



# Covid-19 Pandemic: the outlook for oil markets and price

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## 1. What are the key uncertainties?

- **The length of the pandemic?**
- **Behavioral change: blip or discontinuity?**

## 2. What is the impact of the pandemic?

- **Short term – during 2020**
- **Medium term – 2021-25**
- **Longer term – post 2025**

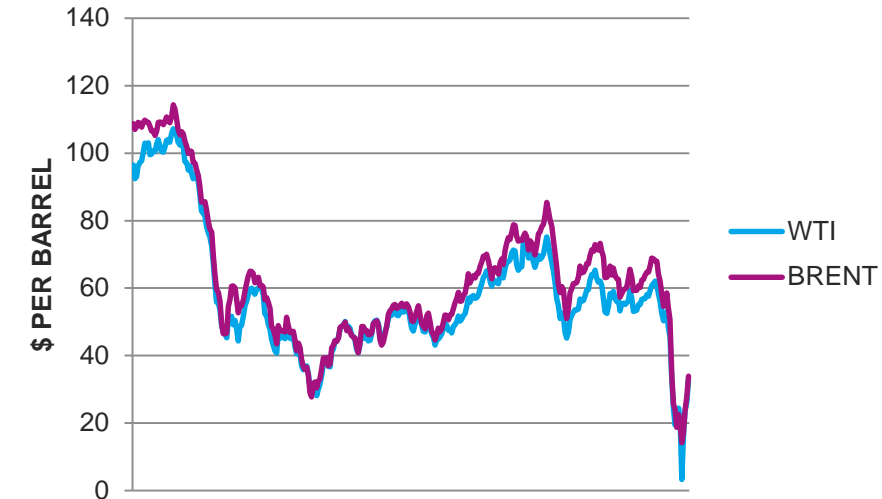
# The key uncertainties

- The length of the pandemic?
  - Requires an effective, widely available vaccine
  
- Behavioral change: blip or discontinuity?
  - Major behaviour changes largely the result of government intervention but also voluntary action
  - Changes in working practices
  - Concerns over self-sufficiency

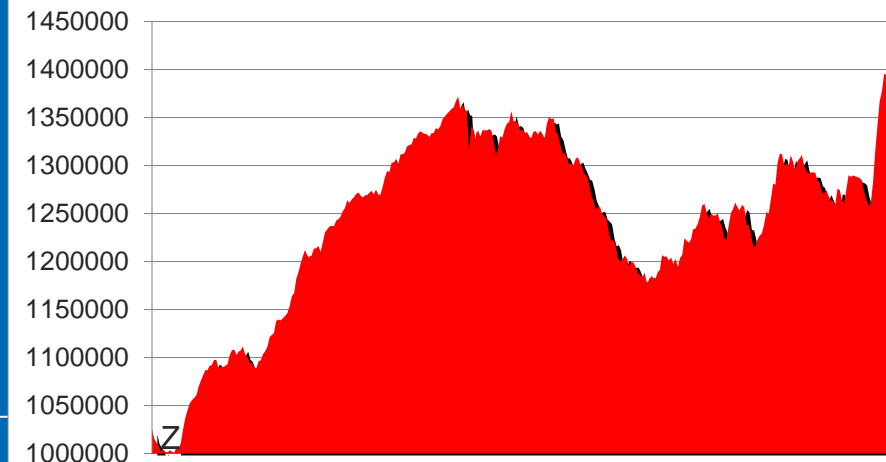
# SHORT TERM IMPACT

- OIL MARKETS PRE-COVID-19 PANDEMIC
  - OVER-SUPPLY LEGACY OF 2014
  - OPEC+ STRUGGLING THEN COLLAPSES
  - PRICE WAR – SAUDI VERSUS RUSSIA
  - INVENTORIES RISING
  
- COVID-19 = LOCK-DOWN AND ECONOMIC COLLAPSE
  
- OIL DEMAND COLLAPSES
  - GUESSTIMATES AND DATA ACCURACY?
  
