The oil market at a junction

• **Balances loosen up on paper but must be seen in perspective**
• **The unconventional supply revolution enters a new stage - matures into an increasingly global phenomenon, not just a US success story**
• **Political and social change in the MENA raises OPEC supply risk, partly offsetting the impact of higher non-OPEC supply**
• **The economic recovery buoys demand, but the dynamics of demand growth undergo a structural shift - efficiency gains and fuel switching increasingly balance income and population impacts**
• **Asia is by far the largest magnet for global crude exports as North America grows into a net oil exporter**
• **The refining industry faces a new round of restructuring and a potential glut of light products**
Oil demand nears 100 mb/d by 2019, but peak oil demand growth is in sight

Average 1.3%/yr growth on improving macroeconomic backdrop

Growth gains momentum in some regions

Overall growth slows on fuel switching and efficiency gains
Oil’s place in the energy mix is changing

With a few exceptions, oil is being pushed out of the power generation and residential sectors.

More than 5½ in every 10 barrels of oil are used for transport, including 4 for road transport.

Non-energy use of oil – petrochemicals – rising steeply.
Oil supply growth is bifurcated: robust in non-OPEC, facing headwinds in OPEC

- Total oil supply capacity grows by 9 mb/d to 105 mb/d
- Exceptionally strong non-OPEC growth, but slowing later in the forecast period
MENA turmoil, weak investment climate weigh on OPEC capacity growth

- OPEC capacity seen growing by 2.1 mb/d to 37.1 mb/d in 2019
- Iraq to supply 60% of growth
- Worsening political stability and security issues add major downside risk in Iraq, Libya, others
Iraq faces multi-pronged challenges in pursuit of targets

- Iraq capacity seen rising by 40%, or 1.3 mb/d to 4.5 mb/d, by 2019
- Rising sectarian strife raises downside risks but there are other problems too
- Weak institutions have led to delays in contract awards for infrastructure plans that anchor projects
The unconventional revolution comes of age

- N. America continues to lead non-OECD supply growth
- But growth slows in N. America and diversifies later in the period
NGLs, field condensate account for growing share of global supply

- NGL capacity jumps 18% to 10.7 mb/d in 2019
- OPEC NGLs rise by 13% to 7.12 mb/d, fuelled by quest for natural gas for utilities, water desalination and industry
- Iran accounts for ~40% of OPEC NGL growth, followed by Libya, Saudi Arabia, UAE and Qatar
In crude trade, all roads lead to Asia

Asia imports surge 16% to more than 22 mb – 65% of the int’l crude market – as N. America swings to net oil exporter
Refinery capacity growth sets stage for new round of consolidation

- Almost all growth comes from non-OECD, including half from Asia.
- Plans are getting scaled back in the face of rising over-capacity.
- To bring utilisation rates up to levels of 2006-2008 (when margins were good), nearly 5 mb/d of capacity would have to be eliminated through plant closures, delays or cancellations.
Europe faces growing import dependence for middle distillates...

Product Supply Balances - Gasoil/Kerosene
Regional Balances in 2013 and 2019
Thousand barrels per day

- Europe's middle distillate deficit balloons to 1.6 mb/d by 2019
- Increased supplies coming from Middle East, N. America, Russia

Refinery production and supplies from other sources vs. end-user demand. Regional total does not add to zero due to feedstock trade and differences in product classifications.

1. Positive number indicates net-export potential, negative number net-import requirement
...while North America faces a gasoline glut

North America faces excess light distillate supply of 1.3 mb/d in 2019 – a by-product in search of outlets
On paper, oil market balance eases, but risks and challenges abound

Nominal spare OPEC capacity to rise from 2013
But high risk remains
Thank you

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