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Quarterly Energy Newsletter Q3, 2020

Global Oil Demand

The speed of recovery for global economic activities and potential oil demand growth remains uncertain. Global risk remains high with demand trends skewed downward as a result of an increase in Covid-19 infections and unknown timelines for the roll-out of an effective vaccine.

World Oil Demand	Q3, 2020	2019	2020	Growth Change
	91.45mn b/d	99.69mn b/d	90.23mn b/d	-9.49%

Source: OPEC, *2020 Forecasted Figures

Peak Oil Demand?

"We have past peak oil demand," according to Carbon Brief following the most recent release of BP's Energy Outlook 2020. BP's most recent edition forecasts that oil demand will never reach the same levels again as 2019. The oil company suggests that global oil demand could decrease by 10% over the next decade as a result of climate change actions and by as much as 50% over the next 20 years.

BP Scenarios – Energy Outlook 2020

- The **Rapid Transition Scenario (Rapid)** posits a series of policy measures, led by a significant increase in carbon prices and supported by more-targeted sector specific measures, which cause carbon emissions from energy use to fall by around 70% by 2050. This fall in emissions is in line with scenarios which are consistent with limiting the rise in global temperatures by 2100 to well below 2 degrees Celsius above pre-industrial levels.
- The **Net Zero Scenario (Net Zero)** assumes that the policy measures embodied in Rapid are both added to and reinforced by significant shifts in societal behavior and preferences, which further accelerate the reduction in carbon emissions. Global carbon emissions from energy use fall by over 95% by 2050, broadly in line with a range of scenarios which are consistent with limiting temperature rises to 1.5-degrees Celsius.
- The **Business-as-usual Scenario (BAU)** assumes that government policies, technologies and social preferences continue to evolve in a manner and speed seen over the recent past*. A continuation of that progress, albeit relatively slow, means carbon emissions peak in the mid-2020s. Despite this peaking, little headway is made in terms of reducing carbon emissions from energy use, with emissions in 2050 less than 10% below 2018 levels.

Source: BP Energy Outlook 2020

Crude Oil Futures

Oil prices rose in August, by roughly 4% month-on month (m-o-m), to reach levels not seen since February. Brent crude oil prices settled around $45/bl and WTI crude oil prices hovered roughly at $42/bl. Steady oil prices were a result of production cut compliance amongst OPEC+ members and attrition of shale production in US. The overall conformity levels in August for OPEC+ members participating in the Declaration of Cooperation (DoC) was 97%.

Sources: IEA, OPEC

	JULY 2020	AUGUST 2020	CHANGE (AUGUST/JULY)	YEAR-ON-YEAR (Y-O-Y)	
				2019	2020
WTI	$40.77/bl	$42.39/bl	4.0%	$57.12/bl	$38.03/bl
BRENT	$43.22/bl	$45.02/bl	4.2%	$65.05/bl	$42.61/bl
DME OMAN	$43.70/bl	$44.41/bl	1.6%	$64.64/bl	$42.43/bl
SPREAD					
Brent-WTI	$2.46/bl	$2.63/bl	7.2%	$7.94/bl	$4.58/bl

Note: Totals may not add up due to independent rounding.

Sources: CME, DME, ICE, OPEC

OPEC Turns 60

H.E. Mohammad Sanusi Barkindo, Secretary General. OPEC

"I often think back to that day in 1960, the mood in Baghdad, how those visionaries envisaged the future of OPEC and the oil industry. What is clear is that what was set in motion has stood the test of time; OPEC still has the same core objectives, of order and stability in global oil markets, but its role has also broadened considerably, in terms of deeper cooperation with other producers, dialogue with a host of industry stakeholders, and an embrace of human concerns such as sustainable development, the environment and energy poverty eradication.

Energy Markets Survey

Outlook for Q4, 2020

Has OPEC+ done enough to scare market actors away from shorting oil?

Do you expect the (announced) end of Libya's oil export restrictions to derail oil market rebalancing in 2020?

Will Global Oil Demand Rise or Fall in Q4?

PMI reports showed slow down in eco growth through Q3 –will we see recovery or further declines in Q4 economic growth?

Will Chinese OIL Demand remain strong enough in Q4 to keep Brent at around $40 a barrel?

