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Gloomy economic outlook due to COVID-19 crisis spells bad news for energy demand

The second surge and scourge of Covid-19 spooked the markets as fears of a slower recovery dominate the global mood.

The International Monetary Fund described it as the worst crisis since the Great Depression, causing mass unemployment, weaker investment and lost productivity at a cost of US$28 trillion.

In Friday trading, Brent crude was holding just below US$43 with WTI above US$40 a barrel.

World economic outlook

The IMF issued its world economic outlook this week with a glimmer of good news that the world witnessed stronger than expected growth in the second and third quarters.

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That will still result in a 4.4% fall in global output, slightly better than the 5.2% previously estimated for 2020.

Emerging markets will be worse off at more than 5% with a warning that the gap between rich and poor countries was widening.

The IMF's economic counsellor Gita Gopinath said "this represents a severe setback to the improvement in average living standards across all country groups," and when consumers are not spending, demand falls as does energy and oil demand.

With a gloomy economic picture ahead of us, energy demand will not materialise quickly.

This is prompting many analysts to suggest that OPEC+ will need to review their agreed production tapering.

The organisation has been adhering to strict production adjustments all year with a proposed 2 million barrels a day being eased back on to the market in January.

A note from Commerzbank this week said that "if demand weakens noticeably, OPEC+ will have no choice but to call off its production increase if it does not want to risk a renewed oversupply and another price slide".

OPEC Secretary General speaks

The OPEC Secretary General, Mohammad Barkindo addressed the Energy Intelligence Forum this week and was asked OPEC's position, saying "the OPEC, non OPEC partnership will continue to do what it knows best, by ensuring that we don't relapse into this almost historic plunge that we saw," adding that we all have to be realistic "that this recovery is not picking up pace at the rate we expected earlier this year".

OPEC's Joint Technical Committee met on Thursday in advance to analyze global inventories and examine production data.

The group always convenes in advance of the ministers joint monitoring committee meeting so they can advise on compliance, all the data and current numbers. Global oil inventories still remain higher than the 5-year average. The next ministerial JMMC will meet on Monday.

The last thing the global oil market needs is additional supply, but war-torn Libya needs to increase production and needs to sell its oil after years of curtailment.

In recent weeks, it's estimated that the country's oil production has risen to 500,000 barrels a day. One of the country's biggest oilfields, Sharara is said to be producing 110,000 barrels a day. Many oil fields have resumed production and the main ports have re-opened for business. Because of the geopolitical situation, the country has been exempted from the OPEC+ adjustment agreement.

US shale

One market not adding too much extra supply at these prices will be the US shale producers. Speaking at the Energy Intelligence Forum this week, the CEO of Occidental, Vicki Hollub said she did not expect shale production in the Permian Basis to rise too high. She said it will "never return to the 13 million barrels we saw previously," adding that she still expects a "modest" return of production, but not "high growth".

American crude inventories remain well above the 5-year average at just above 489 million barrels a day, but the sector is clearly struggling with the prospect of oversupply.

Global stocks are high and OPEC+ will have to carefully examine every barrel in the coming months before making any final decision at the end of November when their formal ministerial meeting takes place and their production adjustment is scheduled to ease.

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