

Oil Rises From the Ashes as the Big Coronavirus Recovery Trade



Brent crude topped \$50 a barrel last week for the first time since March, a milestone for an oil market that's been grinding its way back out of a deep slump for months.

Things aren't back to normal yet, but the positive signals are proliferating. The enormous glut of fuel that accumulated this year on everything from tiny barges to giant supertankers is being steadily depleted.

While the coronavirus pandemic is worse than ever in the U.S., demand in Europe is bouncing back as a second wave of lockdowns eases and Asia continues to pull in huge volumes of crude.

But there's more to this than a realignment of supply and demand – huge financial flows are also driving the price

rally. In a world that's expecting to see travel recover sharply next year, crude has become a hot Covid-vaccine trade.

"Oil is the cheapest of all reflation assets," said Amrita Sen, co-founder of London-based consultant Energy Aspects Ltd. "With vaccines slowly rolling out, we expect investors to start returning to the oil sector and for prices to continue firming."

In some corners of the world, the recovery in demand is almost complete. India's largest refiner said last week its plants are processing at full capacity and it's expecting a v-shaped rebound in fuel use. Consumption of gasoline is also at or near pre-Covid levels in China and Japan, the world's second and fourth biggest oil consumers.

European motorists are hitting the roads again as governments relax national lockdowns in countries including the U.K., Spain, and France, according to an index of road usage and traffic compiled by Bloomberg News. Road freight is sharply higher as companies rebuild inventories and the Christmas shopping season gets in full swing.

As demand is recovering, the Organization of Petroleum Exporting Countries and its allies are keeping tight limits on production. The group canceled January's 1.9-million-barrel-a-day supply hike and will instead add no more than 500,000 barrels a day to the market each month in the new year. Estimates for U.S. shale oil output are still falling.

Cargoes of crude are changing hands at higher prices from the North Sea to the U.S. shale heartland of Midland, Texas as consumers trawl the globe for extra supplies. Saudi Arabia raised the cost of its oil for Asia – a benchmark for the world's refiners – by the most since August last week.

Hot Money

A more subtle shift in the market has also got traders excited. For most of December, nearby crude futures have been trading at a premium to later-dated ones, a price structure known as backwardation.

That buying of contracts at the front of the so-called price curve is evidence that managed money is flowing into the market, Eagle Commodities said in a note. The steeper the backwardation, the greater the return from holding futures from one month into the next, which encourages further buying in a “self-reinforcing cycle,” the brokerage said.

In recent weeks, cash has poured back into energy markets. Holdings of energy contracts rose by \$3.6 billion through early December, according to JPMorgan Chase & Co., driven by inflows into Brent and West Texas Intermediate. Investors pumped money into U.S. exchange-traded energy funds last week, with a swing of almost \$400 million from the prior period’s outflows.

Price Risks

“Right now, oil has priced in that promising future,” said Victor Shum, vice president of energy consulting at IHS Markit Ltd. in Singapore. “While we have to deal with the immediate dark Covid winter.”

There are reasons to think \$50 could be oil’s ceiling for now. The price could tempt producers from Baghdad to Oklahoma to increase production. There are already tensions within OPEC+, with some members chafing at the cartel’s self-imposed supply limits.

“A persistent rally could turn OPEC+ much less conservative, in turn driving a price pullback,” said Citigroup Inc. analysts including Ed Morse.

The backwardation that’s attracting speculators could also

draw real barrels into the market, because the price structure isn't profitable for any traders still storing physical crude.

On the west coast of South Africa, a supertanker loaded oil from the tanks at the Saldanha Bay storage terminal earlier this month before sailing to Asia. It's a reminder that there are still plenty of barrels left over from the spring surplus.

Relentless Asian buying may pause at some point, especially with Lunar New Year celebrations starting in early February. Higher-cost crude will start to dampen the profitability of refiners in the region. A standard refining process in Singapore is now loss-making when using five of the eight oil grades tracked by Oil Analytics Ltd.

For now, positive trends in fuel consumption are buoying traders' desire for both real and paper barrels. And there could be more hot money coming down the pipe.

