جدوى للإستثمار
Jadwa Investment

April 2021

Quarterly Oil Market Update

Small bump on the road to recovery

Summary

- The recovery in global oil demand reversed course during the first quarter of 2021 (Figure 1), with OPEC's monthly oil market report showing declines of 780 thousand barrels per day (tbpd) or -0.8 percent quarter-on-quarter in Q1. Looking ahead, according to OPEC forecasts, oil demand will resume rising on a quarterly basis during the rest of the year, but still end up 3.5 percent lower than pre-Covid-19 levels by the end of 2021.

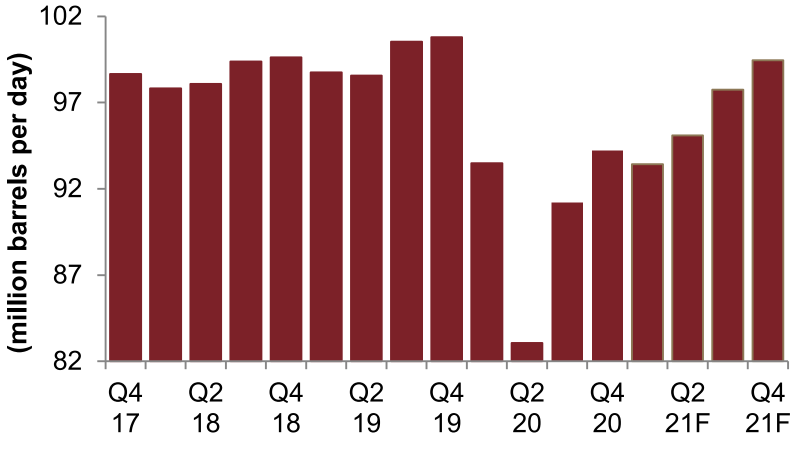
- On the supply side, OPEC and partners (OPEC+) saw exceptional compliance to agreed output levels in the first quarter of 2021, at an average of 109 percent. Looking ahead, the alliance recently agreed to unwind 2.1 million barrels per day (mbpd) of oil from May to July, with a reversal of Saudi Arabia's voluntary 1 mbpd reduction included in the agreement.

- Brent oil prices averaged $61 per barrel (pb) during Q1, rising by a huge 39 percent quarter-on-quarter. Looking ahead, a faster roll-out of vaccines around the world is expected to accelerate the recovery in the global economy, which, in turn, will support oil demand and prices.

- We note that OPEC+ has been more flexible and adaptive since the onset of the pandemic and, faced with continuing uncertainty, we expect the alliance to maintain its proactive approach to oil output, thereby ensuring some degree of stability in oil prices moving forward. More specifically, any major negative impact on oil demand from now would, in our view, result in OPEC+ reacting quickly, quite possibly reversing or slowing down the recently agreed decision to unwind 2.1 mbpd over May-July.

- Meanwhile, we have updated our economic forecast for Saudi Arabia to reflect recent oil market developments. Our Brent oil price forecast has been revised upwards (to $62 per barrel), whilst Saudi crude oil output has been revised down to 9 mbpd (vs. 9.3 mbpd previously) for full year 2021. Running the updated numbers through our model results in an improved fiscal position for the Kingdom, primarily as a result of higher oil revenue.

Figure 1: Quarterly decline in global oil demand seen in Q1 2021



For comments and queries please contact:

Asad Khan
Head of Research
rkhan@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Released: April-21-2021, 17:30 UTC+3

The recovery in global oil demand reversed course during the first quarter of 2021…

...with OPEC's monthly oil market report showing declines of 780 tbpd or -0.8 percent quarter-on-quarter in Q1.

Looking ahead, oil demand will resume rising on a quarterly basis during the rest of the year…

...but still end up 3.5 percent lower than pre-Covid-19 levels by the end of 2021.

In the US, data shows that total energy consumption in the first quarter of 2021 declined by 1 percent compared to Q4 2020.