- PRICE COLLAPSES DRAMATICALLY
  - FORCES ‘OPEC+ AGREEMENT’ REVIVAL
  - BUT OVERSUPPLY CONTINUES TO DOMINATE

WEEKLY SPOT PRICES 2014-MAY 2020

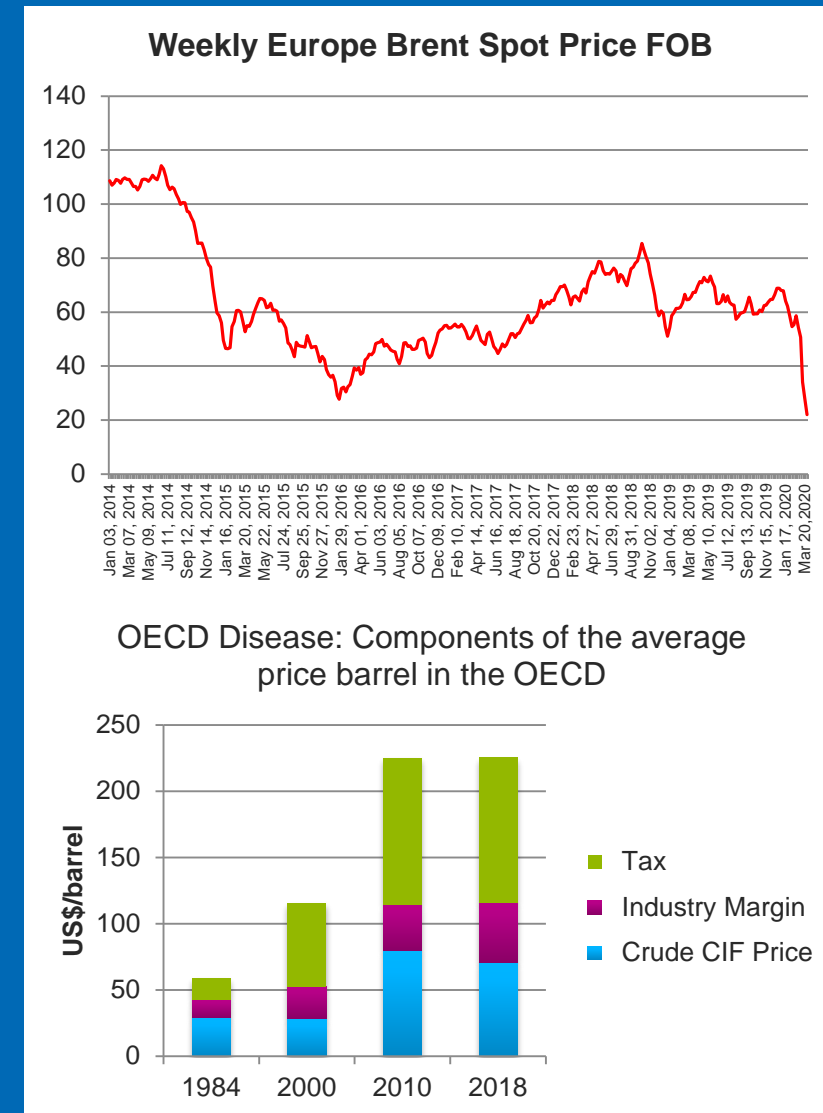


Stocks excluding SPR of Crude and Products ('000 Barrels) 2014-MAY 2020



# MEDIUM TERM IMPACT - DEMAND

- LOCK-DOWN = ECONOMIC COLLAPSE: ECONOMETRIC MODELS NOT SUITABLE TO FORECAST
- WILL THE COLLAPSE IN OIL PRICE INCREASE DEMAND?
  - “OECD DISEASE” AND BUDGET DEFECITS
  - LOWER CRUDE PRICES VERSUS PRODUCT PRICES?
- PROSPECTS FOR TRANSPORT = 60 PERCENT OF LIQUID FUELS
  - PHYSICAL DISTANCING: PUBLIC TRANSPORT VERSUS CARS?
  - HOME WORKING?
- LONG LASTING ECONOMIC RECESSION TRIGGERED?
  - STIMULUS PACKAGES VS BUDGET DEFICITS CONSUMER AND PRECAUTIONARY SAVINGS
  - SELF SUFFICIENCY AND TRADE WARS?