Source: GIQ

Oil News Highlights

Q3, 2020

JULY

July 7th
Covid-19 Pain Drives Big Oil's Dash for Record Debt
The world's top seven energy firms - BP, Shell, Exxon Mobil, Chevron, Equinor, Total, and Eni, - raised $60bn in debt in Q2, nearly half of the $132bn in oil and gas sector borrowing over the period, Refinitiv data showed.

Source: Reuters

July 13th
OPEC expects demand to recover by 7mn b/d in 2021
OPEC expects oil demand to partially recover next year and grow by about 7 million barrels a day, the group said in its latest monthly market outlook. Total demand for hydrocarbon-based liquids is projected to reach 97.7 million bpd next year. However, the demand for oil will remain below pre-coronavirus levels.

Source: The National

July 31st
Big Oil Took a Big Hit from the Coronavirus, Earnings Reports Show
The world's leading oil and gas giants this week revealed the scale of the damage inflicted on the industry by the coronavirus pandemic, with top American companies reporting billions in losses while some European companies were able to eke out small profits.

Source: Inside Climate News

AUGUST

August 19th
OPEC Reiterates Importance of Attaining Full Conformity for Market Stability
OPEC emphasized that achieving 100% conformity from all participating countries in the DoC and compensating for the shortfalls in May, June and July 2020 is not only fair, but vital for the ongoing rebalancing efforts and to help deliver long-term oil market stability. It instructed the JTC and the OPEC Secretariat to closely monitor and report to the JMMC on the implementation of the required compensation by the underperforming participating countries as stipulated in their plans.

Source: Emirates News Agency (WAM)

August 5th
Oil Prices Rise Above $45/bl for First Time Since Start of Pandemic
The price of oil has risen above $45 a barrel, the first time it has reached that level since the coronavirus outbreak forced countries across Europe into lockdown. However, this rebound may prove to be short-lived.

Source: The Guardian

August 31st
Robust Chinese Demand Fuels Oil Market Recovery
Prices continue to be supported by China's affirmation of its commitment to the phase 1 trade deal with the United States. Chinese oil demand is said to have risen by 16.7% m/m to stand at 14.16 million b/d in July. July's demand figures are also higher than one year ago, reaching 12.83mn b/d.

Source: OilPrice

SEPTEMBER

September 14th
Has Global Oil Demand Peaked? BP says it is Possible
Oil giant BP, which is seeking to achieve net zero carbon emissions by 2050, issued three new forecast scenarios under which the industry would embrace green energy to varying degrees. Under BP's two most optimistic scenarios, oil demand has already passed its peak and may never recover from the long-lasting Covid-19-induced collapse.

Source: Deccan Herald

September 14th
OPEC Turns 60, Remains Focused on Balanced, Stable Oil Market
OPEC stands ready to meet the many challenges it will face as it enters the next 60 years of its history. The five Founding Fathers of OPEC: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela gathered at the historic 'Baghdad Conference' in 1960, to midwife OPEC into the world.

Source: Emirates News Agency (WAM)

September 15th
Oil Prices Rise on Signs an Industrial Recovery is Underway
Oil rose after economic data from China to the US sparked optimism that an industrial recovery is underway, offsetting a bleak assessment of demand by another top energy organization. Futures gained as much as 2% in New York, alongside a rally in US and European equities. Chinese retail sales rose for the first time this year in August, while industrial production expanded more than expected.

Source: Bloomberg

FED CHAIRMAN JEROME POWELL FORWARD GUIDANCE
“More Fiscal Stimulus Support is Needed!”

(Press Conference Sept. 16th 2020 – GI Edited Transcript for Energy Market Participants)

Q: Do you anticipate a slowing in the pace of the Economic recovery if there is not another stimulus package from Congress?

FED Chairman Jerome Powell: My sense is that more fiscal support is likely to be needed. I would just say there are still roughly 11 million people still out of work due to the pandemic. And a good part of those people were working in industries that are likely to struggle. Those people may need additional support as they try to find their way through what will be a difficult time for them.