A bump in the road for oil demand recovery:

The recovery in global oil demand reversed course during the first quarter of 2021, with OPEC's monthly oil market report showing declines of 780 tbpd or -0.8 percent quarter-on-quarter in Q1. That said, the decline was not universal. The Americas (representing circa 26 percent of global oil demand) saw a rise of 3 percent quarter-on-quarter, whilst Middle east, Africa and Russia (together representing circa 19 percent of oil demand) witnessed rises of 2.9, 3, and 4.1 percent quarter-on-quarter, respectively. Latin America (6.6 percent of oil demand) and Other Asia (9 percent of oil demand) remained relatively flat. On the other hand, demand for oil in China (14 percent of oil demand) fell by 9 percent quarter-on-quarter, followed by India where demand declined by 4 percent, and European consumption also fell by 3.5 percent quarter-on-quarter.

Looking ahead, according to OPEC forecasts, oil demand will rise by 1.66 mbpd in Q2 2021 quarter-on-quarter and will continue rising on a quarterly basis during the rest of the year, but still end up 3.5 percent lower than pre-Covid-19 levels by the end of 2021 (at 96.5 mbpd versus 100 mbpd at the end of 2019). For full year 2021, OPEC expects global oil demand to rise by 6 mbpd on a yearly basis (or 6.6 percent), with the latest monthly oil report revising oil demand upwards by 60 tbpd compared to last month's report (Figure 2). Moreover, the four largest oil consuming countries/regions (US, China, India and Europe) are expected to account for just under two thirds (or 3.8 mbpd) of the total oil demand growth. The expected growth stems in part from the low baseline of 2020 and, more crucially, assumes a large rollout of vaccines, especially in the US and Europe.

In the **US (21 percent of global oil demand),** the Energy Information Administration's (EIA) data shows that total energy consumption in the first quarter of 2021 declined by 1 percent compared to Q4 2020 (at 614 tbpd), and was 4.3 percent lower than the same period last year. Looking at consumption on a product basis, gasoline (44 percent of total US demand), inched up by 0.7 percent compared to Q4 2020, but was down a sizable 5 percent year-on-year, an unsurprising decline given the baseline period was pre-Covid-19. That said, jet fuel (6 percent of US demand), grew by 3.2 percent on a quarterly basis in Q1 but was down a sizable 28 percent compared to the same period last year.

Looking ahead, an easing of mobility restrictions in most states, along with a newly introduced federal stimulus package, and more

Figure 2: OPEC's 2021 global oil demand growth forecast revised upwards in its most recent report

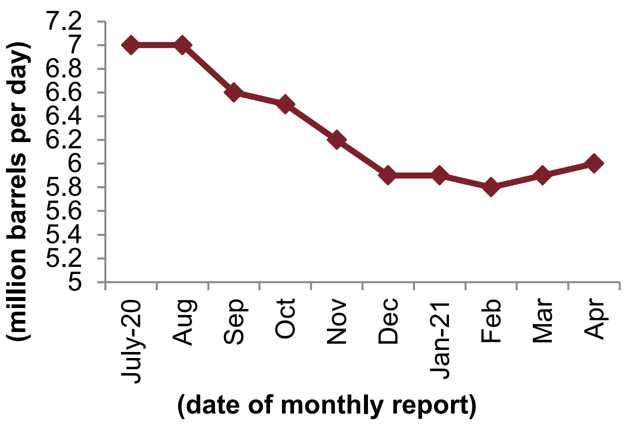
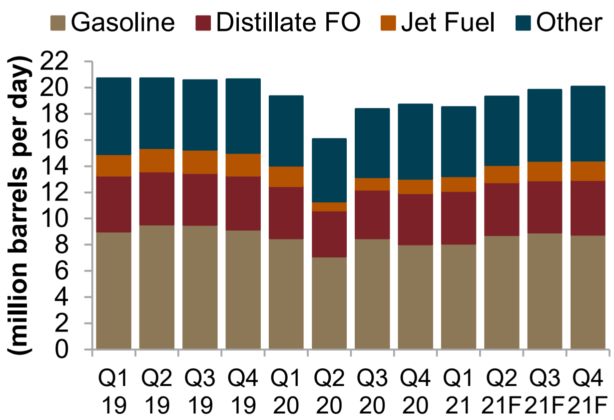


Figure 3: Gasoline and distillate fuel oil the main growth drivers in US consumption in 2021



The EIA expects demand for gasoline to hit a 21 month high in August…

...which will help raise total average annual consumption by 7.2 percent, compared to 2020.

wider distribution of vaccines, is expected to raise the number vehicle miles travelled. As a result, EIA expects demand for gasoline to hit a 21 month high in August, which will help raise gasoline consumption by 7 percent year-on-year in 2021. Overall, the EIA expects US liquid consumption to trend up on a quarterly basis from now on, with gasoline and distillate fuel oil being the main forces behind the growth in the annual increases (Figure 3). As such, total average annual consumption is expected to hit 19.4 mbpd in 2021, a 7.2 percent increase compared to 2020, but 5.4 percent less than pre-Covid-19 levels.

