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Quarterly Energy Newsletter Q4, 2020

Global Oil Demand

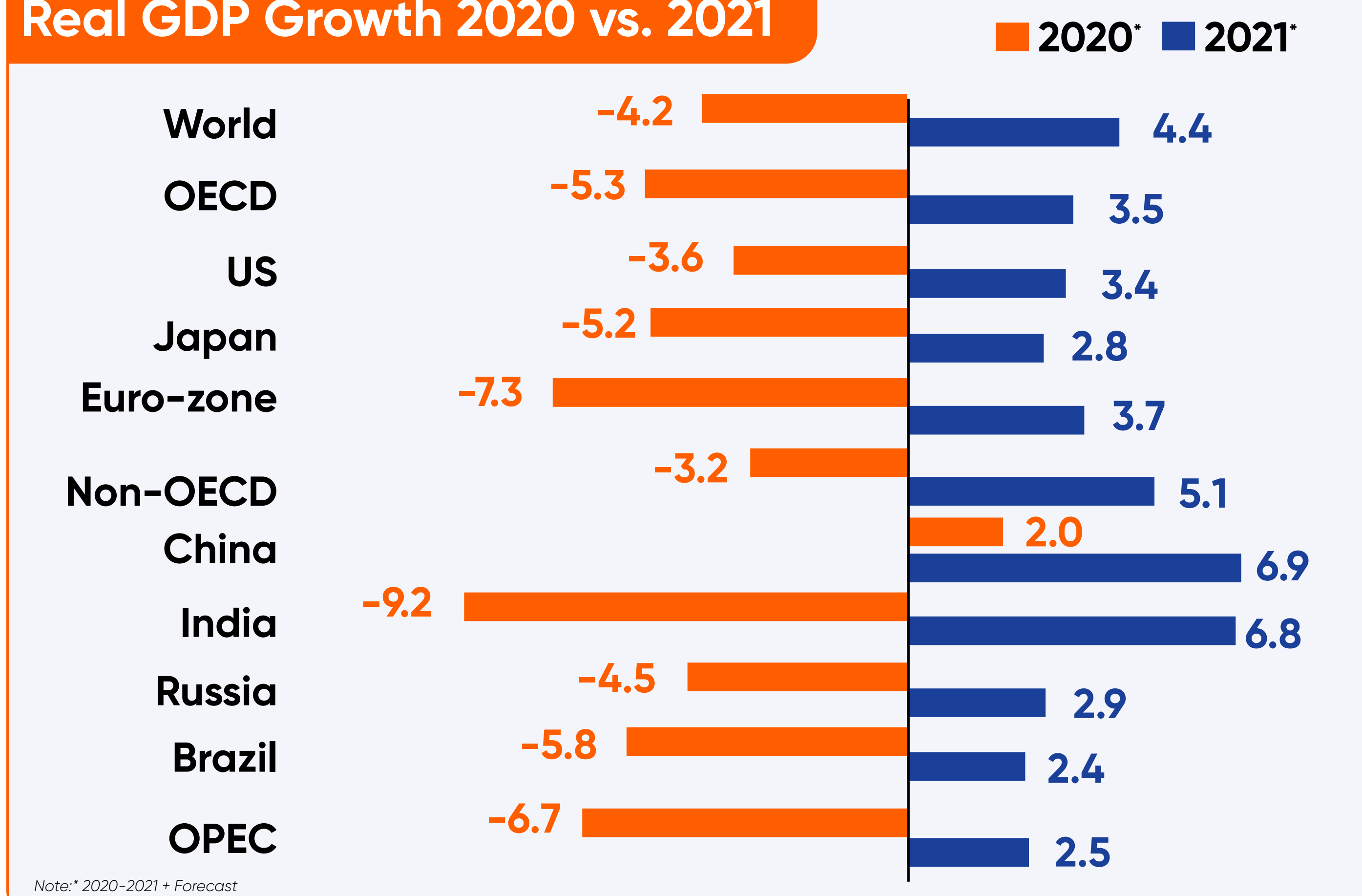
Overall world oil demand for 2020 is expected to decline by 9.77mn b/d owing to weaker than predicted Q3 demand for transportation fuel in Europe and the US. A second wave of Covid-19 lockdowns across most OECD countries has slowed overall demand recovery and forced downward revisions of end of year total energy consumption forecasts. Recent news surrounding Covid-19 vaccines has brought optimism to energy markets, but uncertainties for H1 2021 remain high surrounding the public rollout of vaccines and unknown timeline of a return to normal consumer behaviors.

World Oil Demand	Q4, 2020	2019	2020	Growth Change
	93.47mn b/d	99.76mn b/d	89.99mn b/d	-9.79 %

Source: OPEC, *2020 Forecasted Figures

Global GDP is expected to rebound in 2021 as the world overcomes the Covid-19 pandemic. The speed of recovery will be dependent on vaccine rollouts to the public but will mainly be driven by emerging markets, especially in Asia. Most uncertainties should be alleviated by H2, as many vaccination programmes across the world will have been implemented by then.

