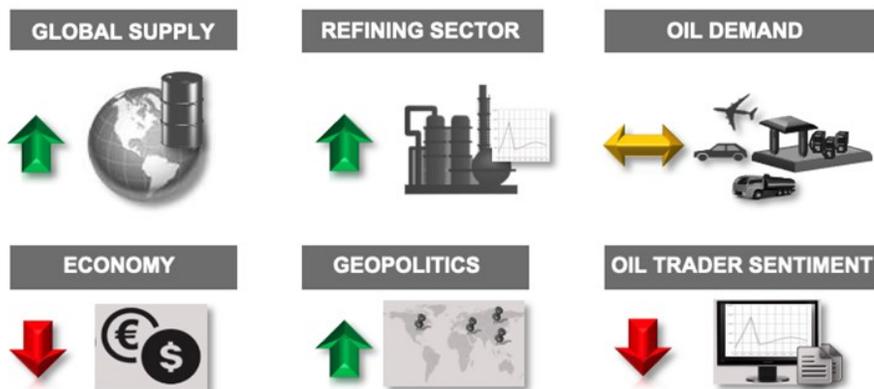


Die Another Day: Oil Markets Misunderstood OPEC's Outlook

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WHAT IS AFFECTING OIL PRICES THE WEEK OF October 12, 2020?



Source: Stratas Advisors

Narratives matter a lot to oil prices – from a short- and long-term basis. The manner that market participants digest and translate economic, geopolitical and market news are woven together to explain historical crude prices – and, more importantly, to create a forward-looking view, which can influence market dynamics and future prices.

However, not all narratives are necessarily a correct version of market dynamics, and can, therefore, be misleading. This might be the case of the narrative brewing up around the latest OPEC World Oil Outlook and the notion that in the future oil will not be relevant for global economy. Several sources focused on a “peaking” demand world and an alleged doom of the oil sector, driven by the adoption of EVs and further development of renewable fuels that will help reduce global emissions and take over the energy world.

Last week, OPEC shared its outlook, which included the view that the same drivers that generated economic growth and oil demand growth over the last two decades in the emerging and expanding economies will continue underpinning development in Africa, the Middle East, as well as in Latin America and Asia. As these regions grow, oil demand will continue increasing as well. As such, OPEC is actually suggesting that oil will continue to play a prevalent role in the global energy mix, despite increasing use of alternative fuels.

OPEC's outlook describes that oil represents 31.5% of total primary energy demand in 2019 and by 2045 the OPEC expects oil to represent 27.5% of total primary energy. The message from OPEC clearly indicates that in their view, oil will continue to underpin economic development. At the most, OPEC is acknowledging a marginal increase of renewable options (impacting mainly power generation), given their expectation that demand for refined products will increase by 8.5 million b/d by 2045.

In the view of Stratas Advisors, while OPEC's outlook is directionally correct, OPEC is overestimating the impact of renewables and efficiency gains in the Americas. Taking into consideration European demographics and the emphasis that the continent is placing on “green” energy, we do not think that OECD Americas will have a steeper oil demand decline than OECD Europe by 2045 – as forecasted by OPEC. Our

long-term outlook provides a different view in these regions, supported by a robust, quantitative, and granular approach by country, sector and product.

Furthermore, OPEC's outlook describes negligible demand growth for Latin America, which is not a view we share when considering the potential for vehicle ownership, demographics and overall economic development that this region will likely see over the forecast period.

These elements – and several other variables- make our view of the long-term market different than OPEC's. However, in similar fashion, our reference scenario does not include a narrative that oil markets are enjoying their last days thanks to energy transition and investment in renewables. Certainly, oil will play a lesser role in the global energy mix, but given the current trends, pace of technology, and the linkage between energy and economic growth – along with the massive scale of the oil sector -- the decline in global oil demand will not occur as soon as some are thinking – unless there are major technology breakthroughs and greater government support.

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This weekly report is an excerpt from our [Short-Term Outlook service](#) analysis, which covers a period of eight quarters and provides monthly forecasts for crude oil, natural gas, NGL, refined products, base petrochemicals and biofuels.

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