At the start of 2021, billions of dollars of commodities investments will be affected by a broader rebalancing of portfolios. The move could attract \$8 billion of inflows into Brent and WTI futures, according to Citigroup.

"There's been a distinct shift in the financial oil market," said Michael Tran, an analyst at RBC Capital Markets. Speculators are buying futures and holding onto them, scared that they'll miss out on a further rally, he said.

– *With assistance by Sarah Chen, and Sharon Cho*

IGU stresses key role of

natural gas in world's sustainable energy future



The International Gas Union (IGU) has welcomed analysis in the International Energy Agency's latest World Energy Outlook (WEO), demonstrating the vital economic and environmental role natural gas will play in a sustainable energy future.

In this year's Stated Policies Scenario (STEPS), the share of natural gas in global primary energy demand expands to about 25% by 2040. Gas will also retain a critical role in the Sustainable Development Scenario (SDS), retaining the 23% share in energy in two decades' time that it held last year. The WEO also states that "There is a robust long-term case for gases in the energy system. In the SDS, there are services that gases provide that it would be difficult to provide cost effectively using other sources. These include high temperature heat for industry, winter heat for buildings and seasonal flexibility for power systems."

Furthermore, "gas infrastructure is a valuable asset that can be repurposed over time to deliver large volumes of bio-methane or, with modifications, low-carbon hydrogen."

IGU President, Professor Dr Joe M Kang, said the report again confirms the critical role gas will play in the global energy transition.

"Natural gas is a clean and versatile energy source that unlocks an opportunity for the planet to reliably meet the globally growing energy demand, reducing GHG emissions and urban pollution and allowing economies to grow," Kang said.

"Gas demand has fared better than oil and coal amid the

continuing fallout from the Covid-19 pandemic. The WEO recognises that without structural changes in the way energy is produced and consumed and prudent policy choices, the emissions reductions seen this year will be short-lived. The gas industry has a critical role to play.

“Switching to gas from dirtier fuels, like coal, oil, or conventional biomass is possible now and can be achieved quickly, with immediate benefits of cleaner air, safer environment, cut emissions, and solid path to the integration of clean technologies for continued reductions in emissions.”

Further findings and projections relating to the natural gas market in the WEO include:

- n Natural gas demand will decline by only 3% in 2020 as a result of the Covid-19 pandemic, proving more resilient than oil and coal, which will see annual falls in consumption of 8% and 7% respectively. Less gas use in commercial and public buildings has been offset by increased residential consumption, while the decline in industrial demand was mitigated by fuel switching.

- n In STEPS, global gas demand will expand by 15% by 2030 from the 2019 level, and by 30% by 2040. This growth will be driven by gains in south and east Asia, supported by competitive prices, a push to improve air quality and manufacturing growth.

- n Even in a ‘delayed recovery scenario’, gas demand recovers to the pre-pandemic level in 2024, and climbs 24% by 2040.

- n Significant investment in new gas infrastructure will also be key, with the IEA predicting that \$70bn will be needed annually.

- n While China and India will account for around 45% of the demand increase over the next decade, growth will also be robust in Southeast Asia and the Middle East.

- n In carbon-intensive economies, gas use can reduce emissions by replacing coal. In countries planning a pathway to net-zero emissions, the gas industry will need to demonstrate progress in methane abatement, via alternative gases such as bio-methane and low-carbon hydrogen, and technologies like carbon

capture, utilisation and storage.

Gas is natural partner of the world in recovery: GECF



The Peninsula

Doha: Natural gas embodies all the attributes required to achieve the multidimensional challenges of environmental protection, energy access, and affordability in a world stepping onto the road of recovery, the Secretary-General of the Doha-based Gas Exporting Countries Forum (GECF) Yury Sentyurin has said at the 7th IEF-IGU Ministerial Gas Forum, which was hosted virtually by the Malaysian government recently.

“As the world reaches the end of the pandemic tunnel, it will need an energy partner that can help prevent environmental degradation, ensure a stable and uninterrupted supply of energy, and bring affordable and reliable energy for all.

Natural gas is that partner,” said Sentyurin.

