

IEA 2019: Crude oil analysis, views and forecasts till 2024

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Overview

According to the IEA, global oil markets are going through a period of change with the United States leading the increase in global oil supplies (sweet crude). The production of heavier crude grades is being restricted because of the sanctions imposed on Iran and Venezuela by the USA and production cuts undertaken by key producing countries.

Although the United States had the largest increase in global demand in 2018, growth continues to move away from developed economies to a Asia. There was relatively lower growth in consumption of oil products for transport and more for petrochemicals.

IEA Crude oil forecasts in a nutshell: The Market in 2024

- United States will account for 70% of the increase in global production capacity by 2024. The increase would be 4 mb/d.
- US output to rise to 19.6 mb/d.
- Important contributions will also come from other non-OPEC countries, including Brazil, Canada, Norway and Guyana, which together will add another 2.6 mb/d in the next five years. In total, non-OPEC production is set to increase by 6.1 mb/d.
- OPEC's effective production capacity will fall by 0.4 mb/d by 2024, factoring the sanctions on Iran and Venezuela.
- The US shale revolution will be instrumental in transforming the United States into a major exporter. Gross exports will reach 9 mb/d, overtaking Russia and catching up on Saudi Arabia.
- China and India will account for 44% of the 7.1 mb/d growth in global demand expected in 2024. By 2024, India's oil demand growth will match China.
- Growth in demand for plastics and aviation will fuel the demand for petrochemicals and jet fuel.
- More than 50 major projects are to come on stream in the United States and China by 2024 accounting for 30% of global growth. These are expected to add 2.2 mb/d in oil consumption over the forecast period.
- Rising incomes in developing countries, more airports being built and growing airline fleets will support the demand for jet fuel. Asia will account for 75% of this increase in the forecasted period.
- Gasoline demand to be subdued and grow less 1% per year due to the ongoing efficiency improvements. However In developing countries the rate will be twice as high, as rising income levels will lead to more vehicles on the road.

- The refining industry capacity will grow around 9mb/d by 2024 and China will overtake the United States to become the global leader in installed capacity.
- The availability of heavier crude from several countries is in doubt due to production cutbacks and geopolitical challenges. (Venezuelan and Iranian crude is relatively the heavier crudes in the market). United States will be in prime position as a supplier of light crude oil that are in growing demand, given at the same time the demand for fuel oil will fall and rise for petrochemicals.
- Shale oil will also help meet the new IMO requirements and provide the quantities of naphtha required for the petrochemicals industry.

A change in supply dynamics

The United States is leading the global crude oil supply and will continue to dominate supply growth in the medium term as well. In 2018, the total liquids production increased by 2.2 million barrels per day (mb/d). Going forward the United States will account for 70% of the increase in global production capacity until 2024, adding a total of 4 mb/d. (to 19.6 mb/d)

Important contributions will also come from other non-OPEC countries, including Brazil, Canada, Norway and Guyana, which together will add another 2.6 mb/d in the next five years. In total, non-OPEC production is set to increase by 6.1 mb/d through to 2024.

Among OPEC countries, only Iraq and the United Arab Emirates have significant plans to increase capacity. These gains have to offset steep losses from Iran and Venezuela, which are subject to sanctions and political or economic turmoil. As a result, OPEC's effective production capacity falls by 0.4 mb/d by 2024.

The United States will turn into a major player in the global oil trade

Given the rise in oil production, the United States will become a net oil exporter in 2021, as the growth in exports of crude and products will exceed its imports. Towards the end of forecast, US gross exports will reach 9 mb/d, overtaking Russia and catching up on Saudi Arabia. The transformation of the United States into a major exporter is another consequence of its shale revolution.

Greater US exports to global markets strengthen oil security around the world. Buyers of crude oil, particularly in Asia, where demand is growing fastest, have a wider choice of suppliers. This gives them more operational and trading flexibility, reducing their reliance on traditional, long term supply contracts.

