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OPEC
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Organization of the Petroleum Exporting Countries (OPEC)

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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.

Since the last IMFC in April, the global oil market consolidated further and oil supply and demand factors moved towards balance as reflected in a reduced global oil surplus. Commercial OECD oil stocks adjusted lower to below the 2015-2019 average. Rising vaccination rates across the world, specifically in major economies, along with improvements in mobility and the easing of social distancing measures, boosted oil demand this year. Moreover, the continued efforts by OPEC Member Countries and non-OPEC countries participating in the Declaration of Cooperation (DoC) have significantly contributed to the global oil market stability.

The improving global oil market outlook and growing market confidence translated into higher oil prices in 3Q21, with ICE Brent averaging about $72/b, about $7 higher than its value in 1H21. However, oil prices experienced some volatility in 3Q21 amid the rise of COVID-19 variants in several countries that raised uncertainty about global oil demand outlooks, in addition to uncertainty regarding the fiscal and monetary stimulus measures. Unplanned oil supply disruptions also added some volatility to the oil market. Therefore, continuous monitoring by OPEC Member Countries and non-OPEC countries participating in DoC remains pivotal to the stability of the global oil market.

Global economic growth has recovered, supported by unprecedented government-led stimulus measures and swift improvements in reining in the pandemic’s spread. After a healthy recovery in 1H21, the global growth momentum accelerated in 3Q21. Further upside potential may come from additional US fiscal stimulus, ongoing monetary easing and similar support measures in other major economies, as well as global improvements in efforts to contain COVID-19. At the same time, numerous challenges have become more accentuated in recent weeks. With these uncertainties in both directions, the global GDP growth forecast stands at 5.6% for 2021 and at 4.2% for 2022.

The US economy gained momentum in 1H21, amid pent-up demand and stimulus measures and is forecast to grow by 6.1% in 2021 and by 4.1% in 2022. Amid improving domestic demand, a recovery in exports and ongoing stimulus measures, the Euro-zone economy is forecast to grow at 4.7% in 2021 and 3.8% in 2022. The forecast for Japan stands at 2.8% for 2021 and 2.0% in 2022, considering the ongoing impact of COVID-19 on the economy. China’s
economy is expected to grow by 8.5% in 2021 and 6% in 2022, taking into consideration a strong 1H21 and normalising growth thereafter. India’s 2021 growth forecast stands at 9%, following the major impact of COVID-19 in 1H21, and 6.8% in 2022. Given the strong growth in 2Q21, Brazil’s 2021 growth forecast stands at 4.7%, while growth in 2022 is forecast to slow to 2.5%. Russia’s forecast for 2021 stands at 3.5%, benefitting from the OPEC/non-OPEC efforts to stabilize the oil market, while growth in 2022 is forecast to slow to 2.5%.

A further rise in COVID-19 infections, especially considering the coming winter season in the Northern Hemisphere, could dampen current growth projections. In addition, global supply chain disruptions, rising sovereign debt levels in many regions, together with inflationary pressures and central bank responses, are key factors that require close monitoring. Economic growth is anticipated to remain supported by ongoing fiscal and monetary stimulus and continued efforts to contain COVID-19 infections.

World oil demand is estimated to recover significantly in 2021 and to increase by 6.0 mb/d, making up around 65% of the lost demand during 2020. In absolute terms, world oil demand is foreseen reaching 96.7 mb/d. In the OECD region, oil demand is anticipated to see a 2.6 mb/d y-o-y increase as demand gains traction in OECD Americas, the largest contributor to oil demand growth in 2021. However, the region’s oil demand is not expected to fully recover from the 2020 decline. Rebounding transportation fuels, mainly gasoline, in addition to healthy light- and middle-distillate requirements, are assumed to support oil demand recovery going forward. In the non-OECD region, oil demand is estimated to rise by 3.4 mb/d. Demand growth is anticipated to be driven by China, followed by Other Asia and India. The healthy rebound in economic activity is expected to stimulate industrial fuel demand. Demand for petrochemical feedstock is also projected to support demand growth.

