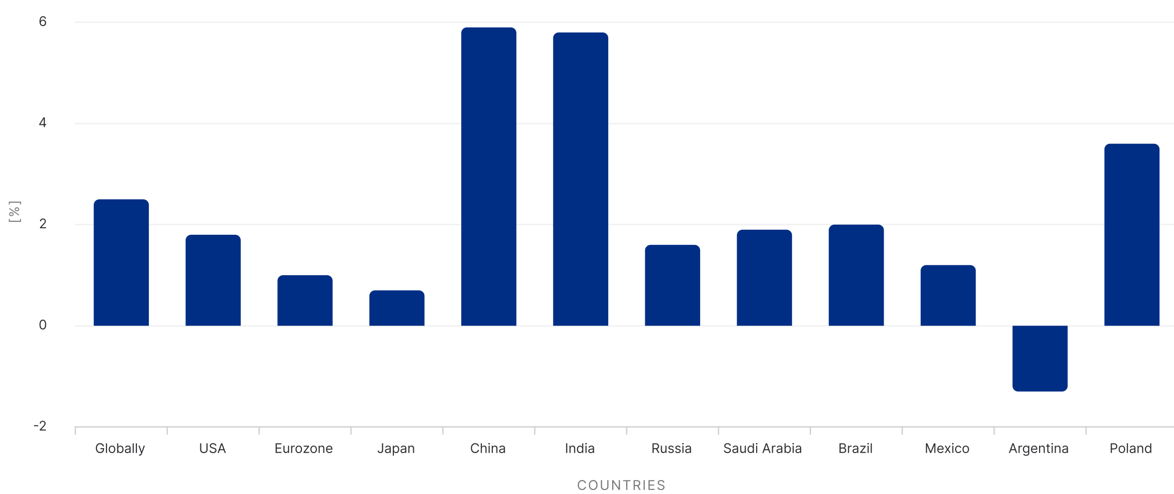
Future challenges and global forecasts

The World Bank expects Gross World Product to rise 2.5% in 2020. The economies of Eastern Asia and the Pacific will grow significantly, by 4.1%, with China alone registering a growth rate of 5.9%. GDP in Southern Asia is also expected to grow at a strong rate, by 5.5%, with India's economy expanding by 5.8%.

Proprietary indicator 1

According to the World Bank, the economic growth in developed countries will be markedly lower. The US, eurozone and Japanese economies will grow by 1.8%, 1.7% and 0.7%, respectively. Russia's economic growth will slightly accelerate (to 1.6%). Despite an economic recovery, the GDP growth rate in South America is expected to be weak, including in Brazil (up 2.0%) and Mexico (up 1.2%). Argentina, whose GDP will shrink by 1.3%, will continue to be affected by recession[1]. Poland will be among the fastest-growing countries in the EU, with an expected growth rate of 3.6%.

Projected economic growth rate in 2020 (%)



Source: In-house analysis based on World Bank data.

The International Energy Agency (IEA) expects oil demand to reach 101.5m barrels per day in 2020, a 1.2% increase year on year. Asia-Pacific will continue to account for the largest increase in consumption (with India's and China's economic situation playing the key role). Recent reforms introduced by India's government are likely to accelerate the country's economic growth. As at the date of release of this report, there is a global threat from the coronavirus pandemic, which may adversely affect the projected macroeconomic indicators in 2020 and thus the global refining margins.

In other regions, demand for crude oil is expected to stabilise at current levels.

As natural gas is a greener fuel, its prominence in the global energy mix is expected to rise (according to IEA, as of 2030 natural gas will play a more important role in the energy mix than coal).

Crude oil production is expected to continue on an upward trend (unconventional deposits) in the US and several other countries, including: Norway (increased output following the launch of production from the Johan Sverdrup field), Brazil (record-high output; Brazil's government is considering whether to open accession negotiations with OPEC in 2020), Canada (with record-high output again), Argentina (production from unconventional deposits, including Vaca Muerta) and Guyana (first oil exports to international markets in late 2019). Give the persisting oil oversupply, decisions taken by OPEC and non-OPEC countries, which have been working together to balance the market since 2017, will continue to play a vital role. Tensions in the Middle East and North Africa will probably have some bearing on the availability and price of crude oil in 2020.

Owing to a high level of global oil stocks (currently 9m barrels above the five-year average) and OPEC's spare capacity, one can expect that the impact on crude oil prices of potential supply disruption caused by geopolitical instabilities or environmental conditions will be limited.

Key challenges to European refineries will include growing competition from oil refiners located in the Middle East, Asia and the Pacific (India, China) and Russia, especially during periods of lower demand for fuels. In the long term, potential expansion of Africa's oil processing capacities may intensify competition between refineries in the regions which have for years imported gasoline from Europe. In 2022–2023, the Dangote Group will construct the largest refinery in Nigeria, with a capacity to process 650 thousand b/d. It is expected that their key market in Europe will be the Mediterranean region, but this will nevertheless have an impact on the fuel supply-demand balance on the continent. Another possible risk is a further decline and low level of crack spreads for light distillates (motor gasolines and naphtha), as well as falling supply of heavy crudes, which may keep the Urals-Brent spread low.

OPEC expects that, given the stagnant economic growth and low fuel demand, coupled with a growing role of other energy sources, by 2040 the utilisation rate of global refining capacities is likely to decline, resulting in plant closures.

[1] Source: Global Economic Prospects. Slow Growth. Policy Challenges, World Bank, January 2020.

Refining capacity utilisation in 2018 and in 2040 (%)