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OPEC**





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The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the **International Monetary and Finance Committee (IMFC)** on current oil market conditions and developments.

In **2020** the **global oil market** has experienced an unprecedented caused by the outbreak of the **COVID-19** global pandemic, leading to domestic and international travel restrictions, social-distancing measures and entire country lockdowns. The various measures to contain the spread of the pandemic have caused a severe contraction in economic growth and a massive oil demand shock. Global oil demand shrank by about **17 mb/d** in **2Q20**, which has led to extreme volatility in oil prices, with the market seeing a negative oil price for the first time ever.

However, **market fundamentals** have improved significantly from the **2Q20** turmoil, and the oil market rebalancing process is underway. This is thanks to the critical role of the countries participating in the **Declaration of Cooperation (DoC)**, who have voluntarily adjusted downward their overall crude oil production, thereby contributing to bringing more stability to the global oil market. Participating countries in the **DoC** continue to strive to support oil market stability in the face of the **COVID-19** pandemic. Furthermore, the global economy and oil demand have shown signs of a recovery in most regions, amid easing virus-related restrictions and increasing mobility, although this remains at lower levels than before the onset of the pandemic.

**Global oil market conditions** are expected to recover further in the **4Q20** and in **2021**. Nevertheless, uncertainty remains high, as the global number of infections continues to rise while the recent resurgence of infections in several countries has raised concerns about a second wave leading to mobility restrictions and, in some cases, renewed lockdowns.

The **global economy** has witnessed exceptional challenges in **2020**. After a tentative pick-up at the start of the year, the emergence of the **COVID-19** pandemic has led to a broad-based economic disruption across the world and in all sectors. The lockdown measures brought the global economy to a virtual standstill between the middle of March and the middle of May. This is reflected in the sharp decline in global economic growth in **1H20**, with an estimated contraction of more than **5% year-on-year (y-o-y)**. This also heavily impacted the energy market, with huge demand drops and crude oil prices hitting historical lows in April. Since mid-May, lockdown measures have gradually eased. Curbed demand and forced **1H20** savings, in combination with exceptional fiscal and monetary stimulus, are now supporting a strong **2H20** global economic recovery,



although this will not be able to compensate for the large decline in **1H20**. As a result, **2020 global GDP** is forecast to decline by **4.1%**. China is expected to be the only major economy showing growth this year, although the recovery in the US and Euro-zone appears to be gaining traction. This momentum is forecast to carry over into **2021**, when global growth is forecast to reach **4.7%**. Given the ongoing global economic challenges, the oil sector recovery, supported by the efforts of OPEC and non-OPEC oil-producing nations participating in the **DoC** to rebalance and stabilize the market, will be of vital support in helping to buttress global economic developments.

This forecast considers no substantial worsening of the **COVID-19** crisis. However, given the current rise in global infections, this remains uncertain. A lasting solution to **COVID-19** – an effective treatment, a vaccine or its natural end – may provide upside to the current forecast. Major risks that could dampen the current growth forecast beyond **COVID-19** related developments include negative consequences of high debt levels, ongoing geopolitical risk, trade-related challenges, and the possibility of a disorderly Brexit.

In terms of geographical breakdown, the **OECD** group of countries saw an unprecedented **9.8%, quarter-on-quarter (q-o-q)**, drop in **2Q20**, following a **1.8%, q-o-q**, GDP decline in **1Q20**. As lockdown measures have eased, a recovery has become visible. Labour market improvements and a recovery in consumption suggest the **US** economy may suffer less than others in the OECD, despite the large number of infections. **US** GDP is forecast to decline by **5.1% in 2020**, followed by growth of **4.1% in 2021**. The **Eurozone's** economy is gaining some momentum, but it is still forecast to decline by **7.7% in 2020**, before an expansion of **4.3% in 2021**. **Japan** is forecast to decline by **5.5% in 2020**, but the **2021** rebound is anticipated to gain less traction than others in the OECD, with growth at **3.2%**.

In the **emerging economies**, **China** has managed to minimise the impact of **COVID-19**, leading to expected growth of **1.8% in 2020** and **6.9% in 2021**. **India's** economy has been significantly impacted, not only by lockdown measures, but by the continuing uncertainty amid the stark rise of **COVID-19** infections. India's GDP is forecast to decline by **6.2% in 2020** and recover to **6.8%** growth in **2021**. **Brazil's** GDP growth in 2020 is forecast to decline by **6.5%** and grow mildly by **2.4% in 2021**, impacted by ongoing domestic challenges and external trade. **Russia's** economy is forecast to decline by **4.9% in 2020**, but then benefit from the oil market recovery with expected growth of **2.9% in 2021**.