In 2022, world oil demand growth is expected to continue recovering and to increase by around 4.2 mb/d to 100.8 mb/d. Oil demand in the OECD is anticipated to rise by 1.83 mb/d, with OECD Americas rising steadily, and OECD Europe and Asia Pacific recording respectable growth. Additionally, ongoing improvements in vaccination rates and a potential increase in public confidence in managing COVID-19 is anticipated to be more widespread in 2022, further supporting the recovery of oil demand, particularly transportation fuels. Petrochemicals and transportation will be sectors of the economy that will require more oil in 2022. Gasoline demand will be supported by higher employment and rising vehicle sales while expansion in the petrochemical industry and steady petrochemical margins will support light distillates in 2022. In the non-OECD
region, growth is expected to be around 2.32 mb/d, with China continuing to lead the region in terms of growth, followed by Other Asia and India. As vaccination rates rise, the COVID-19 pandemic is expected to be better managed and economic activities and mobility will return to pre-COVID-19 levels in the main consuming countries. Light distillates supported by NGL capacity additions and steady petrochemical margins, strong middle distillate requirements, in light of healthy industrial and aviation sectors, as well as firm gasoline consumption supported by an expansion in the global vehicle fleet, are projected to lead the petroleum product increases next year.

**Uncertainties** surrounding the outlook remain high and are similar to the world economic outlook. These uncertainties particularly stem from issues related to **COVID-19 developments** – including rises in infections, the emergence of new variants and the pace of vaccination efforts. Additionally, developments in the global and regional **economic outlook**, such as progress in industrial activity and labour markets and the effect of monetary and fiscal stimulus measures, are also factors to be monitored closely over the short term.

**Non-OPEC liquids supply** in 2021 is expected to grow by 0.9 mb/d from a year ago. The main drivers for growth are Canada, Russia, China, the US, Norway, Brazil and Guyana. Following the drastic fall in the US oil production due to freezing weather in February and the recent outages caused by Hurricane Ida in the US Gulf of Mexico, US production is expected to increase by 0.08 mb/d. **Global E&P spending** for 2021 is forecast to grow by a slight 3.9% y-o-y to average $418 billion, much lower than the $886 billion recorded in 2014.

For 2022, the **non-OPEC liquids supply** is expected to grow by 2.9 mb/d. The main contributors for growth will be Russia, the US, Canada, Brazil, Norway and Guyana. This will help the non-OPEC producers to begin returning shut-in wells, particularly in North America, although capital-spending circumstances still prevail. Global E&P spending for 2022 is forecast to grow by only 0.5% y-o-y to average $420 billion. Given the fluidity of ongoing developments, there is a great deal of uncertainty surrounding the non-OPEC supply forecast for 2022, mainly with regard to oil demand and spending by E&P companies.

Meanwhile, **OPEC NGLs and non-conventional liquids** production in 2021 is estimated to grow by 0.1 mb/d to average 5.2 mb/d, and forecast to grow by 0.1 mb/d to average 5.3 mb/d in 2022. In August 2021, **OPEC crude oil production** increased by 0.15 mb/d m-o-m to average 26.76 mb/d, according to secondary sources.
Total OECD commercial oil stocks fell by 20.1 mb m-o-m in August 2021 to stand at 2,855 mb. At this level, they were 363.8 mb lower than the same time one year ago, 183.9 mb below the latest five-year average, and 131.2 mb lower than the (2015-2019) average.

Within the components, OECD commercial crude stocks fell in August by 27.0 mb to stand at 1,358 mb. This is 175.7 mb lower than the same time a year ago and 106.6 mb less than the latest five-year average, as well as 91.5 mb below the (2015-2019) average. In contrast, total product inventories rose by 6.9 mb m-o-m in August to stand at 1,497 mb. This is 188.1 mb lower than the same time a year ago and 77.3 mb, less than the latest five-year average, as well as 39.7 mb below the (2015-2019) average.

In terms of days of forward cover, OECD commercial stocks fell m-o-m by 0.1 days in August to stand at 62.5 days. This is 12.3 days below August 2020 levels and 2.5 days lower than the latest five-year average, as well as 0.3 days less than the (2015-2019) average. All OECD regions were below the latest five-year averages: the Americas by 2.7 days at 61.5 days; Europe by 1.3 days at 70.8 days; and Asia Pacific by 5.0 days at 50.0 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 and contribute to restoring healthy oil market fundamentals and once again help balance the oil market in support of the global economy.