Weekly Briefing

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Surge in Oil Demand Growth

- *The leading indicators of the global economy suggest that growth is robust going into the second half of this year, fostering a rise in energy demand, particularly for oil.*
- *So far this year, oil demand is growing at an annual rate of nearly 2 million barrels per day.*
- *Despite gains in renewable energy demand given lower, more competitive costs, oil pricing remains attractive for many countries reaching the take-off stage of economic development.*

The U.S. Energy Information Administration (EIA), the statistical and analytics unit of the U.S. Department of Energy (DOE), issued their updated short-term energy outlook on July 10, 2018. In it, they indicate that oil demand growth, including liquid fuels, continues to be very strong (see table). Global oil demand growth has accelerated during the last 12 months. EIA analysts estimate growth of over 1.7 million barrels per day (MMBD) this year, up from 1.58 MMBD growth in 2017. They expect this strong growth to continue into 2019 with an additional 1.71 MMBD of growth. Most oil experts estimate that trend oil demand growth is 1.1 MMBD, based on estimates of long-run global GDP growth and trend improvements in energy efficiency and renewables energy demand growth. As the table shows, EIA analysts expect world real GDP growth to be above 3% in 2018-2019.

- One of the key features of this report is the shift in production location for the "incremental" barrel of oil. In contrast to the period prior to the mid– to late 2000s, OPEC had much more control of the oil production outcomes. With Saudi Arabia the biggest player, it could leverage its influence within the cartel to control production and therefore pricing outcomes.
- More recently, the U.S. has become the dominant producer as crude oil production hit a record 11 MMBD the week of July 20th, according to an EIA report. Some estimates suggest that the marginal cost of lifting shale oil from the Permian Basin has dipped below $50 per barrel. Any price above this marginal cost will turn a profit for producers.
- With energy demand so strong, oil prices rebounded to nearly $80 per barrel at the end of June. Today's Brent oil price quote for the September 2018 contract is $74.25 per barrel, suggesting a persistent rise since the low point in early 2016. Arguably, at that price, many oil producers are profitable, both within OPEC and among the companies in non-OPEC countries.
- This market environment, to be sure, makes it challenging to pursue a future energy complex which diminishes the reliance on fossil fuels absent policies designed to compensate for the social costs of the emissions into our physical environment.

Global Petroleum and Other Liquids

	2016	2017	2018	2019
Supply & Consumption	(million barrels per day)			
Non-OPEC Production	57.95	58.73	*61.33*	*63.60*
OPEC Production	39.23	39.28	*38.83*	*38.95*
OPEC Crude Oil Portion	32.68	32.44	*31.87*	*31.79*
Total World Production	97.18	98.01	*100.16*	*102.54*
OECD Commercial Inventory (end-of-year)	2,994	2,844	*2,842*	*2,981*
Total OPEC surplus crude oil production capacity	1.15	2.09	*1.69*	*1.33*
OECD Consumption	46.74	47.19	*47.66*	*48.11*
Non-OECD Consumption	50.16	51.29	*52.54*	*53.80*
Total World Consumption	96.90	98.48	*100.20*	*101.91*
YOY Change		1.58	1.72	1.71

Source: EIA Short-term Energy Outlook.
Note: Liquid fuels includes other hydrocarbon sources (coal to liquids and gas to liquids). Not included are compressed natural gas (CNG), liquefied natural gas (LNG), and hydrogen.