China saw the largest quarterly decline in oil demand during Q1 2021.

That said, oil imports were not affected, with rises seen on both a yearly (up 7 percent), and quarterly (up 10 percent) basis.

According to OPEC data, **China (14 percent of global oil demand)**, saw the largest quarterly decline (of 9 percent) in oil demand during Q1 2021, in a sharp contrast to a 14 percent rise on a yearly basis due to the low baseline. That said, oil imports were not affected, with rises seen on both a yearly (up 7 percent), and quarterly (up 10 percent) basis (Figure 4), mainly as a result of higher refining capacity (*as detailed in our previous Oil Update*). Looking ahead, Chinese oil demand is projected to improve along with continued economic recovery, with OPEC expecting a rise of 1.1 mbpd (or 8.4 percent) year-on-year in 2021, as demand is lifted as a result of higher consumption in transportation fuel. In line with this, recent data published by the Chinese Ministry of Culture and Tourism showed that domestic travel during the recent "Tomb-Sweeping" holiday was only 5 percent lower than pre-pandemic levels.

Slower EU vaccine roll-out has impacted oil demand…

...with forecasts for the remainder of the year highly sensitive to the speed of the vaccine roll-out.

The restriction on mobility related to measures taken to contain Covid-19 cases in **Europe (14 percent of demand)** resulted in oil demand growth falling into the negative territory in Q1 2021. OPEC data shows that Q1 oil demand declined by 3.5 percent quarter-on-quarter basis, continuing the downward trend seen in Q4. Looking ahead, whilst OPEC does expect a decent level of recovery in 2021, at 4.8 percent (or 600 tbpd) year-on-year, but this is dependent on the region reaching herd immunity by the end of 2021, and is therefore highly sensitive to the speed of the vaccine roll-out, with the European Union currently lagging against its US and UK counterparts (Figure 5).

India saw a decline in oil demand by 4.1 percent quarter-on-quarter in Q1, but rose by 2.1 percent over the same period last year.

India (5 percent of global oil demand) saw a decline in oil demand by 4.1 percent quarter-on-quarter in Q1, but rose by 2.1 percent over the same period last year. Looking ahead, OPEC expects oil demand to decline further in Q2 2021 before it rebounds in Q3 and Q4, with an improving economy leading to growth in the transportation and industrial sectors. Overall in 2021, despite the risk of a new variant in Covid-19, OPEC still expects Indian oil demand to

Figure 4: Chinese oil imports continued to show strong yearly and quarterly rises in Q1 2021

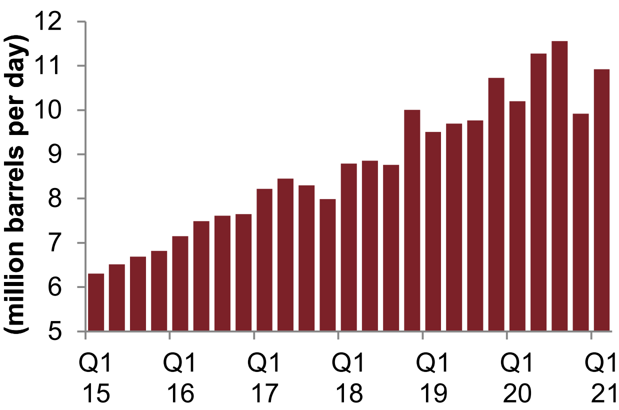
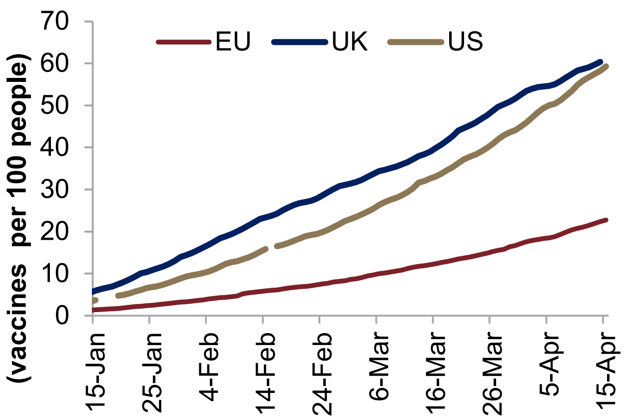