Real GDP Growth 2020 vs. 2021



Note:* 2020-2021 + Forecast
Source: OPEC

Crude Oil Futures

Oil prices rose in Q4, off the back of improving oil demand fundamentals and the developments of Covid-19 vaccines. Hedge funds and money managers have turned more positive for the outlook of oil prices as optimism for demand recovery strengthens. Oil prices have also moved from contango to backwardation due to strong demand from Asia and the continued effectiveness of supply management form OPEC+.

Sources: IEA, OPEC

	OCTOBER 2020	NOVEMBER 2020	CHANGE (OCT./NOV.)	YEAR-ON-YEAR (Y-O-Y)	
				2019	2020
WTI	$39.55/bl	$41.35/bl	4.5%	$56.79/bl	$38.61/bl
BRENT	$41.52/bl	$43.98/bl	5.9%	$64.08/bl	$42.56/bl
DME OMAN	$41.13/bl	$44.03/bl	7.1%	$63.83/bl	$42.35/bl
SPREAD					
Brent-WTI	$1.97/bl	$2.63/bl	33.7%	$7.28/bl	$3.95/bl

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

Sources: CME, DME, ICE, OPEC

OPEC+ Agrees to Gradually Increase Production Quotas

In January 2021, OPEC+ participating countries will adjust production cuts by 0.5mn b/d, from 7.7mn b/d to 7.2mn b/d. The organisation and participating countries will also meet monthly moving forward to assess market conditions and decide on further production adjustments. Any monthly adjustments to production moving forward will be no more than 0.5mn b/d.

Source: The 12th OPEC and non-OPEC Ministerial Meeting; December 3, 2020

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

"Our Member Countries and participants in the DoC proved once again that we are cohesive... The oil market responded immediately in a positive manner with statements made that the actions reinforce the conviction that the DoC is focused on maintaining its steady and stable course through 2021."

Source: The 19th Nigeria Oil and Gas Conference; December 8, 2020

MASHREQ OPINION EDITORIAL

Rethinking Energy Projects' Status Quo

**By Badar Chaudhry,
Senior Vice President, Unit Manager, Energy Sector, Mashreq Bank**

A constant rush to build as much infrastructure and curate as much talent as possible is a narrative that has long pervaded the fossil fuel boom. But the energy transition – especially its surprising acceleration this year – is changing that. Now the burgeoning push to find project financing for new types of greener energy projects and innovations, notably renewables, nuclear and liquified natural gas (LNG), is raising a very pressing question. How to avoid a potentially financially crippling surge in stranded fossil fuel assets, notably coal and oil?

A $900bn red flag

The cost of writing off stranded assets could reach $900bn worldwide – or one third of the current value of big oil and gas companies – if governments aggressively tried to meet the limit of 2°C, according to the Financial Times' Lex. Consider the financial burden of this figure amid lower oil prices, the economic strain of the Covid-19 pandemic, plus the cost of the energy transition. Wood Mackenzie expects a minimum of $30-$40trn of investment is needed to put the world on a 2°C or lower pathway.

Of course, the potential financial strain will differ region-to-region. For example, oil and gas will remain a central part of the Middle East's energy basket up to 2050. This is not a failure, but key to sustaining energy security as the world finds its greener footing. That the 'last drop of commercial oil' will very likely be from a Middle Eastern well reduces the region's immediate risk of stranded assets, but the risk must still be factored in as the renewable portfolio matures. The combined shares of oil and gas as part of the region's energy mix will fall from 98% in 2018 to 61% in 2040 with a Rapid scenario, 37% in a Net Zero scenario, and 79% in a Business as Usual (BAU) scenario, according to BP Outlook.

Pick your path

So, how to mitigate the risk of losing the billions of dollars invested in existing fossil fuel infrastructure, much of it based on multi-decade contracts and multi-decade debt packages? One route is to continue business as usual and risk the hyperbole image of stranded assets – a bleak landscape with rusting infrastructure en masse creaking in the wind – becoming an expensive reality in the next few decades.

Another route is one of proactivity, which sees legacy infrastructure getting a reboot to make it more aligned with the Paris Agreement goals. Broadly speaking, this means embracing a circular carbon economy (CCE), which in turn, includes bolstering energy efficiency within legacy infrastructure, updating human resources skillsets, and applying the digital tools of the 4th Industrial Revolution (4IR) to help maximise value and relevance.

This is an undeniably vast and complex task, but it is our best chance at stabilising the environmental and economically human-induced elements of climate change. Improving energy efficiency and switching to renewable energy will address 55% of global greenhouse gas (GHG) emissions, detailed the Ellen McArthur Foundation. But by adopting circular practices, the world can reduce a significant proportion of the remaining 45%.

