



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting April 8, 2021

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Statement by
Organization of the Petroleum Exporting Countries (OPEC)

to the

International Monetary and Financial Committee (IMFC)

Meeting of Ministers and Governors

Virtual Meeting

April 2021





The **Organization of the Petroleum Exporting Countries (OPEC)** would like to update the distinguished delegates to the **International Monetary and Finance Committee (IMFC)** on current oil market conditions and developments.

Global oil market fundamentals continued to improve further in **4Q20** and **1Q21** compared with last year's slump, following the further recovery of global oil demand amid the initiation of **COVID-19** vaccinations. Countries across the world approved different vaccines and began to ease COVID-19-related mobility restrictions. The oil market was also buoyed by exceptional fiscal and monetary stimulus policies that helped in supporting economic activity. The relatively rapid recovery of oil demand in the Asia Pacific region, specifically in China and India, has bolstered the global oil demand improvement.

The oil market consolidated further amid a brightening global oil market balance outlook after **OPEC and participating non-OPEC countries in the DoC** showed exemplary cooperation, which translated into strong conformity levels regarding voluntary production adjustments. This contributed to accelerating the global oil stock drawdown, specifically floating storage, added confidence to the market and helped to improve oil market conditions.

Futures oil prices continued to rise for the third consecutive quarter in **1Q21**, with the ICE Brent averaged above \$60/b. However, this upward trend in the oil market was tempered amid expectations that the global oil demand recovery will be slower than initially expected, mainly due to the resurgence of COVID-19 infections in some countries and slow global deployment of the vaccine. Furthermore, global oil stocks remain high compared with pre-COVID-19 levels.

Despite ongoing COVID-19-related challenges, the **global economy** has continued its recovery, very much supported by unprecedented fiscal and monetary stimulus. While it seemed that global economic developments were improving at the beginning of **2020**, the **COVID-19 pandemic** hit economic momentum relatively early in **1Q20**, and the growth situation remained highly volatile throughout the remainder of last year, with **world economic growth** estimated to have declined by **3.7%** in **2020**. Positively, considerable fiscal and monetary stimulus in many key regions led to a recovery in **2H20**. This is expected to gain more traction in the current year. The recently approved **\$1.9 trillion fiscal stimulus bill** in the US, which comes in addition to more than \$3 trillion in fiscal stimulus packages in 2020, will further support US and global



economic growth. In addition, the ongoing recovery in **Asian economies** will support the global recovery, forecast at **5.1%** in **2021**.

However, the current forecast will very much depend on the near-term path of the **COVID-19 pandemic**. The base assumption of this forecast is that by the beginning of **2H21**, the pandemic will largely be contained, with the majority of the population in Western economies vaccinated and COVID-19 no longer posing a major obstacle for emerging and developing economies.

When it became evident that the COVID-19 pandemic was negatively affecting global economic growth and demand for energy, including oil, OPEC, together with its non-OPEC partners in the **DoC** took historic action to help stabilize and rebalance the oil market. The consequent oil market recovery has already provided support to the global economic recovery.

In terms of geographical breakdown, the **OECD** group of countries are forecast to grow by **4.3%** in 2021, after seeing a decline of **5%** in **2020**, lifted in particular by improving growth expectations for the **US**, but also for the Euro-zone and Japan. After reaching a contraction of **3.5%** in **2020**, US economic growth in **2021** is expected to reach **4.8%**, with further room to the upside. GDP growth of **4.3%** is forecast for the **Euro-zone** in **2021**, following a contraction of **6.8%** last year. **Japan's** GDP in **2020** is reported at a contraction of **4.9%**, while it is forecast at 3.1% for 2021.

In the **emerging economies**, **India's 2020 GDP** growth was reported at **-7.0%** and is expected to stand at **9.0%** for **2021**. Following growth of **2.3%** in **2020**, **China's GDP** is forecast to increase by **8.0%** in **2021**. Government estimates show that **Brazil's** economy contracted by **4.1%** in **2020**, while the forecast for **2021** stands at **3.0%**. After contracting by **3.1%** in **2020**, **Russia's GDP** growth is forecast to recover to **3%** in **2021**, with some further potential upside in connection with the ongoing **OPEC and non-OPEC DoC** process.

