OPEC faces an age of dwindling demand

Analysts say peak oil may already have been reached

LONDON: The coronavirus crisis may have triggered the long-anticipated tipping point in oil demand and it is focusing minds in OPEC.

The pandemic drove down daily crude consumption by as much as a third earlier this year, at a time when the rise of electric vehicles and a shift to renewable energy sources were already prompting downward revisions in forecasts for long-term oil demand.

It has prompted some officials in the Organization of the Petroleum Exporting Countries, oil's most powerful proponent since it was founded 60 years ago, to ask whether this year's dramatic demand destruction heralds a permanent shift and how best to manage supplies if the age of oil is drawing to a close.

"People are waking up to a new reality and trying to work their heads around it all," an industry source close to OPEC told Reuters, adding the "possibility exists in the minds of all the key players" that consumption might never fully recover. Reuters interviewed seven current and former officials or other sources involved in OPEC, most of whom asked not to be named. They said this year's crisis that sent oil below $16 a barrel had prompted OPEC and its 13 members to question long-held views on the demand growth outlook.

End game for oil? Pandemic triggers change

Just 12 years ago, OPEC states were flush with cash when oil peaked above $145 a barrel as demand surged.

Now it faces a dramatic adjustment if consumption starts a permanent decline. The group will need to manage even more closely its cooperation with other producers, such as Russia, to maximise falling revenues and will have to work to ensure relations inside the group are not frayed by any fratricidal dash to defend market share in a shrinking businesses.

"OPEC's job will be harder in the future because of lower demand and rising non-OPEC production," said Hasan Qabazard, OPEC's head of research from 2006 to 2013 whose work now includes advising hedge funds and investment banks on OPEC policy.

One official, who works in energy studies in the oil ministry of a major OPEC member, said shocks to oil demand had in the past led to permanent changes in consumer behaviour. He said this time was unlikely to be different. "The demand does not return to pre-crisis levels or it takes time for this to happen," he said. "The main concern is that oil demand will peak in the next few years due to rapid technological advances, especially in car batteries."

In 2019, the world consumed 99.7 million barrels per day (bpd) - and OPEC was forecasting a rise to 101 million bpd in 2020.

But global lockdowns this year that grounded planes and took traffic off the streets, prompted OPEC to slash the 2020 figure to 91 million bpd, with 2021 demand still seen below 2019 levels.

Predicting the peak

Producing nations, energy analysts and oil companies have long tried to work out when the world would reach "peak oil", the point after which consumption starts permanently falling. But demand has climbed steadily each year, with occasional exceptions amid economic downturns. Nevertheless, OPEC has been scaling back expectations. In 2007, it forecast world demand would hit 118 million bpd in 2030. By last year, its 2030 forecast had dropped to 108.3 million bpd. Its November report is expected to show another downward revision, one OPEC source says.

OPEC officials declined to comment on its demand outlook or policy for this article. But officials have said history shows OPEC's ability to adapt to changes in the market. Consumption forecasts vary outside OPEC. Oil companies have cut long-term crude price outlooks as demand prospects fade - slashing the value of their assets as a result. Global consultancy DNV GL believes demand probably peaked in 2019.

Oil's percentage share of the global energy mix has steadily fallen in recent decades, from about 40% of energy used in 1994 to 33% in 2019, even as volumes consumed rose with more cars on the roads, rising air travel and a petrochemical industry that makes ever more plastics and other products.

That may now be changing, as more electric vehicles roll out of factories and airlines struggle to recover from the pandemic. The International Air Transport Association (IATA) does not expect air travel to reach 2019 levels until 2023 - at the earliest.

"Once aviation recovers by end-2023, demand will go back to normal-aside from the competition from other sources of energy," said a second OPEC official involved in forecasting, highlighting the difficulty of making predictions amid a global trend towards using more renewables and other fuels.

LONDON: The coronavirus crisis may have triggered the long-anticipated tipping point in oil demand and it is focusing minds in OPEC.

It leaves OPEC with a mounting challenge. Most members of the group, which sits on 80% of the world's proven oil reserves, rely heavily on crude. Oil prices, now hovering above $40, are still well below the level most governments need to balance their budgets, including Saudi Arabia, OPEC's de facto leader.