The systems-based approach of a circular carbon economy combines economic opportunity with better environmental and societal outcomes by addressing the multitude of facets of the energy transition – i.e. water scarcity, loss of biodiversity, packaging pollution and more. All parties in all industries must zoom their lower carbon microscopes on their supply chains – both linear and interconnecting – to redefine environmental efficiency from production through to the end user. And back again. Climate finance plays a vital role in this positive disruption, starting with educating stakeholders about what greener finance means and how to leverage it.

Plus, the price tag of this route is far less than that of stranded assets or the catastrophic impacts of unmitigated climate change. Payback margins are increasingly appealing in today's economic environment. For example, the Global Commission on Adaptation (GCA) calculated that every dollar invested in building climate resilience could result in between $2-$10 in net economic benefits.

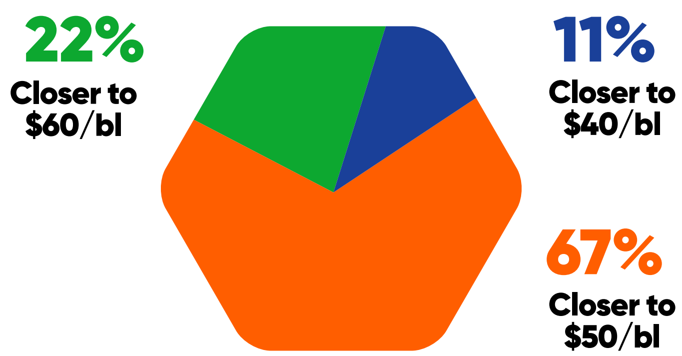
Domino effect

Let us not forget that the value of a circular carbon economy goes far beyond ticking sustainability boxes in the energy transition. It also directly links to lower resource scarcity and geopolitical tensions. The Ecological Threat Register 2020 results show that 141 countries are exposed to at least one ecological threat between now and 2050. The 19 countries with the highest number of threats have a population of 2.1bn. This mean a minimum of 20% of the global population by mid-century would be significantly affected.

The economic fallout alone of this global ricochet of disruption – something the world has already witnessed with Covid-19 – would be life-changing for many more billions of people. We have the solution for reducing the risk of stranded assets via a circular carbon economy at our fingertips. Now we just need to proactively reach for it.

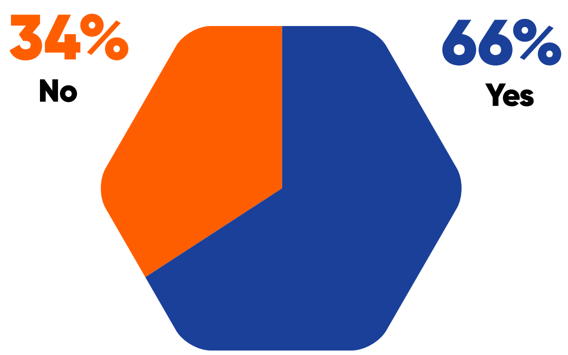
Outlook for Q4, 2020

What will be the average price of Brent crude oil in 2021?



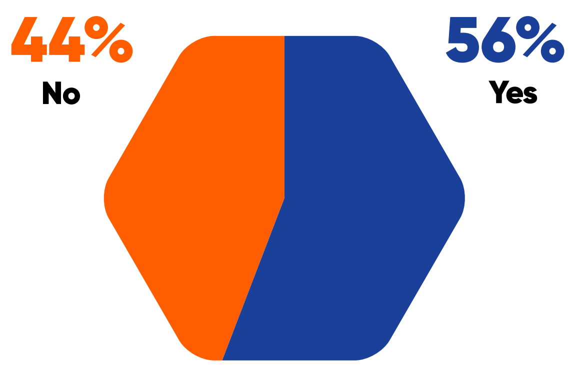
H1 2021 will be a lot like H2 2020 when it comes to Covid-19 disruption to economic recovery.

Will we see shale oil once again surprising markets in 2021 with its resiliency to recover?



Does OPEC+ drawn out deal-making last week embed confidence or concern for continued cohesion in 2021?

Do you expect OPEC+ to pump more than the agreed +500k b/d in January 2021?



Source: GIQ

Energy News Highlights

Q4, 2020

OCTOBER

October 2nd
Oil Price Slide Continues on Trump's Positive Covid-19 Test
Oil extended its losses as it got caught up in a broad downward move in financial markets after President Donald Trump said he had tested positive for the Covid-19 virus. Trump's positive result will likely sharpen already intense attention on his handling of the pandemic as he campaigns for re-election against Democrat Joe Biden, who leads in national polls.