He added: “The GECF member countries are amongst the lowest cost producers globally and are able to weather the current storm, or any other. We understand our duty to the world and are committed to strengthen global energy security as reliable suppliers of this important energy source. Natural gas will become the leading source in the global energy mix by mid-century, increasing its share from currently 23 percent to 28 percent”.

During the event, the Minister of State for Energy Affairs and President and CEO of Qatar Petroleum, H E Saad Sherida Al Kaabi also struck a positive chord by maintaining that the gas industry, particularly LNG, has several milestones yet to achieve.

“I believe the economic and environmental realities of the post-COVID-19 era will help to increase the competitiveness of LNG and I have no doubt that the best for the LNG industry is yet to come,” said Al Kaabi.

The high-level gathering embraced the exponential growth of natural gas since the first edition in 2008 and highlighted the role of natural gas as it pertains to strengthening energy security and facilitating an orderly energy transition in an increasingly carbon constrained world.

Most of the energy ministers who spoke during the day-long conference – from India to Qatar to Malaysia – pinpointed Asia as the main demand node for natural gas on the back of rising populations, environmental pledges, and phasing out of coal. Currently coal meets 47 percent of Asia’s energy consumption, while natural gas provides just 12 percent of primary energy consumption in the world’s largest region.

According to the GECF Global Gas Model, ASEAN and East Asia countries’ energy needs will account for around 60 percent of global energy demand increase between today and 2050. This

growth will account for 42 percent of the global gas increments within the outlook period, driven by China, India, emerging markets such as Bangladesh, Pakistan, and a few others in South East Asian countries.

“Increasing Asia’s share of gas energy consumption to 20 percent would add the equivalent of more than 400 million tonnes of liquified natural gas (LNG) to annual gas demand, almost doubling the size of the LNG market,” said H E Tan Sri Muhyiddin Yassin, Prime Minister of Malaysia, in his inaugural address. Malaysia – a member of the GECF coalition – is the fifth largest exporter of LNG in the world, delivering over 11,000 cargoes since 1983. But now the country is reimagining the role of natural gas.

According to India’s Minister of Petroleum & Natural Gas and Steel, H E Shri Dharmendra Pradhan, the demand for natural gas and other energies in the world’s second populous nation has already returned to pre-COVID-19 levels.

“I’m happy to mention that the energy demand in India, particularly of the petroleum products and natural gas, has returned to pre-Covid-19 level. As the third largest global energy consumer, I am confident that India will continue to remain a key global energy demand centre, particularly for natural gas,” added Pradhan.

Meanwhile, ministers from Nigeria, Egypt, Azerbaijan and Iraq further discussed the opportunities that exist in growing gas markets and various policy pathways to achieve net-zero emissions in two sessions of the meeting.

Announcing that major oil exporter Iraq will increasingly switch to natural gas to generate power for its citizens, Minister of Oil H E Ihsaan Abdul Jabbar, said: “Our target is to utilise more and more gas, from associated gas fields and from free fields, to use it as a fuel for power generation for all of Iraq. This is our priority.”

Other ministers at the Ministerial Gas Forum joined from Bangladesh and Bahrain, including the Secretary of Energy from the United States of America, and ministers' representatives from Brunei Darussalam, Canada, Morocco, Turkey and Kingdom of Saudi Arabia. Amongst the private sector were Total, Tellurian, Royal Dutch Shell, Dana Gas, Eni, to name a few.

China set to bail out Iraq with multibillion-dollar oil deal



Baghdad: Iraq is poised to sign a multibillion-dollar contract with China ZhenHua Oil Co., a bailout from Beijing for the

cash-strapped government which will receive money upfront in exchange for long-term oil supplies.

The deal is the latest example of China, via state-controlled trading companies and banks, lending to struggling oil producers such as Angola, Venezuela and Ecuador, with repayment in the form of oil barrels rather than cash. This year's crash in oil prices has hammered Iraq's budget and the government has failed to pay teachers and civil servants on time.

The Iraqi agency in charge of petroleum exports, SOMO, picked ZhenHua after asking oil traders for bids, according to people familiar with the matter. Cabinet spokesman Hassan Nadhim said on Tuesday there had been "several offers" and they were being studied before Prime Minister Mustafa Al-Kadhimi makes the final decision.