New Stresses

OPEC, whose output accounts for about a third of world supplies, is no stranger to crises. It has managed supply shocks during Gulf conflicts in the 1980s, 1990s and 2000s and found ways to cope when rival non-OPEC producers turn on the taps, like the U.S. shale oil industry in the past decade.

Most recently, when the coronavirus crisis pummelled demand, OPEC with Russia and other allies, a grouping known as OPEC+, agreed record output cuts of 9.7 million bpd, the equivalent of 10% of global supplies. Those deep cuts run to the end of July.

Yet, what comes next promises to be a new test of OPEC's mettle. Instead of dealing with one-off shocks, OPEC must learn to live with long-term decline.

"This trend will put a stress on the cooperation between OPEC members, as well as between OPEC and Russia, as each strives to maintain its market share," said Chakib Khelil, Algeria's oil minister for a decade and twice OPEC's president.

Some short-term challenges may come from within OPEC, as Iran and Venezuela, both hit by U.S. sanctions, seek to boost production or as output recovers in conflict-stricken Libya.

Others may come from outside, as the group tries to prevent U.S. shale production taking market share while OPEC seeks to curtail output in its efforts to support prices. "Many challenges are ahead, and we have to adapt," said one OPEC delegate, who said the group's handling of past crises proved it was able to respond.

OPEC's former research head, Qabazard, said the group might have a little more time to adjust before demand peaked. But he said the deadline for OPEC to adapt was approaching.

"I don't think it will go higher than 110 million barrels per day by the 2040s," he said, adding that fallout from the COVID-19 pandemic had changed consumer habits for good. "This is permanent demand destruction."

Nissan forecasts $6.4bn annual net loss as virus bites

TOKYO: Crisis-hit Japanese automaker Nissan yesterday warned of a massive $6.4 billion net loss for the current fiscal year as it reels from the impact of the coronavirus pandemic. Nissan, which had delayed an annual forecast because of ongoing uncertainty, issued the warning as it reported a first-quarter net loss of 285.6 billion yen ($2.7 billion) on plunging sales. "These results... reflect a full quarter of COVID-19 disruption that we knew would undermine our performance in key markets," chief operating officer Ashwani Gupta said announcing the results.

"As you can see the pandemic has a severe impact on our operations," he added.

Nissan said the value of global sales plunged 50.5 percent, with falls across markets including Japan, China and the United States. And it warned the woes would continue, forecasting annual sales will plunge 21 percent to 7.8 trillion yen following a 15-percent drop the previous year.

"As a result of the impact of the coronavirus pandemic worldwide, the overall demand dropped to about half in this first quarter compared to last year," chief operating officer Makoto Uchida told reporters. "Plants in the world were forced to stop their production. At plants that continued running, the ratio of production largely declined as sales dropped. This caused a very severe business environment and impacted financial results," he added.

The figures come after the firm reported a huge $6.2-billion annual net loss in May, announcing it would shut its Barcelona plant and slash production in an attempt to get back on track. Nissan was already battling weak demand as well as the fallout from the arrest of former boss Carlos Ghosn, currently an international fugitive after jumping bail and fleeing Japan, before the coronavirus pandemic hit.

YOKOHAMA: A staff member gives a presentation in the showroom at Nissan's global headquarters in Yokohama yesterday.—AFP

But the unprecedented global health crisis has hit the auto industry as a whole hard, with lockdowns keeping people indoors and economic woes dampening demand. "The auto industry's business environment has totally changed due to the pandemic," Satoru Takada, an auto analyst at Tokyo-based research and consulting firm TIW, told AFP before the earnings were announced.

"The new coronavirus has hit both supply and demand hard. Production is recovering but consumer appetite remains stagnant. The outlook remains unclear amid concerns over a second wave or a third wave of the pandemic. The end of the tunnel is not yet in sight," he warned. The impact of the coronavirus pandemic compounds a series of existing problems for Nissan, including weak demand, the Ghosn scandal and tensions in its alliance with Renault and Mitsubishi Motors.

Earlier this year, Nissan and its alliance partners agreed a joint transformation plan, with each member agreeing to take the lead in a specific market. But the partnership remains fragile, and Takada said Nissan still faced significant headwinds.

"Nissan's performance remains in low gear, trailing its disastrous results for the previous fiscal year," he said. "We can't see a clear sign of its full recovery... It remains at a crucial stage." —AFP

Gold down after hitting new high, equities mixed

HONG KONG: Gold briefly chalked up another record yesterday before easing later in the day as the dollar clawed back earlier losses, while equity markets struggled to hold on to gains with fears about the coronavirus pandemic mounting.