Figure 5: Slower EU vaccine roll-out has impacted oil demand



Overall in 2021, OPEC still expects Indian oil demand to rise by a sizable 13.4 percent year-on-year.

rise by a sizable 13.4 percent year-on-year, finishing the year 1.6 percent higher than pre-Covid-19 levels.

New variants and another wave in the virus has put a downward pressure on the largest oil consumer in the region, Brazil...

...despite this, OPEC still expects the region as a whole to register a 5.2 percent rise in full year 2021.

In **Other Asia (which includes Malaysia, Indonesia, and Singapore and makes up 9 percent share of global oil demand),** gasoline is expected to lead the growth in demand, with a higher diesel use in the industrial sector also contributing. However, a longer period of recovery in tourism activities is expected to put downward pressure on jet fuel, with overall demand in the region expected to rise by 5.5 percent year-on-year in 2021. Meanwhile, **Latin America's (7 percent share of oil demand)** demand remained relatively flat on both a quarterly and yearly basis. New variants and another wave in the virus has put a downward pressure on the largest oil consumer in the region, Brazil (40 percent of Latin American oil demand). Despite this, OPEC still expects the region as a whole to register a 5.2 percent rise in full year 2021.

OPEC+: Enduring discipline

OPEC+ saw exceptional compliance to agreed output levels in the first quarter of the 2021…

...at an average of 109 percent.

OPEC+ saw exceptional compliance to agreed output levels in the first quarter of 2021, at 109 percent. Although this (over) compliance was largely the result of Saudi Arabia's voluntary reduction of circa 1 mbpd (during February and March), it is worth noting that OPEC+ would still have registered around 100 percent compliance without the Kingdom's efforts (Figure 6). More specifically, amongst OPEC participants, Nigeria, Angola and Equatorial Guinea helped raise overall compliance, albeit as a result of 'catch up' reductions due to previous over-production (with the exception of Angola). Also worth highlighting is that such strong compliance levels were achieved during a period in which oil prices recovered sharply. More specifically, Brent oil shot up 39 percent quarter-on-quarter to an average of $61 per barrel (see Oil Price section below), but this did not result in a loss of output discipline, some thing which has often happened to OPEC (and to the more recent amalgamation of OPEC+) when confronted by rising oil prices.

Looking ahead, the alliance recently agreed to unwind 2.1 mbpd of oil from May to July…

...with a reversal of Saudi Arabia's voluntary 1 mbpd reduction included in the agreement.

Looking ahead, at the beginning of April, OPEC+ agreed to gradually unwind output over the course of the next three months (*as we had anticipated in our Saudi Economy in 2021 report back in February*). Under the current agreement, OPEC+ will add roughly 2.1 mbpd of oil from May to July, resulting in the alliance's output rising to 36.3 mbpd (Figure 7). The unwinding of output will include OPEC+ increasing output by 350 tbpd in May and June, and by 441 tbpd in July. Concurrently, Saudi Arabia will reverse its voluntary cut over the same three months by 250, 350, and 400 tbpd, respectively.

Figure 6: Saudi Arabia's unilateral reduction helped raise OPEC+ compliance in Q1 2021