Upfront payment

Under the terms of a letter SOMO sent last month, the winning bidder will buy 4 million barrels a month, or about 130,000 a day. They will pay upfront for one year of supply, which at current prices would bring in more than \$2 billion, according to Bloomberg calculations. The deal runs for five years – but the upfront payment is only for one year.

The deal attracted widespread interest among major oil traders, according to the people. The deadline for the tender was extended from late November to allow companies more time to bid.

ZhenHua Oil didn't reply to an email seeking comment that was sent to its headquarters in Beijing after normal business hours on Tuesday.

All major producers have taken a hit from oil's coronavirus-triggered plunge. But Iraq, where crude accounts for almost

all government revenue, is in a worse position than most. Its economy will contract 12% this year, more than that of any other OPEC member under a production quota, according to International Monetary Fund forecasts.

Thousands of Iraqis have taken to the streets in recent months to protest about worsening living conditions. The government has struggled to fulfil its commitments to the Organization of Petroleum Exporting Countries, which agreed at the height of the pandemic in April to cut output. Baghdad has pumped above its cap on several occasions, angering OPEC's de facto leader Saudi Arabia.

Rare deal

Energy-rich nations short on revenue have often relied on pre-payment deals to raise money, but Baghdad hasn't done so until now. The semi-autonomous Kurdistan Regional Government in northern Iraq has used similar contracts in the past, as have Chad and the Republic of Congo.

In a pre-payment deal, the oil buyer effectively becomes a lender to the country. The barrels are security for the loan.

Iraq's woes make it harder for the government to raise money more conventionally, such as through the bond market. The country's dollar yields average 7.5%, one of the highest levels for any sovereign. Goldman Sachs Group Inc. said this week that Iraq was among the most vulnerable bond issuers heading into 2021.

The pre-payment part of Iraq's contract is one of the largest in recent history, although less than the record \$10 billion that Russia's state-run Rosneft raised in 2013 from trading houses Vitol Group and Glencore Plc.

Besides its size, the Iraqi deal is rare because it allows the winner to ship crude to wherever it wishes for a year.

Normally, Middle Eastern crude is sold with strict clauses preventing traders and refiners from re-selling the barrels to different regions.

The exclusion of that clause was probably seen as advantageous enough to compensate for the fact the pre-payment money is effectively interest-free for Iraq. A country usually pays a yield for the cash it receives upfront.

Revitalize China

ZhenHua produces and trades oil. The company has played a large role in Beijing's so-called "going global" policy for energy. It has invested in oil concessions in the United Arab Emirates, Kazakhstan and Myanmar, and trades crude originating from the likes of Kuwait, Brazil and the Republic of Congo.

The company was founded in 2003 as a subsidiary of the largest Chinese state-owned defense contractor, known as Norinco. According to its website, ZhenHua trades about 1.3 million barrels a day of oil and finished products.

Other major Chinese traders include Unipet, Chinaoil and Sinochem. Shrouded in relative secrecy in the past, these state companies are gaining prominence as China's oil consumption rises. It's set to soon overtake the U.S. as the world's largest crude importer.

ZhenHua, meaning "Revitalize China" in Mandarin, started a joint-venture with SOMO to market barrels into China in 2018, though it was later scrapped.

OPEC+ panel discusses weaker oil demand outlook, Libya supply rise, sources say



LONDON (Reuters) – An OPEC+ technical committee discussed on Thursday higher oil supply as production resumes in Libya amid a weaker demand outlook due to a second wave of coronavirus infections, two OPEC+ sources said.

The Joint Technical Committee (JTC), which includes representatives from key OPEC+ producers such as Saudi Arabia and Russia, was meeting to review compliance with global oil output cuts and to review the oil market.

The group had 102% compliance with its production cuts in September, two OPEC+ sources told Reuters.

On Thursday, OPEC Secretary General Mohammad Barkindo told a conference that demand was recovering at a slower pace than expected.

“We have to be realistic that this recovery is not picking up pace at the rate that we expected earlier in the year,” he said. “Demand itself is still looking anaemic.”