With worrying new spikes in infections in Asia and Europe-on top of the already-high new US cases-forcing governments to impose strict containment measures, the global economic outlook remains clouded, putting the brakes on a months-long stocks rally. The virus uncertainty descending on trading floors, combined with China-US tensions, sent gold soaring nearly 30 percent and yestrday it hit another record of $1,981.27, smashing the previous day's all-time high, but it later pared the advance to sit lower for the day.

But observers say $2,000 could be broken as early as this week, with focus on the Federal Reserve's next policy meeting, which is tipped to see it unveil more easing measures to support the world's top economy. US second-quarter economic growth data is also due this week, and a disappointing reading on what is expected to be a historic contraction could fuel further dollar weakness.

"Although little is expected on policy, (bank boss Jerome) Powell's tone in the press conference will be key especially in light of the recent uptick in virus cases and the knock-on consequences," said AxiCorp's Stephen Innes.

The rush for bullion has also dragged silver to a seven-year high above $26 an ounce before that also edged back. "There seems to be enough momentum in the US money supply to actually push gold higher," Fat Prophets analyst David Lennox said. "As COVID-19 continues to ravage the economy, there's probably more stimulatory action to come. As the US dollar weakens, obviously gold will improve, but it's more a matter of the acceleration of US money supply, and that's caused by governments obviously throwing money into the economy."

'Pathetic' proposal

There are hopes US lawmakers can hammer out a new economy-boosting stimulus program as their previous multi-trillion-dollar package begins to dry up. After an extended period of haggling with the White House, Republicans eventually unveiled a $1 trillion scheme that slashes unemployment benefits by two-thirds. However, there are concerns bipartisanship could make the passage of any bill arduous, with Democrats proposing $3.5 trillion of spending, while House Speaker Nancy Pelosi branded the Republican offer "pathetic" and not enough to support the country.—AFP

In China, airlines plug 'all you can fly' deals

BEIJING: China Southern Airlines yesterday rolled out an 'all you can fly' pass, becoming the latest in a fleet of cash-strapped carriers to join a promotional craze that analysts say has helped revive a coronavirus-ravaged air travel market. At least eight of China's dozens of airlines have introduced similar deals since June, often priced around $500 for in some cases unlimited flights. Industry watchers say the packages have been a shot in the arm, with costs offset by otherwise empty seats being filled in a country where daily flights last month recovered to 80 percent of pre-coronavirus levels.

The global aviation industry is keenly eyeing China as a pilot for air travel recovery trends, as the country reopened its economy months earlier than other places after managing to bring the pandemic mostly under control - at least for now.

But Luya You, transportation analyst at BOCOM International, said these promotional packages - ranging from unrestricted flights to an array of terms and conditions - can only stimulate demand when coronavirus risks are already sufficiently reduced. "While these packages may work in domestic markets, we do not expect similar rollouts for outbound routes anytime soon," she said.

The "Fly Happily" deal launched by China Southern, the country's biggest carrier by passengers, allows buyers to use passes for as many flights as they wish for destinations across the country from Aug. 26 to Jan. 6 for 3,699 yuan ($529.03). As with other deals, passholders also pay a small tax to the airline - about 50 yuan - per flight.

Meanwhile China Eastern Airlines' 3,322 yuan "Fly as you wish" deal, launched in June, only applies to weekend travel. Hainan Airlines' 2,699 yuan package is only valid on flights to or from Hainan province.

China Eastern has sold over 100,000 passes, state media reported. That helped boost passenger loads on its domestic routes to over 75 percent on recent weekends, according to aviation data provider Variflight. "I'm going to Changsha this weekend and Guangzhou the next weekend," said Elaine Shen, a Shanghai-based insurance professional just back from an eight-day trip in the country's northwest using the China Eastern pass.

"The experiences are great," Shen said. "I would not be flying this much if it weren't for this pass."

It's not just Chinese airlines that have jumped on the deals bandwagon to revive the travel industry. The Marriott Group said it was aiming for a fresh promotional campaign in August 2020 in the wake of a successful April deal giving buyers the chance to eat a month's worth of buffet breakfasts in any of its 146 China hotels for 588 yuan. — Reuters