S&P Global Ratings

Oil and Gas

Global demand slows as supply is turning to a deficit

This report does not constitute a rating action.

Pauline Tang
Singapore
+65-6239-6390
pauline.tang
@spglobal.com

What do we expect over the next 12 months?

Full-year 2024 global oil demand growth to lose steam amid trade tensions, geopolitical conflicts, and uncertainty in inflation and policy interest rates.

Supply to turn to a deficit in the latter half of 2024 given extended production cuts. We assume Brent oil price to stay unchanged at US$85 per barrel in 2024, and US$80 in 2025 and 2026.

Geopolitical tensions have increased concerns over energy security, potentially hindering the region's effort to address the energy transition.

What are the key risks around the baseline?

Global demand growth losing steam. China, India, and Brazil will remain the key growth drivers, as growth prospects are lackluster for Europe, Japan, Canada, and the U.K. Still, uncertainties around trade tensions, geopolitical conflict, inflation, and policy interest rates are hindering demand expansion for the remainder of 2024, with demand expected at 1.7 million barrels per day, compared with 2.1 million barrels per day recorded in 2023.

Oversupply situation to subside. The extension of crude oil production cuts through the end of 2025, led by the OPEC+, has reduced oversupply pressure on oil prices. The 2.2 million barrels per day of production cuts have been extended until the end of September and will be phased out over the following 12 months. Our Brent oil price assumption in 2025 and 2026 remains US$80 per barrel.

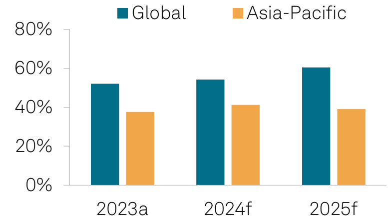
Geopolitical unrest adds to the volatility. Ongoing geopolitical tensions will continue to fuel unease about oil supply and energy security. Adding to the volatility are uncertainties on inflation and policy interest rates..

What do they mean for the sector?

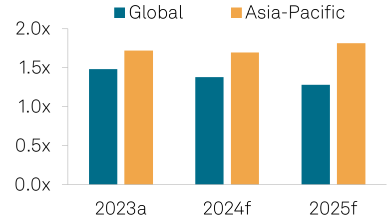
Persistent volatility and earnings headwinds. High volatility will pose potential downside risks that depress earnings. Geopolitical turbulence and the uplift this gives to energy prices, while positive to earnings, could lead to large swings in producers' inventory gains and losses. Given most rated Asia-Pacific producers are national oil companies, they will likely face more pressure to direct investment toward securing energy supplies, rather than for energy transitioning, for their respective countries. Balancing investment needs and maintaining prudent financial policy will also be crucial amid likely volatility over the next 12 months.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.