OPEC+ delegates discussed the slow demand recovery in the fourth quarter of this year, when seasonally it was expected to rise, one of the sources said.

The resumption of oil production from Libya and the lack of a vaccine for COVID-19, as several countries face a rise in cases and renewed restrictions to try to contain the pandemic, could mean a downward revision for oil demand, creating a bearish outlook for the market in the coming months, he added. The panel also discussed OPEC data showing a stocks overhang throughout 2021, with OECD inventories at 301 million barrels above the latest five-year average in the last quarter, compared with 245, 181 and 173 in the first three, the source said.

OPEC+ – producers from the Organization of the Petroleum Exporting Countries (OPEC) and others including Russia – have been reducing output since January 2017 in a bid to balance the market, support prices and reduce inventories.

They are currently curbing production by 7.7 million barrels per day (bpd), down from 9.7 million bpd, and are due to taper their production cuts by 2 million bpd in January.

But Thursday’s bearish demand outlook and rising supply from Libya mean OPEC+ could roll over existing cuts into next year and delay easing the reductions, OPEC+ sources say.

UNESCO and GECF sign landmark cooperation agreement



Marking a victory for science and education, United Nations Educational, Scientific and Cultural Organisation (UNESCO) and the Gas Exporting Countries Forum (GECF) today signed a Memorandum of Understanding (MoU) to bring the benefits of collaboration to the world at large.

The agreement, taking stock of two years of cooperation, was signed by HE Shamila Nair-Bedouelle, the Assistant Director-General for Natural Sciences at UNESCO and HE Yury Sentyurin, the Secretary General of the 20-member coalition of the leading gas exporting countries of the world. The MoU will serve as a gateway of opportunities between the two entities in the areas of struggle against climate change, natural resources management, and positive developments across the globe, particularly in the Africa region. The partnership will further allow the sides to focus on capacity building, technical support, and shared expertise.

Both signatories commended the UNESCO Cluster Office for the

GCC and Yemen (accredited to Doha) for facilitating the agreement.

“The mobilisation of science for the benefit of society and the planet is now more urgent than ever. We need science and technology, we need access to science and technology, we need to be able to reduce the knowledge gap between different countries across the world, and therefore this partnership with the GECF is really a beacon of hope and light,” said HE Nair-Bedouelle following the virtual signing ceremony.

“The GECF serves as a platform for the science policy interface, underpinning the importance of the exchange of scientific knowledge, experience, and dissemination of information through research and production of global outlooks and statistical bulletins. We at UNESCO are therefore confident that this partnership will further harness the potential of science and technological cooperation to address global challenges, through advocacy and awareness raising at all levels of society and economic sectors towards achieving the sustainable goals of the 2030 Agenda and beyond,” she added.

Scientifically-grounded data and insights are championed at the GECF, whose Secretary General emphasised that technology is key to the envisaged energy transition and climate action such as greenhouse gasses (GHGs) emissions mitigation. The Forum’s speaker added, that “education and science-oriented exercises play a great role in environmental protection with a view to raise awareness and cultivate a “culture of energy responsible behaviour” or “energy scholarship.”

“The GECF is developing technologies, including ones in relation to reduction of GHGs emissions through the GECF Gas Research Institute, recently established in Algeria, and fully dedicated to discovering new technologies and innovations to achieve the ambitious sustainable development goals in front of us,” said HE Sentyurin.

“The GECF’s ambition to steward the gas industry into playing a greater role in environmental protection manifests in our Environmental Knowledge and Solutions initiative. This 12-point agenda focuses on many aspects of our activities,” he added, while referring to the 2019 Malabo Declaration adopted by the GECF Heads of State and Government, which calls on the Forum to use natural gas as the core source of energy in the development programmes and climate change policies of developing countries, such as in Africa, to overcome energy poverty and to mitigate CO2 emissions.

The MoU has been signed against a unique backdrop. The world’s overall energy demand is assumed to grow along with the global economy and population growth. The GECF experts forecast that in order to fulfil this increased demand, the world will likely see a symbiosis of conventional and renewable energies to solve climate issues and to meet the needs of nations for affordable energy. Natural gas is expected to shoulder the bulk of this demand on the back of its attributes of being the most environmentally friendly, affordable, flexible, and abundant fossil fuel.

