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THE OPEC REPORT

The COVID-19 pandemic and related restrictions slashed global oil demand. In March 2020, oil prices saw the largest drop since the 2008 financial crisis. The OPEC shared its findings on the hydrocarbon market in its April report.

In this situation, the term structure of all three crude benchmarks moved to a super contango (where the spot price is trading dramatically below the futures price) due to the pressure of unsold stock and growing reserves on the spot prices.

The tanker market was one of few segments that enjoyed positive momentum in March. Excess supply of both crude oil and petroleum products in the market drove up the demand for time-chartering, including floating storage. In March, the VLCC freight rate increased by 69% month-on-month.

End of the epidemic does not mean economic recovery

The pandemic has created unique macroeconomic conditions radically different from those that triggered crises in the past. A dramatic drop in consumption coupled with the inability to suspend oil production pushed the stock indices down. Today, 80% of the global economy is in recession, with production capacities staying idle.

THE TANKER MARKET WAS ONE OF FEW SEGMENTS THAT ENJOYED POSITIVE MOMENTUM IN MARCH. EXCESS SUPPLY OF BOTH CRUDE OIL AND PETROLEUM PRODUCTS IN THE MARKET DROVE UP THE DEMAND FOR TIME-CHARTERING, INCLUDING FLOATING STORAGE

According to experts, the global trade will shrink by 1.5% by the end of 2020, compared to 2.9% year-on-year growth demonstrated by the global economy in 2019. The OECD expects the US economy to contract by 4.1% in 2020 following a 2.3% growth in 2019. The Eurozone will be hit even harder, expecting a 6% decline in 2020, compared with a 1.2% growth in 2019. Similar forecasts are given by the OECD for other key economies.