We've also got struggling small businesses, especially those in the business of facing directly to the public. And we have state and local governments dealing with a drop in revenue at the same time spending has gone up, much of it related to the pandemic and economic effects. So again, I would say the fiscal support has been essential in the good progress we see now. And finally, I'll note that just about all, the overwhelming majority of private forecasters who project an ongoing recovery, are assuming there will be a substantial additional fiscal support.

So far, the economy has proven resilient to the lapsing of the CARES Act enhanced unemployment benefits. But there's certainly a risk though that those who are unemployed have saved, appear to have saved some of those benefits, and they'll now spend them, and that as the months pass, if there's no follow up on that, if there isn't additional support and there isn't a job for some of those people are from industries where it's going to be very hard to find new work, then that will start to show up in economic activity. It will also show up in things like evictions and foreclosures and things that will scar and damage the economy. So that's a downside risk.

Q: If we don't get a vaccine until well into next year, what does that mean for the economy?

FED Chairman Jerome Powell: What's happening is basically we're learning to live with COVID, which is still spreading. And we're learning to engage in economic activity. All of this recovery that we've seen is in a context where people are still at risk of catching it and yet we're able to resume lots and lots of economic activities.

And that involves, as I mentioned, I think the more social distancing we can preserve as we go back into the workforce, wearing masks, keeping our distance, that kind of thing, the better we'll be able to get economic activity back up close to

where it was. I do think though, there are areas of the economy that are just going to really struggle until we have a vaccine that's in wide usage and is as widely trusted. And those are the ones where people were getting really close together.

I also think testing to the extent you have cheap and rapid testing; you can do a lot with that in the workforce. You can build confidence in the workforce if you have regular, very regular testing, it doesn't cost very much, and you get the results really quickly. If you do that, you'll be able to open a lot of workforces, particularly in cities where the overall case numbers are quite low and that will help a lot. So, I think we're going to be finding lots and lots of ways to get out as far as we can. There's always going to be certain activities that will be hard to resume.

There is no template here. There's no experience with this. So frankly, for the last 60 days or so, the economy's recovered faster than expected, and that may continue or not. We just don't know. And I think we should do those things that we control to make sure that we can recover as quickly as possible. And the main thing again, is wearing a mask and keeping your distance while you're in the workforce. That's something we can all do that will limit the spread and let people go back to work, avoid major outbreaks and things like that.

Q: Has the FED now used all the tools in its toolbox to combat the economic collapse triggered by the COVID Pandemic?

FED Chairman Jerome Powell: I certainly would not say that we're out of ammo, not at all. So, first of all, we do have lots of tools. We've got the lending tools; we've got the balance sheet and we've got further forward guidance. So, there's still plenty more that we can do.

We do think that our rate policy stance is an appropriate one to support the economy. We think it's powerful. And as I mentioned, this is the kind of guidance that will provide support for the economy over time. The idea of being that policy will remain highly accommodative until the recovery is well along, really very close to our goals, and it will remain accommodative even after we lift off. So, I think that's a really strong place for rate policy to be. But again, we have the other margins that we can still use. So, no, certainly we're not out of ammo.

Q: Are you concerned that your actions are more likely to produce asset price inflation -- in other words, are you risking a bubble on Wall Street?

FED Chairman Jerome Powell: We monitor financial conditions very carefully. These are not new questions; these were questions that were very much in the air a decade ago and more, when the Fed first started doing QE. And I would say, if you look at the long experience of the 10-year expansion, the longest in our recorded history, it included an awful lot of quantitative easing and low rates for seven years.

And I would say it was notable for the lack of the emergence of some sort of a financial bubble, a housing bubble or some kind of a bubble, the popping of which could threaten the expansion. That didn't happen. And frankly, it hasn't really happened around the world since then. That doesn't mean that it won't happen, and so, of course, it's something that we monitor carefully.

After the financial crisis, we started a new whole division of the Fed to focus on financial stability. We look at it from every perspective. The FOMC gets briefed on a quarterly basis. At the board here, we talk about it more or less on an ongoing basis.

So, it is something we monitor, but I don't know that the connection between asset purchases and financial stability is a particularly tight one, but again we won't be just assuming that; we'll be checking carefully as we go. And by the way, the kinds of tools that we would use to address those sorts of things are not really monetary policy; it would be more tools that strengthen the financial system.

Q: Why is the Fed is trying to overshoot inflation?