According to the latest available figures from the GECF Global Gas Outlook 2050, natural gas is projected to become the largest source of primary energy by 2050, from currently 23% to 28%. Along the way, natural gas is expected to play a vital role in decarbonisation options including natural gas-based hydrogen, also known as the blue hydrogen, with carbon capture, utilisation and storage (CCUS) technologies.

The Forum’s Secretary General termed the GECF’s sustainability-related efforts as a “duty to the world”, given that its members collectively represent 71% of the world’s proven natural gas reserves and nearly half of its marketed production.

As an observer organisation to the UNFCCC (UN Framework Convention on Climate Change), the GECF actively participates

in the conference of parties, with the most recent statements made at COP24 and COP25. The Forum is also a regular contributor to the discussions of the UN Economic Commission for Europe (UNECE) Group of Experts on Gas, where it analyses natural gas' leading role in attaining the 2030 Agenda for Sustainable Development.

“This is complemented by our rapidly growing relationships with the G20, BRICS, and others in the spirit of joint action as regards to humanity's shared mission of sustainable development,” concluded HE Sentyurin.

Oil from US-sanctioned sellers becoming less taboo in Asia



Bloomberg/Mumbai

Asia's biggest oil importers are testing the waters in the hope that the incoming administration of US President-elect Joe Biden will set the stage for a resumption in crude exports from Iran and Venezuela.

Indian Oil Minister Dharmendra Pradhan said last week the country would like to buy from more producers when asked if he would like to see an easing of White House sanctions on Iran and Venezuela. Tehran, meanwhile, is preparing to raise oil exports, according to President Hassan Rouhani's official website.

There has also been an increase in inquiries from Chinese buyers about purchasing a sludgy type of oil known as bitumen-mix, which is thought to be Venezuelan crude passed off as another grade, according to traders.

Under President Donald Trump, the US pursued an aggressive foreign policy, reinstating sanctions on the Islamic Republic in 2018 and then taking steps to limit Venezuelan crude exports the following year. Shipments from both nations have since slowed to just a trickle, forcing Asian refiners to look for alternatives to the medium-heavy sour crudes from the two countries.

"As a buyer, I would like to have more buying places," Pradhan said at a webinar last Wednesday, adding the country intends to move ahead with a plan to increase the size of its strategic petroleum reserves.

While Trump is stepping up foreign sanctions as his term winds down, the hope among Asian buyers is that Biden will seek to restart the Iranian nuclear deal and also take a softer line on Venezuela when he takes office next month.

However, Biden's task looks to have become more difficult after Iran's top political chamber gave final approval to a bill forcing President Hassan Rouhani to end international nuclear inspections unless the US lifts key sanctions by February. That will give the Biden team just weeks to make a diplomatic breakthrough.

If a Biden presidency does lead to a resumption in Iranian and Venezuelan oil exports, the new supply will likely cause a

further headache for the Opec+ alliance and would also reshape crude flows to Asia. The popularity of similar-quality grades from Canada and Iraq might wane, according to Asian traders. Tehran will take measures “to prepare resources and oil-industry equipment for the production and export of oil in line with current capacity within the next three months,” according to President Rouhani’s website.

India halted imports from Iran, previously its third-largest oil supplier, in mid-2019 after the expiration of US exemptions. The nation imported 7.65mn tonnes of Venezuelan crude from January to October this year, compared with 15.9mn tonnes in 2019.

China last imported Venezuelan oil in September 2019, customs data show. It purchased around 3mn tonnes of Iranian oil in first 10 months of this year, or 72,000 barrels a day, down 77% from the same period in 2019.

Chinese crude imports from Malaysia, meanwhile, have been a lot higher than usual since the start of 2019. Much of those volumes may have come from ship-to-ship transfers in Malacca Strait, a tactic to mask the origin of cargoes.

Oil prices face uphill struggle in 2021 despite vaccine progress: Reuters poll



Oil prices will struggle to gain upward traction next year as demand remains in the grip of the coronavirus pandemic despite growing optimism over vaccines and a likely extension of output cuts by top producers, a Reuters poll showed on Monday.

