

OPEC World Oil Outlook 2040

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Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022- 6754 3489

Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
91-22-6754 3492

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

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Overview

The Joint OPEC-non-OPEC Ministerial Monitoring Committee (JMMC) had assembled for a meeting to review the short-term developments in the global oil market and prospects for 2019.

It was noted that despite growing uncertainties surrounding the market fundamentals such as economy, demand and supply, the participating producing countries of the Declaration of Cooperation (DoC) have achieved a conformity level of 129% in August 2018, and 109% in July 2018, which shows reasonable progress towards the adjustment of the overall conformity to 100%. With this the rate of inventory drawdowns has also been reversed and countries with spare capacities are urged to work with customers to meet their demand during the latter half of 2018.

NOTE: OPEC and its allies had initially decided to cut production by 1.8 million barrels per day till the end of 2018 but due to tightening of oil supply, OPEC and its allies had decided to increase production by 600,000- 1 mn barrels a day at least till September, 2018.

OPEC also released has World Oil Outlook (WOO) 2040 report.

Some specific highlights and key takeaways from this year's WOO include:

- Oil is expected to remain the fuel with the largest share in the energy mix throughout the forecast period to 2040.
- World supply of all hydrocarbons (primarily oil and liquified natural gas) is to rise from a current 98.4 million barrels per day (mbd) to 104.5 million by 2023, and 111.9 million by 2040, driven by rising production led by the United States.
- Total primary energy is set to expand by 33% between 2015 and 2040, driven predominantly by developing countries, which will experience almost 95% of the overall energy demand growth.
- Natural gas will witness the largest demand growth in absolute terms, and renewables the largest growth in percentage terms.
- Long-term oil demand has been revised upward for the second consecutive year, with total demand at over 111.7 mb/d in 2040.
- Demand growth will be driven by non-OECD regions, which will witness substantial increase of around 23 mb/d to 2040.
- Long-term demand growth will mainly be driven from the petrochemicals (4.5 mb/d), road transportation (4.1 mb/d) and aviation (2.7 mb/d) sectors;

- The total vehicle fleet – including passenger and commercial vehicles – is projected to increase to around 2.4 billion in 2040.
- The majority of the growth continues to be for conventional vehicles, but the long-term share of electric vehicles in the total fleet is projected to expand and reach a level of around 13% in 2040, supported by falling battery costs and policy support.
- Non-OPEC liquids supply is forecast to increase by more than 9 mb/d between 2017 and 2027, with the major driver being US tight oil. However, beyond this period non-OPEC supply is set to decline by around 4 mb/d.
- The demand for OPEC crude is projected to increase to around 40 mb/d in 2040, up from 32 mb/d in 2018.
- The share of OPEC crude in the global oil supply is estimated to increase from 34% in 2017 to 36% in 2040.
- Global refinery additions are projected mainly in developing regions, led by the Asia-Pacific and the Middle East, but also Africa and Latin America.
- Fast evolving trade patterns for crude oil and refined products will continue to evolve, driven initially by additional flows from the US & Canada and in the long-term by the Middle East, mostly attributed to increasing imports to the Asia-Pacific.
- In the period to 2040, the required global oil sector investment is estimated at \$11 trillion.
- Energy poverty remains a major global challenge, with almost one billion people still without access to electricity and three billion lacking access to clean fuels for cooking.

CARE Ratings Views and Outlook

*Given the current oil market scenario, we believe prices of crude oil are to rise around **USD 78/bbl -USD 80/bbl** unless the number of rigs deployed by the by the United States, are increased. Going forward, if the current market conditions continue, once the sanctions on Iran are implemented, **post November 4th, 2018 prices of oil are likely to go even higher given an expected drop in supply from major producers Iran and Venezuela and political and price escalation prevailing in the markets.***

CORPORATE OFFICE:

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

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