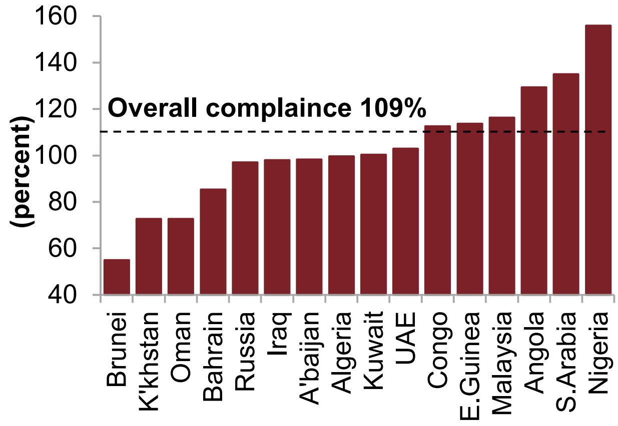
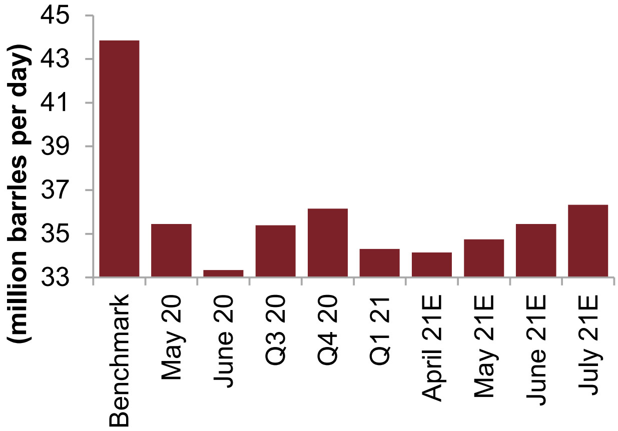


Figure 7: OPEC+ expected to gradually raise output by 2.1 mbpd over May, June and July



US crude oil production averaged 10.7 mbpd in Q1 2021, down 2 percent quarter-on-quarter, and down 16 percent year-on-year.

Whilst the yearly decline is due to a higher pre-Covid-19 baseline..

...the quarterly drop was a result of cold temperatures that affected much of the country, but particularly the major oil producing state of Texas.

Between May 2020 to December 2021, the EIA expects each $1 rise in oil prices to lift US oil output by circa 51 tbpd…

... which is higher than the ratio seen between June 2017 to October 2018…

...where a $1 rise in the price of WTI oil led to 38 tbpd rise in US oil output.

US oil output at pre-Covid-19 levels by end 2022:

According to EIA's most recent data, US crude oil production averaged 10.7 mbpd in Q1 2021, down 2 percent quarter-on-quarter, and down by a whopping 16 percent year-on-year. Whilst the yearly decline is due to a higher pre-Covid-19 baseline, the quarterly drop was a result of cold temperatures that affected much of the country, but particularly the major oil producing state of Texas. Looking ahead, the EIA forecasts crude oil production to average around 10.9 mbpd in Q2 2021 but then rise to around 11.4 mbpd by the end of the year, to an average of 11 mbpd in full year 2021 (versus 11.3 mbpd in 2020). Looking further ahead, the administration expects US oil production to average 11.9 mbpd in 2022 as a whole, effectively hitting pre-Covid-19 levels by end of next year. Interestingly, the EIA's forecast for oil output is based on declining oil prices, with full year West Texas Intermediate (WTI) forecasted at $59 pb in 2021 but down to an average of $57 pb in 2022 (Box 1).

Box 1: Revisiting 2017-18 US oil output

It seems worthwhile revisiting the actual performance of WTI oil price and US oil output between June 2017 and October 2018 to see how they compare against the most recent EIA oil projections. Back in June 2017, oil prices were languishing at around $45 pb, with rising OPEC and US oil production being the primary triggers for lower prices. This changed at the start of 2018, when oil prices rose sharply as the then US administration talked up the possibility of reapplying sanctions on Iranian crude oil. As a timeline for implementing sanctions was rolled out in May 2018, oil prices jumped even higher. In fact, between June 2017 and October 2018 WTI oil prices rose 57 percent (or $26 pb). This steep rise in prices, in turn, led to an increase in oil supply, with 980 tbpd in cumulative rises seen in the US oil output over the 16 month (Figure 8). Fast forward to the current outlook between May 2020 to December 2021, we can see the EIA expects oil prices to increase by $28 pb, which, it estimates, will result in cumulative rises of 1.4 mbpd oil output over the 20 month period (Figure 9). Put differently, between May 2020 to December 2021, the EIA expects each $1 rise in oil prices to lift US oil output by circa 51 tbpd, which is higher than the ratio seen between June 2017 to October 2018, where a $1 rise in the price of WTI oil led to 38 tbpd rise in US oil output.