FED Chairman Jerome Powell: It is intuitive that high inflation is a bad thing; it's less intuitive that inflation can be too low. And the way I would explain it is, is that inflation that's too low will mean that interest rates are lower.

There's an expectation of future inflation that's built into every interest rate. And to the extent inflation gets lower and lower and lower, interest rates get lower and lower, and then the Fed will have less room to cut rates to support the economy. And this isn't some idle academic theory; this is what's happening all over the world. If you look at many, many large jurisdictions around the world, you are seeing that phenomenon.

So, we want inflation to be 2%, and we want it to average 2%. So, if inflation average is 2%, the public will expect that, and that'll be what's built into interest rates. And that's all we want. So, we're not looking to have high inflation; we just want inflation to average 2%.

And that means that in a downturn, these days, what happens is inflation, as has happened now, it moves down well below 2%. And that means that we've said what we would like to see, and we will conduct policy so that inflation moves, for some time, moderately above 2%. So, these won't be large overshoots and they won't be permanent, but to help anchor inflation expectations at 2%.

It's a challenging concept for a lot of people, but nonetheless, the economic importance of it is large. And those are the people we're serving. And we serve them best if we can actually achieve average 2% inflation, we believe. And that's why we changed our framework.

Q1: Are there any macroeconomic conditions under which you would favor increasing the monthly pace of treasury purchases?

FED Chairman Jerome Powell: We will continue to increase our securities holdings at least at the current pace over coming months to sustain smooth market functioning, and to help foster accommodative financial conditions. That latter part is an updating of our guidance to reflect what I've been saying for some time and what other central banks have acknowledged, which is that the purchases are fostering accommodated financial conditions as well.

That amounts to roughly $80 billion a month of treasuries and $ 40 billion net per month for MBS. We do think that these purchases have been effective in restoring early market conditions and have supported the flow of credit to households and businesses, including by fostering more accommodated financial conditions, which of course we think is a good thing. In terms of going forward, I would just say this, there are various ways and margins that we can adjust our tools going forward, and we'll continue to monitor developments and we're prepared to adjust our plans as appropriate.

Q: Is the FED committee confident that it can hit its new target of 2% average Inflation over the long term, especially when by your own admission today you expect inflation to stay below 2% until 2023?

FED Chairman Jerome Powell: We expect that the economy will recover quickly now, but that that pace will slow as people go back to work and we'll still have an area of the economy, a big area of the economy that struggles. There'll be slack in the economy. The economy will be below maximum employment, below full demand. And that will tend to wear, to put downward pressure on inflation. So, we think that once we get up closer to maximum employment, we think that inflation will come back generally. And I mean, that's sort of what happened during the last long expansion. It's a slow process, but there is a process there. Inflation does move up over time. We think that effectively saying that policy will remain highly accommodative until the economy is very far along in its recovery should provide strong support for the economy and get us there sooner rather than later. ■

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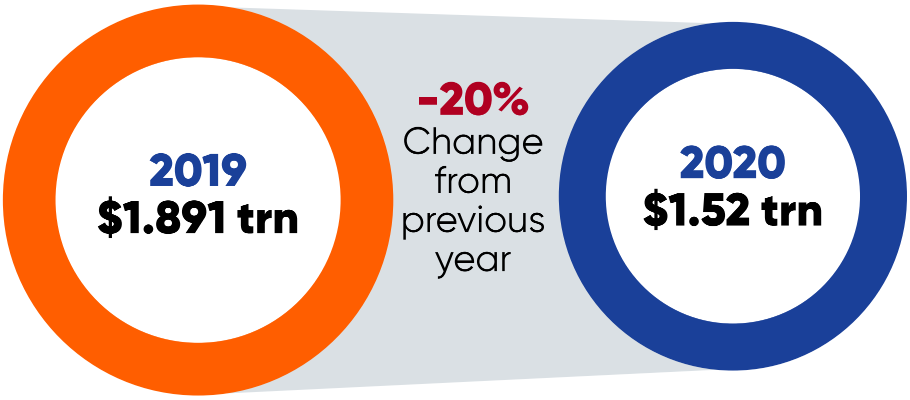
Are we heading for an energy investment emergency?