The second-largest increase in crude exports will be from Brazil which will ship an extra 0.8 mb/d of oil by 2024. Norway will overtake Kazakhstan and Kuwait in the next five years.

Where will demand emanate from?

Fundamentally, oil demand depends on the strength of the global economy. Recently, the International Monetary Fund (IMF) downgraded its short-term outlook, reflecting weaker economic sentiment in many countries. On-going trade disputes between major powers and a disorderly Brexit could lead to a reduction in the rate of growth of international trade and oil demand. But while the economic mood is not encouraging, we expect oil demand to grow in our forecast, although at a more measured pace.

A key factor underpinning demand growth is that leading developing economies will continue to expand. China and India will account for 44% of the 7.1 mb/d growth in global demand expected to 2024. Despite its recent slowdown, China's GDP

has more than doubled in real terms in the past decade and is still growing at a healthy clip. Income levels have grown sharply and the structure of oil demand is moving away from heavy industrial sectors towards consumer needs. As for India, while its GDP per capita is still only a fifth of China's, it is growing more strongly: By 2024, India's oil demand growth will match China.

A change in demand dynamics: Petrochemicals and jet fuel will be the stalwarts of demand growth

Around the world, despite efforts to curb plastics use and encourage recycling, demand for plastics and petrochemicals is growing strongly. Led by the United States and China more than 50 major projects are due to come on-stream through 2024. These are expected to add 2.2 mb/d in oil consumption over the forecast period, accounting for 30% of global growth.

The other major growth sector is aviation. In recent years, the air travel industry has witnessed a spectacular expansion due to rising passenger numbers. Demand will continue to grow strongly, supported by rising incomes in developing countries, more airports being built and growing airline fleets. Asia accounts for 75% of this increase over our forecast period. In absolute terms, while China would witness the largest jump in demand and India would post the fastest rate of growth of 8.2% a year. At the same time, efficiency improvements and fast-expanding markets reaching maturity will temper the increase in the global jet fuel market.

As for gasoline, ongoing efficiency improvements will cause the global rate of growth to slow to less than 1% per year. In developing countries, however, the rate is twice as high, as rising income levels lead to more vehicles on the road.

The IMO regulations: Shippers and refiners prepare to comply

The 2020 IMO marine regulation change will be one of the most dynamic changes seen towards product specifications. The industry players seem to be in a strong position to adjust in the medium term with the largest incremental volumes coming from the United States, the Middle East, and China.

The orders for scrubbers to be fitted on ships have increased and as per IEA analysis refiners' plans suggests that when the demand for high sulphur fuel oil plummets, there will be enough availability of marine gasoil.

Prices for gasoil could rise at first as demand from the marine sector increases which will be countered by sluggish growth from inland sources of demand. Meanwhile, unwanted high sulphur fuel oil could find a home in the power sector, with the Middle East a likely market. Refiners will face twin challenges: A capacity boom, and changes in crude and product quality.

The refining industry is facing a wave of new capacity additions in the period to 2024, with a net growth of about 9 mb/d. China will overtake the United States to become the global leader in installed capacity.

While the global average crude oil barrel produced remains predominantly a medium gravity sour grade, the availability of heavier crude from several countries is in doubt due to production cutbacks and geopolitical challenges. At the same time, the average global product barrel is getting lighter as fuel oil demand falls and petrochemicals grow in importance. As a result, the United States will be in prime position as a supplier of light types of crude oil that are in growing demand. Shale oil will also help meet the new IMO requirements and provide the quantities of naphtha required for the petrochemicals industry.

CARE Ratings Views and Outlook

We believe the price of Brent crude oil will range bound and not fall below USD 65/bbl and also not exceed USD 70/bbl in the coming few months.

- The United States has always been able to increase crude oil production to bridge the supply outages in the economy, which will ensure the prices will not rise above resistance of the USD 70/bbl mark.
- The sanctions on Iran and Venezuela, production cuts undertaken by the OPEC+ group and a stronger economic sentiment displayed by the Chinese economy will not let the prices fall below the support of USD 65/bbl price levels.

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