Thus, most regions are forecast to see a strong pick-up in **2021**, with the recovery forecast to gain pace towards **2H21**. Nonetheless, numerous challenges remain, including **COVID-19 variants** and the effectiveness of vaccines against these mutations. Moreover, **sovereign debt** in most economies has risen to levels at which a lift in interest rates could cause severe fiscal strain. While not imminent, a further rise in inflation, especially in the US and the Euro-zone, may cause some tightening of monetary policies, an area that will need to be monitored in the short term. Additionally, some trade-related disputes may continue.



The largest-ever losses in world oil demand of **9.6 mb/d y-o-y** occurred in **2020** as a result of the **COVID-19 pandemic**, which also prompted a relative break in the established relationship between oil demand and global economic growth. While demand for all petroleum products declined sharply, the **transportation** sector, and **aviation** in particular, was disproportionately affected. As a result, total oil demand reached **90.4 mb/d** in **2020**, with most consumption appearing in 2H20.

Within the **OECD**, all three major regions showed sharp declines in 2020, although at differing degrees. In the **Americas**, oil demand for the petrochemical sector partially offset large losses in gasoline, jet kerosene and diesel, leading to a y-o-y decline of **3.1 mb/d**. In **Europe**, lockdown measures were the most stringent and longest lasting during 2Q20 and 4Q20, leading to a decline of **1.8 mb/d** y-o-y for the year. Oil demand in the **Asia Pacific** region was the least affected, declining by only **0.7 mb/d** y-o-y.

In the **non-OECD** region, oil demand declines in 2020 were less pronounced. Following a drop in 1H20, **China's** oil demand returned to positive growth in 2H20 – supported by successful containment of the pandemic and a healthy petrochemical sector – to show a y-o-y **decline** of **0.4 mb/d**. In **India** and **Other Asia**, oil demand fell on the back of restricted mobility, particularly during 1H20, but improved thereafter.

In **2021**, world oil demand is forecast to **increase** by **5.9 mb/d**, reflecting the positive economic impact on oil demand during 2H21. Total oil demand is foreseen to reach **96.3 mb/d**, with most consumption appearing in 2H21.

Oil demand in the **OECD** region is expected to increase by **2.6 mb/d** to reach 44.6 mb/d in 2021. Oil requirements in 1H21 are anticipated to recover more slowly than initially expected, mainly due to extended measures to control **COVID-19** in parts of **Europe** and a still relatively high unemployment rate in the **US**. On the other hand, 2H21 oil demand is anticipated to reflect the expectation of a **solid economic** recovery and the positive impact of **vaccination rollouts**. **Americas** is projected to see the highest increase, on the back of recovering transportation fuels and healthy light and middle distillate requirements.

Oil demand in the **non-OECD** region is estimated to rise by **3.3 mb/d** to reach 51.6 mb/d in 2021. Demand growth is anticipated to be driven by **China**, followed by **India** and **Other Asia**. Support will be provided by a healthy recovery in **economic activity**, as well as encouraging demand from the



industrial sector and improving **transportation fuel** requirements. Demand for **petrochemical feedstock** is also forecast to support demand growth in 2021.

In **2020**, **COVID-19**, the ensuing global economic recession and oil demand reduction are forecast to have impacted **world oil supply** substantially. In 2020, non-OPEC liquids supply (including processing gains) is estimated to have declined by **2.56 mb/d** y-o-y. Russia, the US, and Canada were the main decline drivers, while Norway and Brazil saw the largest growth. Non-OPEC supply in 2020 was reduced by voluntary downward adjustments in oil production by the 10 non-OPEC participants of the **DoC**, as well as curtailments by the US, Canada, Norway and Brazil through well shut-ins. Additionally, reductions occurred in planned capital expenditure, particularly by US independent companies, amid sharp declines in oil price levels and a lack of demand during the oil market turmoil following the COVID-19 outbreak. Global **exploration and production (E&P) spending** in the oil and gas sector is now estimated to have dropped by **30% y-o-y** to **\$381 billion**, the **lowest level since 2005**, while before pandemic in the primary forecast in 2019, it was expected to remain flat y-o-y. Nevertheless, the decline in non-OPEC supply for 2020 was much less than the drop in oil demand for the year.