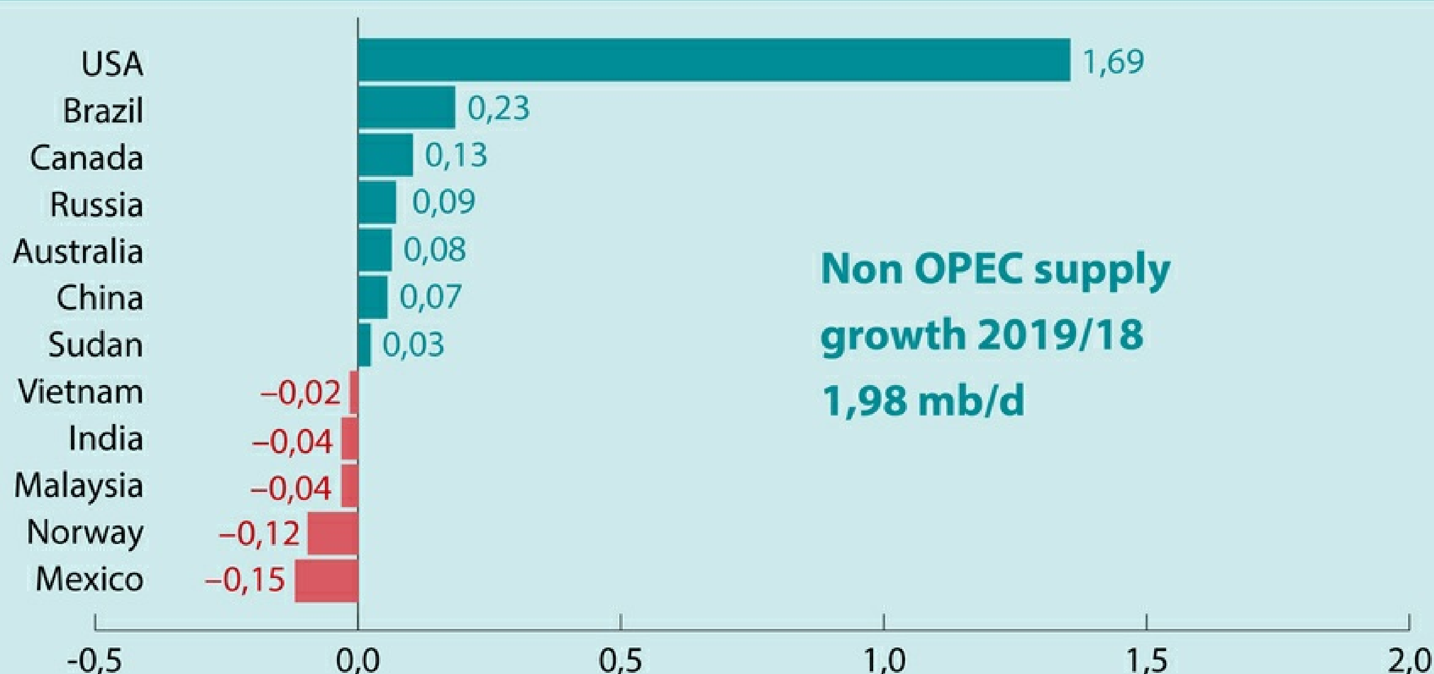
Asia will drive the global economy

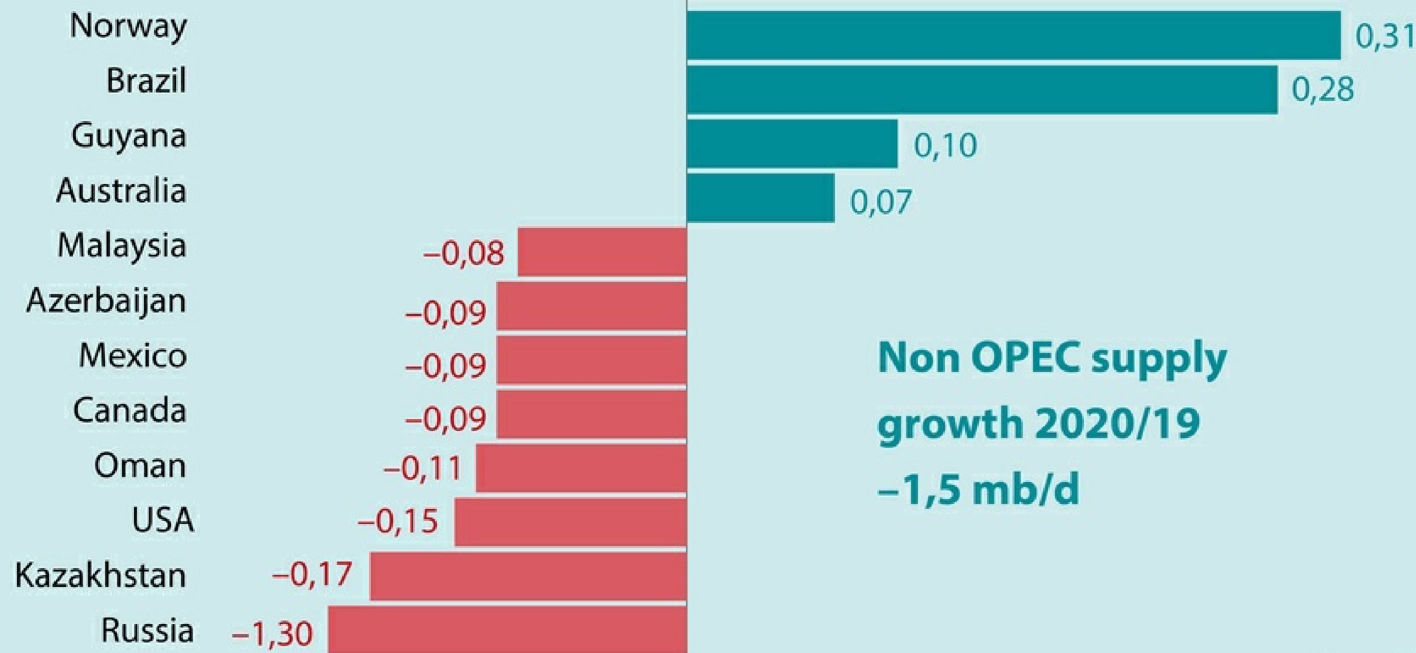
In 2020, global GDP will decline by 1.5%. Yet, the GDPs of China and India are expected to increase by 1.5% and 2%, respectively.