Source: World Oil

October 8th
OPEC Says Oil Demand to Plateau in Late 2030s
World oil demand will plateau in the late 2030s and could by then have begun to decline, OPEC said on Thursday, in a major shift for the producer group that reflects the lasting impact of the coronavirus crisis on the economy and consumer habits.

Source: The National

October 19th
Oil Industry Turns to Mergers and Acquisitions to Survive
With the price of a barrel stuck around $40/bl and no recovery in sight, companies are combining to cut costs and ride out the pandemic. Most companies have cut back drilling, laid off workers and written off assets. Now some are seeking out merger and acquisition targets to reduce costs.

Source: The New York Times

NOVEMBER

November 7th
Joe Biden Wins US Presidency After Bitter Contest with Trump
Joe Biden has defeated Donald Trump to become the 46th US president, unseating the incumbent with a pledge to unify and mend a nation reeling from a worsening pandemic, faltering economy and deep political divisions.

Source: Bloomberg

November 9th
Pfizer and BioNTech Announce Vaccine Against Covid-19
The first effective coronavirus vaccine can prevent more than 90% of people from getting Covid-19. No vaccine has gone from the drawing board to being proven highly effective in such a short period of time. There are still huge challenges ahead, but the announcement has been warmly welcomed with scientists.

Source: BBC

November 19th
UAE Builds Tension within OPEC over Oil Production Caps
The United Arab Emirates ratcheted up tension with oil allies in OPEC+ with officials privately questioning the benefits of being in the producers' alliance and even considering whether to leave it. The UAE has not said publicly it's debating its membership, let alone planning to exit. And officials briefed the media under condition they would not be named, allowing room for maneuver if they later want to distance themselves from the comments.

Source: Bloomberg

DECEMBER

December 3rd
IEA says Covid-19 Weighs on Energy Efficiency Progress
Global progress towards energy efficiency hit its slowest in 10 years, the IEA has said, adding that the impact of the Covid-19 pandemic led to reduced investments. The IEA expects global energy efficiency investments to decline by 9% in 2020.

Source: Argus

December 4th
OPEC+ Agrees to Raise Oil Supply from January
OPEC and Russia have struck a cautious deal to boost oil supply from January, as producer countries seek to release more barrels into the market despite new waves of Covid-19 persistently weighing on demand. Producers agreed to raise output by 500,000 b/d in January 2021.

Source: Deccan Herald

December 15th
Oil Jumps to Highest Since February Amid Stimulus Optimism
Oil surged to the highest in nearly 10 months alongside a broader market rally as breakthroughs on US stimulus talks combined with the Covid-19 vaccine rollout stoked optimism around a demand revival. US benchmark crude futures rose 1.3% on after Senate Majority Leader Mitch McConnell said US Congress will not leave for the year without a spending package.

Source: Bloomberg

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80%-90%

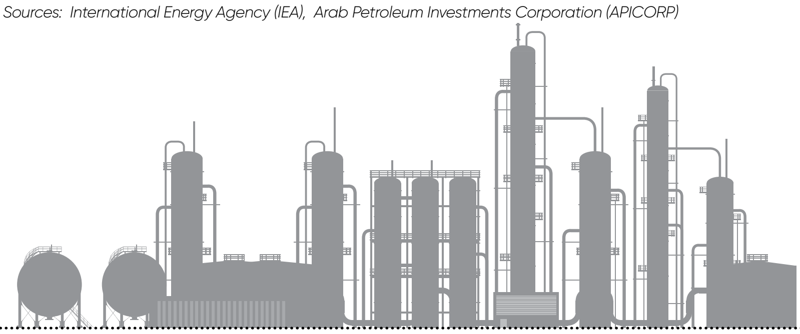
of CO_2 **emissions** could be **reduced in the atmosphere** by applying **carbon capture and storage (CCS) technologies** to **conventional power plants** that **burn fossil fuels**.

Sources: The Intergovernmental Panel on Climate Change, Center for Science Education

$95bn

is the **forecast** for planned **petrochemical projects** during the period **2020-2024**, with the sector accounting for **60% of global oil demand** over the **next decade**.

Sources: International Energy Agency (IEA), Arab Petroleum Investments Corporation (APICORP)



60%

of **greenhouse gas** emissions can be **reduced** by **replacing coal with natural gas** for power generation, ensuring that **natural gas** has a **key role to play** in the current and future **global energy mix**.

Source: ExxonMobil

2026

is the forecasted date for **when natural gas will surpass oil as the world's largest energy source**, highlighting its role as a **bridge fuel for the energy transition**.

Source: DNV GL - Energy Transition Outlook 2020

Natural Gas Demand will Grow for Years to Come

1.5%

is the expected **final yearly average growth rate** of global demand for **natural gas** between **2019-2025**.

Source: International Energy Agency (IEA): 2021-2025 - Rebound and beyond