Global Energy Demand Growth and Oil Pricing

- Global energy demand growth has accelerated and most forecasters anticipate over 1.5 million barrels per day of additional demand this year as compared to 2017.
- This acceleration is largely due to growing consumption trends in emerging markets, particularly in China and India.
- Oil prices may be affected by U.S. Administration jawboning.

Several oil experts anticipate global demand growth to exceed 1.5 million barrels per day (MMBD) this year, resulting in consumption that is close to 100 MMBD (see top chart). Strong growth is largely the result of two key features of the global economy.

- Emerging markets economic growth has been robust since early 2017. The April 2018 IMF update of the world economic outlook indicates an upward revision to advanced economies’ economic growth as compared to their October 2017 forecast (see left panel, 2nd chart). Emerging market and developing country economic growth is double the pace of the advanced economies, and has accelerated by nearly 1 percentage point since the end of 2016 (see right panel, 2nd chart). Well over one-half of the growth in global economic activity is due to expansion of China’s economy.
- The second feature, which is part of this growth trend, is the rise of household vehicle ownership in emerging markets. Since 2007, car ownership in China has more than tripled, from 3% to 14% by 2016 — with nearly 200 million vehicles on the road in China.
- Oil prices, as measured by West Texas Intermediate crude quotes, rose to $104 per barrel in July 2014 before falling to $31 per barrel by early 2016 (see 3rd chart). Since that time, oil inventories have been worked down and, combined with OPEC production discipline, led to an upward trend in prices to $70 per barrel by May. The July 2018 contract for West Texas crude is hovering in the $65 per barrel range, down over 7% from last month’s average.
- Many expected the continuation of rising prices, due in part to the potential for Iranian oil supplies to be curtailed with the onset of renewed Iran sanctions as well as OPEC production caps. Other European countries party to the Iran nuclear deal have stated their opposition to a restart of sanctions.
- The other factor affecting markets is the U.S. Administration statements suggesting a request for Saudi Arabia and other OPEC members with spare capacity to help keep prices low by ratcheting up production.
- Jawboning can have a transitory effect on global oil markets and can foster interventions which generate unintended consequences. For example, what if global energy demand growth slows toward the end of 2018, what then? Growth accelerates? Another request?