Total Global Energy Investment (2019 vs 2020)



Source: IEA

MENA Energy Investment Outlook

+$790bn

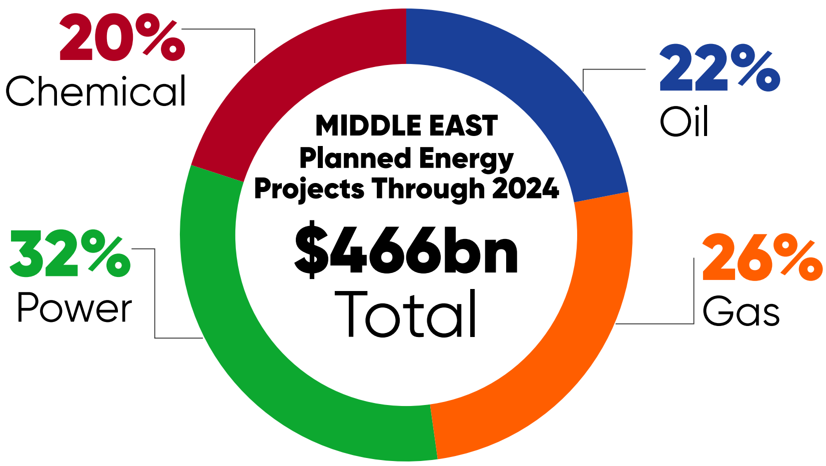
is the **total** committed and **planned energy investments** in **MENA** from **2020** to **2024**.

Source: APICORP

– 2.1mn b/d

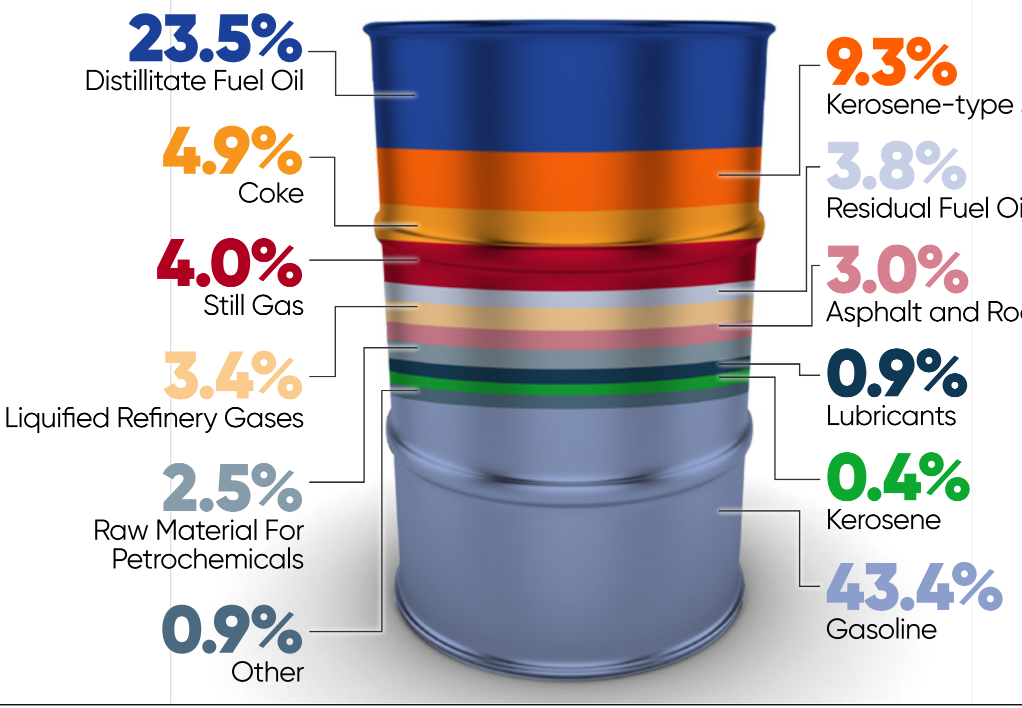
is the projected **decrease** in **global oil production** in **2025** due to **lower upstream investment** in **2020.**

Source: IEA



*Source: APICORP, *Approximate Projected Figures*

What's in a Barrel of Oil?



Source: EIA.GOV