Most countries are anticipated to embark on recovery only in the second half of Q3 2020 and return to normal economic activity not before Q4 2020. The manufacturing purchasing managers' index (PMI) in China entered the positive territory in March, coming in at 50.1 after a decrease to 40.3 in February. With that, China may be well positioned to lead the way in the recovery. It appears that China's PMI has passed the lowest point and is on its way up unless a second wave strikes.

No relatively high oil prices soon

Market experts agree that there is no reason to expect an increase in oil prices in the near future. The trend is influenced by the global economic recovery, the supply and demand balance and the factors offsetting the impact of the oversupply. However, the economic crisis will continue through the end of the lockdown. The oil market is not expected to stabilise until 2H 2020.





IN 2020, GLOBAL GDP WILL DECLINE BY 1.5%. YET, THE GDPS OF CHINA AND INDIA ARE EXPECTED TO INCREASE BY 1.5% AND 2%, RESPECTIVELY

In an effort to alleviate the current stark global oil market imbalance, OPEC and non-OPEC countries agreed to adjust downwards their overall crude oil production by 9.7 mbpd, starting on 1 May 2020, with further reduction by 7.7 mbpd starting July and by 5.8 mbpd from the beginning of 2021. The agreement entailed a slight increase in the oil prices. A number of non-OPEC countries are expected to follow additional production restrictions. The total global production decrease may reach ca. 19 mbpd. But these measures have not been able to stabilise the situation yet. The OPEC expects the oil demand in 2020 to drop by a record 6.85 mbpd or 340 mtpa, with the developed countries accounting for almost 60% of it (4 mbpd or 200 mtpa). The organisation calls it a historic decrease. The demand will contract by ca. 12 mbpd in Q2 2020, ca. 6 mbpd in Q3 2020 and ca. 3.5 mbpd in Q4 2020. OPEC oil production in 2020 will amount to 24.5 mbpd, decreasing by ca. 5.4 mbpd year-on-year. Non-OPEC producers will cut output by 1.5 mbpd (75 mtpa) in 2020, with Russia taking the biggest cut.

The OPEC forecasts a global oversupply of 15 mbpd (186 mt) in Q2 2020. Further market developments and price growth potential depend on the vacating storage space and reduced excesses, which would balance supply and demand, OPEC experts note cautiously. At the same time, they point out that impacts of a number of factors cannot be estimated yet. Particularly, there is no reliable information on when the lockdown will be lifted in various countries and what recovery rates may be expected in different industries. There are also no competent assessments of how the logistics and online trade affect the economy in general and the demand for hydrocarbons during the pandemic. Experts noted the growth of the so-called online economy, but hesitate to assess its overall impact.

The OPEC expects the oil demand in 2020 to drop by a record 6.85 mbpd.

THERE IS SOME GOOD NEWS AS WELL – IN 2021, OIL DEMAND IS EXPECTED TO INCREASE

There is some good news as well – in 2021, oil demand is expected to increase. But by how much? The OPEC promises it will issue a forecast by July, once it has assessed the government support for the industry, price levels, the pace of global economic recovery, and other factors. In any case, the expected growth will be measured from the very low base of 2020.

Global decline in CAPEX on upstream projects

Amid oversupply in 2020, the global investment into exploration and production is expected to shrink. With oil prices stabilising at USD 34 per barrel, Rystad Energy expects a 17%, or USD 93 bn, drop in investment this year, bringing the total CAPEX to USD 450 bn and marking the biggest decline in 13 years. If oil price keeps at USD 25 per barrel, the global investment may shrink to USD 380 bn in 2020 and USD 300 bn in 2021, the greatest decline in 14 and 15 years, respectively.

The production costs are expected to contract by 15–20% this year, signifying a USD 80–100 bn year-on-year decrease in investment. A number of large producers have already adjusted their investment portfolios to protect their funds during the crisis. For instance, ExxonMobil is considering at least a 20% percent reduction in investments. Shell is also cutting its investment programme by 20% this year, and BP has announced a similar step.

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