Figure 8: Between June 2017 - Oct. 2018, WTI oil prices rose by $26 pb and US output by 980 tbpd

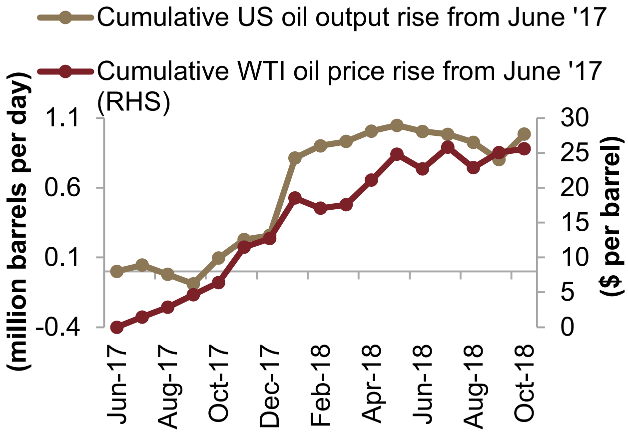
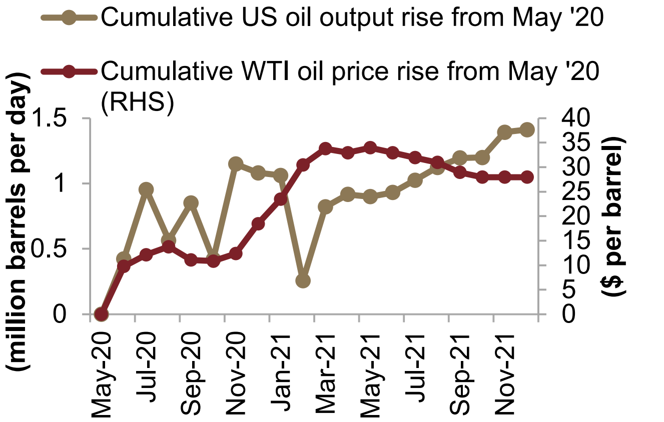


Figure 9: From May 2020 - Dec. 2021, the EIA sees oil prices rising by $28 pb & US output by 1.4 mbpd



Brent oil prices averaged $61 pb during Q1, rising by a huge 39 percent quarter-on-quarter.

Looking ahead, a faster roll-out of vaccines around the world is expected to accelerate the recovery in the global economy…

...which, in turn, will support oil demand and prices.

Also, we expect the alliance to maintain its proactive approach to oil output…

...thereby ensuring some degree of stability in oil prices moving forward.

Meanwhile, we have updated our economic forecast for Saudi Arabia to reflect recent oil market developments.

Running the updated numbers through our model results in an improved fiscal position for the Kingdom…

…primarily as a result of higher oil revenue.

Oil price outlook:

Brent oil prices averaged $61 pb during Q1, rising by a huge 39 percent quarter-on-quarter. Oil prices were lifted by i) OPEC+'s agreement not to raise oil output as much as originally planned ii) Saudi Arabia's unilateral cut of 1 mbpd during most of Q1 (Box 2) and iii) anticipation over higher oil demand on the back of continued global roll-out of vaccinations.

Looking ahead, the recovery in the global economy and further relaxation in Covid-19 measures (especially related to air travel) as vaccinations continue to be administered around the world, is expected to bring about quarterly rises in oil demand till year end. Indeed, current OPEC forecasts suggest a deficit in daily oil balances, all of which should help lower record high commercial oil inventories and provide support to prices. That said, as has been the case for some time now, risks remain primarily through a variant of the disease, or due to a slower roll-out of the vaccine than currently anticipated. That said, if any major impact on oil demand were to occur, we would expect OPEC+ to react quickly, quite possibly reversing or slowing down the recently agreed decision to unwind of 2.1 mbpd over May-July. Indeed, OPEC+ has been more flexible and adaptive since the onset of the pandemic, with monthly Joint Ministerial Monitoring Committee (JMMC) meetings being one obvious example. As such, faced with continuing uncertainty, we expect the alliance to maintain its proactive approach to output, which will ensure some degree of stability in oil prices moving forward. In line with this, we have updated our Brent oil forecast to $62 pb for full year 2021, compared to $55 pb previously.

