Back To The Future

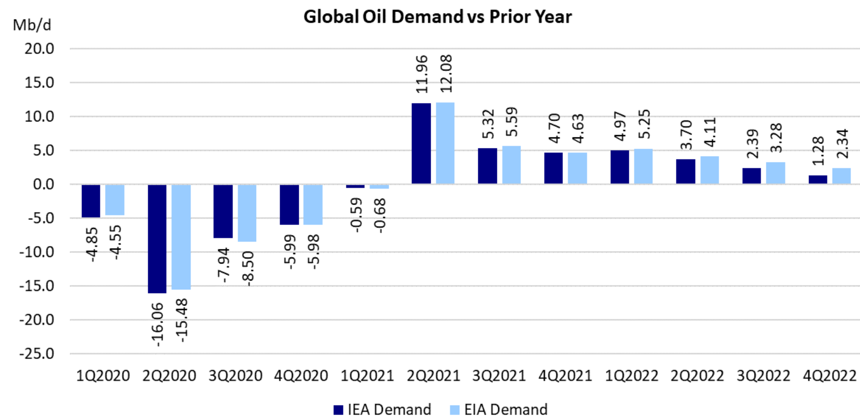
By the end of 2022, oil demand should exceed 2019 levels

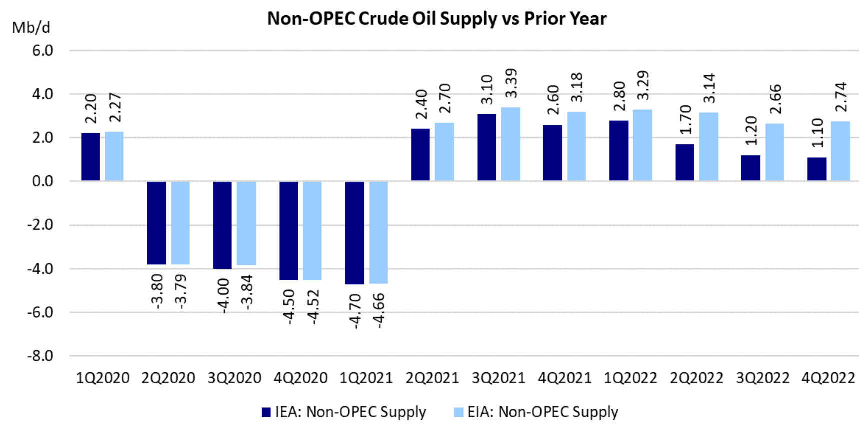
This morning, the International Energy Agency (IEA) came out with their June Oil Market Report (OMR). In this report, the IEA expands their forecast horizon by a year and the agency is now providing a forecast through the end of 2022. The U.S. Energy Information Administration (EIA) already put out numbers for next year. In this Weekly Tanker Opinion, we will compare and contrast the IEA and EIA numbers to see what they expect for the oil markets. We will also try to interpret the implications for the tanker market.

The IEA forecast is a recovery and rebound story. As the world slowly, but surely recovers from the Covid-19 pandemic, world oil demand rebounds. The IEA expects global oil demand to grow by 5.4 Mb/d in 2021 and rise a further 3.1 Mb/d in 2022. At the end of next year, the IEA expects oil demand to be back at pre-pandemic levels. The products that were hit the hardest by the virus, jet fuel and gasoline, will see the largest increases. The EIA has the same global demand growth forecast for 2021 (+5.4 Mb/d) but is slightly more optimistic for 2022 (+3.6 Mb/d).

In terms of oil balances, the big question is how much non-OPEC will add to global oil supply. Assuming inventory builds and draws will even out over time, the "call on OPEC" is determined by global oil demand minus growth in non-OPEC production. Here the forecasting agencies have a different view: the U.S. EIA is more optimistic on growth outside of OPEC. In 2021, the EIA expects 1.16 Mb/d growth from non-OPEC (vs. the IEA's 0.86 Mb/d) and in 2022 it is 2.95 Mb/d versus 1.70 Mb/d. Both agencies are bullish on the Americas for 2022, but the analysts from the EIA expect more production growth from Russia and Brazil next year than their counterparts from the IEA. As their demand forecasts are quite similar, this means that differences in non-OPEC production between the agencies will translate into a very different view on how much oil is required from OPEC.

According to the IEA, the "call on OPEC" for 2021 is 4.4 Mb/d higher than in 2020 and 2022 shows an increase of another 1.1 Mb/d. However, comparing 2021 with 2020 is somewhat misleading because OPEC (and non-OPEC) produced a lot more oil than required in the early stages of the pandemic (2020 Q2). This extra oil filled inventories worldwide (including floating storage). In other words, a significant portion of the 4.4 Mb/d increase was already produced in the first half of last year and then gradually released from storage in the second half of 2020 and the first half of this year. Pre-pandemic, year-over-year oil demand increases were primarily focused on Asia, but this year and next, a significant portion of the increase is due to a demand recovery in the OECD countries, which are able to vaccinate their population more quickly. In 2021, OECD oil demand growth is expected to be 6.4%, while non-OECD expands by "only" 5.4%. In 2022, this trend reverses again, with non-OECD demand growth (+3.4%) outpacing OECD expansion (+2.9%).





Source: IEA, EIA

The EIA uses production rather than call on OPEC, which makes the production comparison easier year-over-year. The EIA expects OPEC to produce 1.47 Mb/d more in 2021 than in 2020, with another increase of 2.0 Mb/d in 2020.

What does all this mean for the tanker market? The good thing is that both agencies expect robust growth in oil demand. This should translate to more ton-mile demand. In 2021, the focus is more on a rebound in demand from OECD countries, which have access to more short-haul supplies. This converts to lower ton-mile demand growth than one would expect based purely on the oil demand expansion rate. However, in 2022, the demand focus switches back to non-OECD countries, and, at the same time, non-OPEC production growth accelerates. This bodes well for ton-mile demand growth.

While the focus so far has been on crude oil, product tankers will benefit from the economic recovery and expansion as well. More refined product demand will lead to higher refinery runs as well as product inventory drawdowns. Both could lead to more transportation demand and benefit product tankers in the short-term. Expansion of refinery capacity in non-OECD countries, combined with closures or conversions to bio-refineries elsewhere are long-term drivers.