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Outlook and Challenges for Oil Market

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Key Points of the Report

1. Although global oil demand in 2021 will grow to 97.9 million b/d, a 6.6 million b/d increase over 2020, owing to a slowdown in COVID-19 cases and to the growing economic recovery, it will not surpass the level in 2019 (which was 1.9 million b/d higher). Supply will also increase by 4.3 million b/d over 2020 to 99.5 million b/d. While 2021 should see a slight oversupply, continued demand growth should find the market gradually reach a supply-demand equilibrium.
2. International oil prices (Brent Crude) in 2021 will average $50/bbl, fluctuating in a $5 range. Uncertainties that could lead to lower prices include the lingering COVID-19 pandemic, global economic stagnation, a quick recovery of production in Iran (due to loosening of economic sanctions), loosening production decreases by OPEC Plus, and increased U.S. oil production (-5 USD compared to the base scenario). Conversely, factors that could boost prices include ending the pandemic quickly, an upturn in the global economy, demand led by China, and increased tensions in the Middle East (+5 USD compared to the base scenario).

The Global Oil Supply

3. Global oil demand decreased 7.8 million b/d (7.8%) year-over-year in 3Q 2020 to 93 million b/d. While this is a significant rise up from the 83.1 million b/d (down 16.2 million b/d year-over-year) of 2Q, when demand plummeted amid the outbreak of COVID-19, a second wave of COVID-19 cases is seeing this recovery falter, especially for jet fuel.
4. Global oil production decreased 9.2 million b/d (9.2%) year-over-year in 3Q 2020 to 91.1 million b/d, dropped below 92.1 b/d of 2Q 2020 due to strict observance of a policy to decrease production by OPEC Plus, as well as slow recoveries in the U.S., Canada, and elsewhere.

Trends Concerning OPEC and Major Countries

5. OPEC Plus's November 2020 production volume was 34.3 million b/d. With a production cut compliance rate of 101% that excludes three countries exempt from compliance, the coordinated production cut is being strictly upheld. At a joint ministerial meeting held on December 3, OPEC reached a decision to review its monthly production cut amounts going forward, agreeing to relax its current production cut by 0.5 million b/d (a decrease of 7.2 million b/d compared to base production) at the beginning of 2021. It is expected to decide on production levels based on the supply and demand situation.
6. Due to the impact of COVID-19, 2Q 2020 demand in the U.S. dropped 4.2 million b/d (20.8%) year-over-year to 16.1 million b/d. The rate of decrease by oil type was 75.9% for jet fuel and 25.0% for gasoline. By month, production hit bottom at 14.7 million b/d in April and recovered to 18.4 million b/d by August. 2Q 2020 production in the U.S. decreased 1.3 million b/d year-over-year (10.7%) to 10.8 million b/d as a result of declining oil prices. Likewise, the number of oil rigs in operation in U.S. also bottomed out at hundred and 80 rigs in July/August 2020, and has been rising since. Many will be watching to see if the oil policies of the incoming administration (including prohibiting drilling on federal land or pipeline construction) will impact oil production.
7. 2Q 2020 demand in China increased 1.07 million b/d (12.0%) year-over-year to 15.6 million b/d, a rapid recovery from the 13.1 million b/d of 1Q, when the COVID-19 outbreak prompted demand to bottom out. Due to trade friction between the U.S. and China, there was no import record from the U.S. for December 2019 through May 2020.

Inventories and Finance Market

8. OECD commercial oil inventories remained at a high 3.129 billion barrels as of October 2020. Although OECD commercial oil inventories began surging in February 2020 due to a plunge in demand brought on by COVID-19, numbers have been declining slightly since May as a result of such factors as OPEC Plus' production decreases and a recovery in demand.
9. In the World Economic Outlook Report released in October, the IMF set the global economic growth rate at -4.4% for 2020 and 5.2% for 2021, an upward revision for the former and downward revision for the latter

compared to the June forecast.

10. Although there was some degree of correlation between U.S. stock prices and oil prices when oil prices dropped due to COVID-19 and when they rose afterwards, a divergence was seen when oil prices stagnated amid the second wave of infections that began in August 2020. However, stock prices have once again synchronized with oil prices starting in November, when expectations towards a vaccine began driving stock prices up.

Japanese Market

11. Oil (fuel oil) demand for 3Q 2020 was 11.98 million kl (2.46 million b/d) per month on average, a 9.1% (1.2 million kl) year-over-year decrease and 9.2% increase over the 11.02 million kl (2.26 million b/d) in 2Q, when COVID-19 case numbers were at their worst. Due to a decline in structural demand, as well as lower demand prompted by the pandemic, topper utilization rate in refinery dropped to a low 64% in 2Q 2020, and 59% in May alone.
12. Amid strong oil price volatility, to date, the domestic petroleum products market has been tracking the procurement cost of crude oil (yen-denominated import price of oil), with a two-to-three-week lag.
13. Further decarbonization is expected in Japan. This will require oil industry players make parallel efforts to reinvent business models while maintaining a stable oil supply, including for depopulated areas, even during times of emergency, SS measures for depopulated areas and maintaining a stable oil supply, including during times of emergency.

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