The poll of 40 economists and analysts forecast Brent would average \$49.35 a barrel next year, little changed from last month's \$49.76 outlook. The benchmark has averaged about \$42.50 per barrel so far in 2020.

"The global oil demand outlook remains precarious given the resurgence of the pandemic and resulting lockdowns in Europe and the U.S.," said Marshall Steeves, energy markets analyst at IEG Vantage.

"This will likely remain the case through the first quarter of 2021 if not the second, thus OPEC+ faces muted demand for their oil."

(Graphic: Brent and WTI price forecast for 2021)

Rising Libyan output also posed a headwind, analysts said, as the market focuses on a meeting on Nov. 30-Dec. 1, when the

Organization of the Petroleum Exporting Countries, Russia and other producers, a grouping known as OPEC+, decide strategy.

OPEC+ is leaning towards delaying the group's existing plan to boost output in January by 2 million barrels per day (bpd) to support a market hammered by the pandemic..

Although an accelerating COVID-19 vaccine race has raised hopes for a quicker economic rebound, analysts said a resultant fillip to demand may only materialise in the second half of 2021.

Global demand was seen growing by 5.1 million to 6.3 million bpd in 2021, led by China.

"Currently the Achilles heel on the demand side is the aviation sector. Business-related travel could still be low next year, as companies may make greater use of video conference calls," said UBS analyst Giovanni Staunovo.

The survey forecast U.S. WTI crude futures would average \$46.40 a barrel in 2021, versus October's \$46.03 consensus.

"U.S. rigs are coming back to life but a Joe Biden administration should derail anything that allows for a massive upswing with production," said Edward Moya, senior market analyst at OANDA.

Opec faces seismic demand

split as group plots next move



Bloomberg/London

As Opec+ ministers gather virtually this week, the city that traditionally hosts their meetings will be locked down.

But while the Austrian capital provides a dramatic example of how the second wave of the pandemic is shutting down economies in Europe and the US, the global picture is more nuanced.

In Asia, the situation is almost the opposite to that of Vienna. The streets in India were full during the recent celebration of Diwali; China's Golden Week holiday saw millions take cars, trains and even planes to visit relatives across the country.

The east-west divide is an added conundrum for Opec+, which on November 30-December 1 needs to decide whether to delay a production increase slated for January – and if so, for how long. And there's another crucial divide in the global oil market: while gasoline and diesel demand have recovered to about 90% of their normal level, consumption of jet fuel languishes at about 50%.

“The size of the shock and the unevenness of its impacts imply a recovery process which is far from smooth,” said Bassam Fattouh, the head of the Oxford Institute for Energy Studies. Saudi Arabia is using both carrot and stick to talk other members of the oil group into defending prices at Thursday’s ministerial meeting.

In private, Opec+ delegates talk about the imbalance in the recovery, both geographically and between refined products. Increasingly too, they talk about another segmentation: crude oil quality. The market for the denser more sulphurous crude, called heavy-sour, is tight, mostly due to production cuts big producers. But the market for so-called light-sweet is glutted, in part because Libyan barrels have come back to the market after a ceasefire, and European refiners are consuming less North Sea crude.

All those factors make the deliberations of Opec+ ministers trickier. And they have just one blunt tool at their disposal: raising or cutting overall production. Opec+ nations do not target gasoline or jet-fuel production, but just crude.

There’s also a geographical handicap: most of their oil goes to Asia, where demand is strong, rather than Europe and America, where it’s weaker. That means they can do little to address the glut where it matters. Even the quality is a problem: Opec pumps mostly heavy-sour crude, and can do relatively little to trim the excess of light-sweet crude.

There is some consolation. While the recovery in oil demand that started in May stuttered in October and November as the second wave took hold, it wasn’t the same hit to the market as earlier this year. The lockdowns in Europe aren’t as severe as the first wave, and demand in Asia is surging – not just in China, but also in India, Japan and South Korea.

