by the end of FY20.

We believe the **price of Brent crude oil will be range bound between USD 60-65/bbl** in the coming few months.

- US production is to continue rising given the strong sentiment displayed by the current US government to keeps a cap on gasoline prices considering the next year is election year.

- The sentiment hovering around the US-China trade war is translating into an economic slowdown which is also aiding in suppressing the oil prices. There seems to be no talks about de-escalating the trade war between the two economies.
- The only upside risk for prices to rise could be a deeper production cut proposed by the OPEC+ in their December 2019 meeting. The weaker outlook amid a U.S.-China trade war and Brexit could press the case for OPEC and its allies to initiate deeper production cuts.

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