For **2020**, **world oil demand** growth is estimated to show a historic decline of around **9.5 mb/d**. The **COVID-19** pandemic has had an unprecedented impact on oil requirements, in particular **transportation fuels**, in both OECD and non-OECD. Lockdowns in many areas have substantially reduced distances travelled and thereby negatively affected gasoline demand growth in all consuming countries, particularly the US. Historically high unemployment rates also exacerbated the impact of the pandemic. **Aviation fuel** has been facing serious demand challenges this year, as airlines have grounded fleets in response to airport closures and there have been significant reductions in flight operations. Additionally, **industrial fuels** have been negatively impacted by the steep global recession in **2Q20**, but have started to show signs of improvement thereafter. A sluggish recovery in product consumption expectations for **4Q20**, particularly transportation fuels, is forecast. **OECD** oil demand is projected to decline by **4.8 mb/d** while **non-OECD** is projected to drop by **4.7 mb/d**. Total global oil demand is estimated at **90.2 mb/d**.

In **2021**, **oil demand** is projected to partially recover to historically high growth of around **6.6 mb/d, y-o-y**. Total liquids demand is projected to reach **96.7 mb/d**. Demand for oil is expected to see significant y-o-y developments, however, this will remain far below pre-**COVID-19** levels. Encouraging improvements in economic momentum compared with the current year are assumed to be the driving factors behind increasing demand in 2021. The current 2021 outlook assumes no further substantial **COVID-19** outbreaks.

In **2021**, the **transportation sector** is forecast to account for the bulk of gains, followed by the **petrochemical** and **industrial** sectors. Conversely, ongoing efficiency gains in various sectors in both OECD and non-OECD countries, increased teleworking/teleconferencing, including technological developments, petroleum product displacement policies and subsidy reductions, are assumed to limit oil demand gains.

The **OECD** is forecast to add around **3.3 mb/d, y-o-y**, in all sub-regions, though mostly in OECD Americas. In the **non-OECD** region, growth in petroleum product demand is projected to reach **3.3 mb/d, y-o-y**, with Other Asia and China together growing by more than **2.1 mb/d, y-o-y**. **Gasoline** and **diesel** are anticipated to record the highest y-o-y gains by more than a combined **4.0 mb/d**. **Jet fuel** is projected to partially recover, though intercontinental flights are expected to remain under pressure for the whole of **2021**. Travelling and commuting is forecast to continue to be muted, affecting transportation fuel demand in general.



In **2020**, **COVID-19**, the ensuing global economic recession and oil demand reduction are forecast to also impact **world oil supply** substantially. Oil companies have announced reductions in planned capital expenditure amid sharp declines in oil price levels. Global **E&P spending** is now forecast to drop by **28%, y-o-y**, to **\$383 billion**, the **lowest level since 2005**, while it was expected to remain flat y-o-y. Following the drastic drop in oil production in **2Q20**, non-OPEC liquids supply for **2020** is now forecast to decline by **2.7 mb/d** from a year ago. Despite supply losses in **2Q20** in the wake of the **COVID-19** pandemic, the decline in non-OPEC supply has been much smaller than the drop in oil demand. A recovery in non-OPEC supply has already begun in the US, Canada and Latin America in **3Q20**.

For **2021**, a gradual recovery in oil demand as well as oil prices could prompt non-OPEC producers to return shut-in wells, particularly in North America, despite prevailing circumstances surrounding spending. Non-OPEC liquids supply is forecast to grow by **1.0 mb/d**, with the main drivers expected to be the **US** with **0.4 mb/d**, followed by Canada, Brazil, and Norway. The majority of this growth represents a recovery of production from 2020, rather than new projects. Given the fluidity of ongoing developments, the non-OPEC supply forecast for 2021 faces a large degree of uncertainty.

Meanwhile, **OPEC NGLs and non-conventional liquids** production is estimated to decline by **0.1 mb/d in 2020**, and is forecast to grow by **0.1 mb/d** to average **5.2 mb/d in 2021**. In August 2020, OPEC crude oil production increased by **0.76 mb/d**, m-o-m, to average **24.05 mb/d**, according to secondary sources.

**OECD commercial oil stocks** fell by around **25 mb, month-on-month (m-o-m)** in August **2020** to stand at **3,200 mb**. This was **215 mb** above the latest five-year average. Within the components, **OECD commercial crude stocks** fell by **31 mb**, m-o-m, ending the month at **1,578 mb**, which was up **77 mb** above the latest five-year average. **OECD total product inventories** increased by **6.0 mb**, m-o-m, in August to stand at **1,651 mb**, around **140 mb** higher than the latest five-year average. It should be noted that from the start of the year to date in August, there has been an accumulation of around **309 mb** in OECD commercial oil stocks and more than double this amount in inventories outside OECD. In terms of **days of forward cover**, OECD commercial stocks dropped by **1.2 days**, m-o-m, in August to stand at **71.2 days**. This was **8.3 days** above the latest five-year average.



In closing, **OPEC** would like to take this opportunity to reaffirm its **long-standing commitment to supporting oil market stability** for the mutual benefit of consuming and producing nations. In the midst of the unprecedented crisis, the countries participating in the **Declaration of Cooperation** have once again demonstrated their unswerving dedication to pursue stabilization of the oil markets. In negotiations headed by OPEC, this group of producing countries has committed to **far-reaching production adjustments** that are scheduled to last well **into 2022** in an effort to contribute to restoring healthy oil market fundamentals and once again bring forward balance to the oil market in support of the global economy.