High frequency data for road usage shows a decline in early November of about 30% from pre-Covid levels, compared to nearly 70% in late March and early April, according to an index compiled by Bloomberg News. The most recent data suggests that road fuel demand bottomed out around November 15, and has been recovering since. With European nations

easing lockdowns in the run-up to Christmas, demand is likely to recover further.

Pieced together, this all means the market isn't as bad as it looked just a few weeks ago. Oil prices are reflecting the more positive tone: Brent crude has rallied well above \$45 a barrel, and the shape of the curve has flipped, with nearby contracts trading at a premium to later ones. That dynamic, known as backwardation and traditionally a bullish signal, means that demand is running above supply.

The physical market, where actual barrels change hands, is also showing signs of strength: the favourite crude varieties of Chinese refiners are commanding rising premiums. Take ESPO crude of Russia, a grade that Chinese independent refiners, known as teapots, like to buy. In the most recent tenders, it has changed hands at \$2.85 a barrel above its benchmark, up from 55 cents in mid-October.

Beyond the next quarter, the outlook improves further.

Many are already hopeful about the impact of virus vaccines on oil demand. If they are right, by mid-year, when Opec is likely to be meeting again, the streets of Vienna will be once again full of tourists, often perplexed to see oil ministers followed by packs of television cameras across the Austrian capital. The group is tentatively planning to hold its bi-annual international oil seminar, a two-day festival of the industry, at the Imperial Hofburg Palace in June 2021.

"Vaccine efficacy and availability point to a large enough recovery in oil demand next year to allow Opec to achieve both a rebalancing of excess inventories as well as increase production sharply," said Damien Courvalin, oil analyst at Goldman Sachs Group Inc.

For now though, Opec+ still has work to do. If the group wants to keep draining inventories accumulated earlier this year, it needs to keep the market in deficit, rather than simply balance supply and demand. With Libyan output surging back, Opec's own economists believe that global inventories would increase by about 200,000 barrels a day during the first quarter of 2021 if the group increases output as scheduled in

January. If it delays the hike by three months, then stocks would instead drain by about 1.7mn barrels a day between January and March, a similar amount to what it expects in the fourth quarter of 2020.

“The job is far from done,” said Gordon Gray, global head of oil and gas equity research at HSBC Holdings Plc.

Iraq voices frustration with Opec days before crunch meeting



Bloomberg/London

Iraq's deputy leader has criticised Opec just days before the oil group makes a crucial decision on whether to raise output. Opec should take members' economic and political conditions into account when deciding production quotas rather than adopting a “one-size-fits-all” approach, according to Ali

Allawi, Iraq's Finance and Deputy Prime Minister.

"We have reached the limit of our ability and willingness to accept a policy of one size fits all," he said this week during a virtual conference hosted by UK think-tank Chatham House. "It has to be more nuanced and it has to be related to the per-capita income of people, the presence of sovereign wealth funds, none of which we have. We are beginning to articulate this position."

While Allawi said he wasn't speaking on behalf of the Ministry of Oil, which decides on Opec matters, his comments are yet another manifestation of rifts within the group before its next meeting on November 30. Nigeria also has tried to get some oil blends excluded from its quota.

Iraq, the group's biggest producer after Saudi Arabia, is reeling from the coronavirus-triggered collapse in oil prices. While all members have suffered, Iraq's position is about the worst of the lot, with the government struggling to pay teachers and civil servants, and protesters taking to the streets en masse.

Opec+, an alliance between the Organization of Petroleum Exporting Countries and others such as Russia, meets a day later, on December 1. It agreed in April, at the height of the pandemic, to cut crude output by almost 10mn barrels daily. Opec imposed quotas on 10 of its 13 members, exempting Iran, Libya and Venezuela because of their economic and political turmoil.

Opec+ eased some of those curbs in August. It was meant to reduce the cuts by another 2mn barrels daily at the start of January, but renewed lockdowns in major economies including the US and Europe mean that some members may push for a delay. Brent crude prices have more than doubled since April, but are still down around 26% this year at \$48.50 a barrel.

Iraq has already breached its quota on several occasions. It has promised to compensate for its over-production. This week, in an unprecedented move, Iraq sought an upfront payment of about \$2bn in exchange for a long-term crude-supply contract.