For **2021**, despite ongoing COVID-19-related challenges, a gradual recovery in oil demand, as well as oil prices, could prompt non-OPEC producers to return shut-in wells to duty, particularly in North America, even with prevailing circumstances surrounding spending. The non-OPEC liquids supply is forecast to grow by **0.95 mb/d y-o-y**, with the main drivers expected to be **Canada** with **0.3 mb/d**, followed by the US, Norway, and Brazil. Liquids production in the 10 non-OPEC countries participating in the DoC is expected to decline by **0.02 mb/d** to average **17.17 mb/d** in **2021**, compared with a y-o-y decline of **1.3 mb/d** in **2020**. While liquids supply in the OECD is expected to grow by **0.59 mb/d in 2021**, oil production growth in non-OECD will be at **0.23 mb/d** y-o-y in the current year. The majority of this growth will come in 2H21 and represents a recovery in production from **2020**, rather than new projects. Given the fluidity of ongoing developments, the non-OPEC supply forecast for **2021** faces a large degree of uncertainty.

Meanwhile, **OPEC NGLs and non-conventional liquids** production is estimated to have declined by **0.13 mb/d in 2020**, and is forecast to grow by **0.08 mb/d** to average **5.2 mb/d in 2021**. In February 2021, OPEC crude oil production decreased by **0.65 mb/d** m-o-m, to average **24.85 mb/d**, according to secondary sources.



Total OECD commercial oil stocks fell by 11.3 mb m-o-m in January 2021 to stand at **3,052 mb**. At this level, they were **138.7 mb** higher than the same time one year ago and **92.2 mb** above the latest five-year average, and **125.7 mb above the (2015-2019) average**

Within the components, **crude stocks fell by 17.7 mb**, while **product stocks increased m-o-m by 6.4 mb**. Total commercial oil stocks in January fell m-o-m in OECD Americas and OECD Asia Pacific, while they increased in OECD Europe.

OECD **commercial crude stocks** fell in January by 17.7 mb to stand at **1,501 mb**. This is **104.6 mb** higher than the same time a year ago and **46.3 mb** above the latest five-year average, as well as **61.3 mb above the (2015-2019) average**. In contrast, **total product inventories** rose by **6.4 mb** m-o-m in January to stand at **1,551 mb**. This is **34.1 mb** above the same time a year ago and **45.9 mb**, above the latest five-year average, as well as **64.3 mb above the (2015-2019) average**.

In terms of **days of forward cover**, OECD commercial stocks fell m-o-m by 1.1 days in January to stand at **69.6 days**. This is **0.2 days** below January 2020 levels and **5.5 days** above the latest five-year average, as well as **7.8 days above the (2015-2019) average**. All OECD regions were above the latest five-year averages: the Americas by **4.1 days** at **67.9 days**; Europe by **10.5 days** at **83.5 days**; and Asia Pacific by **1.6 days** at **51.3 days**.

In closing, **OPEC** would like to take this opportunity to reaffirm its **long-standing commitment to supporting oil market stability** for the mutual benefit of consuming and producing nations, as well as the global economy. In the midst of the unprecedented crisis created by the pandemic, the countries participating in the **Declaration of Cooperation** have once again demonstrated their unswerving dedication to pursue stabilization of the global oil markets. In negotiations headed by OPEC, this group of producing countries has committed to **far-reaching production adjustments** that are scheduled to last well **into 2022** in an effort to contribute to restoring healthy oil market fundamentals and once again bring forward balance to the oil market in support of the global economy.