# MEDIUM TERM IMPACT - SUPPLY

## OIL PRODUCERS – BUDGET DISASTER

FAILED STATES IN MENA?

SERIOUS CONFLICT IN MENA, DAMAGING INFRASTRUCTURE?

## IOCs STRUGGLING FINANACIALLY

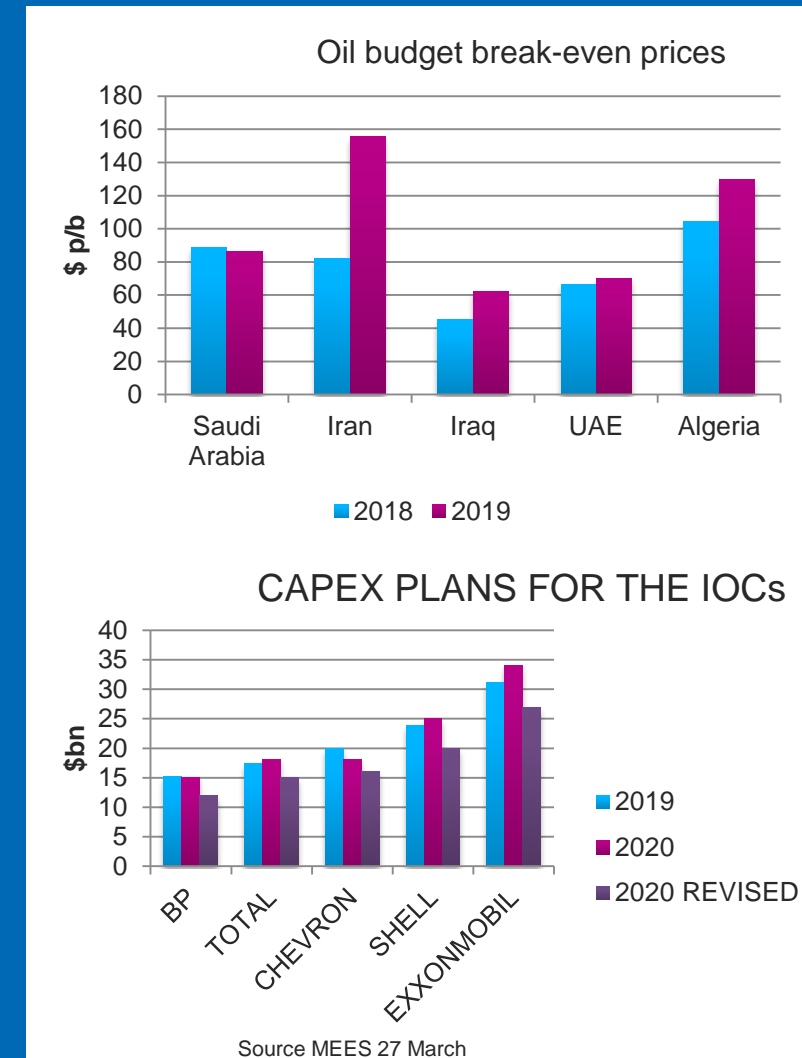
IEA – GLOBAL O&G CAPEX DOWN 33% IN 2020 – US SHALE  
DOWN 50%

## NOCs STRUGGLING

STARVED OF FUNDS

## AN IMPENDING SUPPLY CRUNCH?

NATURAL DECLINES RATES: WHAT IF DEMAND  
RECOVERS?