Box 2: Saudi Arabia's GDP revised down

We have updated our economic forecast for Saudi Arabia to reflect recent oil market developments. More specifically, we have revised our Brent oil price forecast upwards (to $62 pb), but revised down Saudi crude oil output to 9 mbpd (vs. 9.3 mbpd previously) for full year 2021. Running the updated numbers through our model results in an improved fiscal position, primarily as a result of higher oil revenue. Overall, total revenue is now at SR888 billion (vs. SR851 billion previously). This, combined with government expenditure of SR990 billion, means the fiscal deficit comes out lower at SR102 billion or -3.3 percent (vs. SR139 billion or -4.8 percent previously).

Meanwhile, lower yearly crude oil output means we now see Saudi oil GDP declining by 0.7 percent year-on-year in 2021 (vs. a rise of 1.4 percent previously). With no changes to our non-oil GDP forecast, overall GDP is now expected to rise by 1.3 percent (vs. 2.1 percent previously).

Lastly, higher oil export revenue should push the current account to a surplus of 5 percent of GDP (2.5 percent previously), which will have a net effect of raising foreign exchange (FX) reserves to $462 billion by the end of the year.

Key Data

	2014	2015	2016	2017	2018	2019	2020E	2021F	2022F
Nominal GDP									
(SR billion)	2,836	2,454	2,419	2,582	2,949	2,974	2,625	3,045	3,292
($ billion)	756	654	645	689	787	793	700	812	878
(% change)	1.3	-13.5	-1.4	6.8	14.2	0.8	-11.7	16.0	8.1
Real GDP (% change)									
Oil**	2.1	5.3	3.6	-3.1	3.1	-3.6	-6.7	-0.7	9.4
Non-oil private sector**	5.4	3.4	0.1	1.5	1.9	3.8	-3.1	3.1	2.9
Non-oil government**	3.7	2.7	0.6	0.7	2.9	2.2	-0.5	1.5	1.0
Total	3.7	4.1	1.7	-0.7	2.4	0.3	-4.1	1.3	5.1
Oil indicators (average)									
Brent ($/b)	99	52	43	54	71	66	42	62	65
Production (million b/d)	9.7	10.2	10.4	10.0	10.3	9.8	9.2	9.0	9.7
Budgetary indicators (SR billion)									
Government revenue	1,044	616	519	692	906	926	770	888	938
Government expenditure*	1,140	1,001	936	930	1,079	1,059	1,068	990	955
Budget balance	-96	-385	-417	-238	-173	-133	-298	-102	-17
(% GDP)	-3.4	-15.7	-17.2	-9.2	-5.9	-4.5	-11.3	-3.3	-0.5
Gross public debt	44	142	317	443	560	678	854	937	1013
(% GDP)	1.6	5.8	13.1	17.1	19.0	22.8	32.5	30.8	30.8
Monetary indicators (average)									
Inflation (% change)	2.2	1.2	2.1	-0.8	2.5	-2.1	3.0	3.7	1.5
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	3.0	2.3	0.75	0.75	1.25
External trade indicators ($ billion)									
Oil export revenues	285	153	137	171	232	201	122	177	211
Total export revenues	342	204	184	222	294	262	175	235	274
Imports	158	159	128	123	126	140	120	126	126
Trade balance	184	44	56	98	169	121	55	109	147
Current account balance	74	-57	-24	10	72	38	-11	41	61
(% GDP)	9.8	-8.7	-3.7	1.5	9.2	4.8	-1.6	5.0	7.0
Official reserve assets	732	616	536	496	497	500	454	462	480
Social and demographic indicators									
Population (million)	30.3	31.0	31.7	32.7	32.5	32.6	31.8	32.0	32.3
Saudi Unemployment (15+, %)	11.7	11.5	12.5	12.8	12.7	12.0	14.0	12.1	10.9
GDP per capita ($)	24,962	21,095	20,318	21,048	24,189	24,318	21,984	25,337	27,176

Sources: Jadwa Investment forecasts for 2021 and 2022. General Authority for Statistics for GDP and demographic indicators, Saudi Central for monetary and external trade indicators, Ministry of Finance for budgetary indicators. Note: *2016 government expenditure includes SR105 billion in due payment from previous years.