# MEDIUM TERM -PRICES

- OVER SUPPLY WILL CONTINUE TO RESTRAIN CRUDE PRICES
  - ‘OPEC+ AGREEMENT’ UNRAVELS? = PRICE COMPETITION
  - PRICE RECOVERY: US TIGHT OIL CREATES A PRICE CAP?
  - DEMAND SLOW TO RECOVER GIVEN THE PROSPECTS OF A GLOBAL RECESSION
  
- RENEWABLES ENCOURAGED BECAUSE?
  - DRIVE TO NET ZERO CARBON EMISSIONS
  - SELF-SUFFICIENCY BECOMES A POLICY IMPERATIVE
  - ENERGY POVERTY MOVES UP THE POLICY AGENDA

# LONGER TERM IMPACT

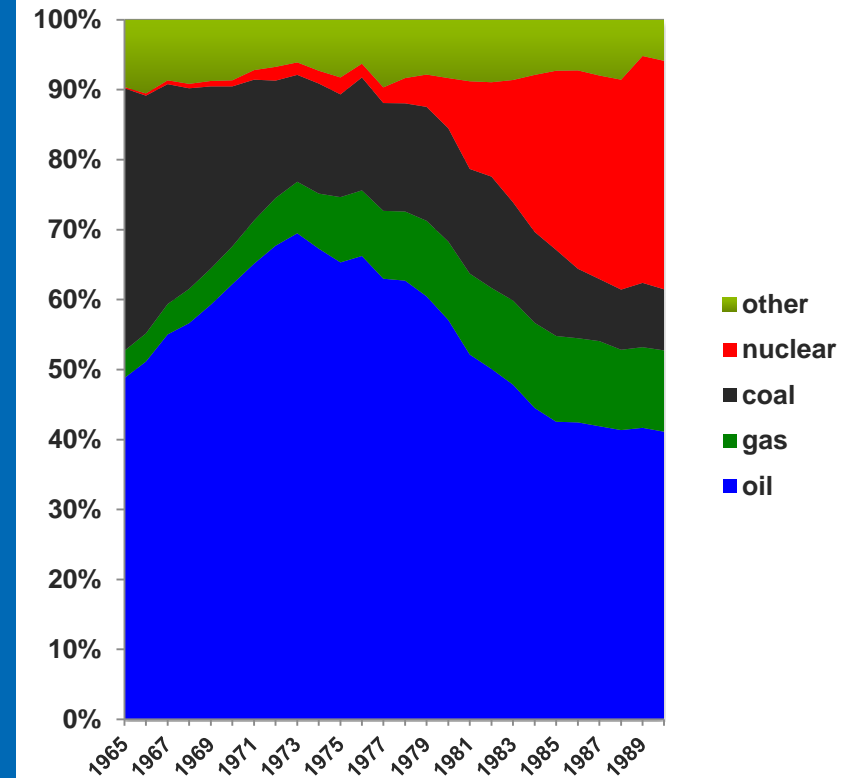
## THE ENERGY TRANSITION CONTINUES?

- CAN BE VERY QUICK IF GOVERNMENTS INTERVENE
- DRIVE TO NET ZERO WILL SPEED IT UP

## WHAT IF THE TRANSITION LOSES MOMENTUM?

- POLITICAL WILL = DISTRACTED BY COVID-19?
- CHEAPER FOSSIL FUELS –ESPECIALLY GAS?
- FUTURE FOR IOCS?
  - DIVERSIFYING = POOR RECORD – LIMITED ECONOMIC RENT IN RENEWABLES
  - KEEPING THEIR SHAREHOLDERS ON BOARD

France primary energy consumption 1965-1990





# ANY OVERALL CONCLUSIONS?

THERE IS HUGE UNCERTAINTY THAT WILL IMPACT:

- INVESTMENT DECISIONS
- PRECAUTIONARY SAVINGS
- THE PROGRESS/SPEED OF THE ENERGY TRANSITION
- TOGETHER THIS IS BAD NEWS FOR THE OIL EXPORTING COUNTRIES WHO HAVE FAILED TO DIVERSIFY

Research Paper

Paul Stevens

Energy, Environment and Resources Department | August 2019

## The Geopolitical Implications of Future Oil Demand

[https://www.chathamhouse.org/publication/  
geopolitical-implications-future-oil-demand](https://www.chathamhouse.org/publication/geopolitical-implications-future-oil-demand)



# THANK YOU FOR YOUR ATTENTION



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