

Oil Market Report – October 2010

October saw fairly significant upward pressure on oil prices, helped in part by the onset of the European Heating Season and some major European refinery shutdowns. But such short-term factors tell only half the story, with longer-term issues also coming into play.

As was mentioned in our last report, the East (including Australasia) has shown little sign of recession in 2010 and demand for oil in this region has remained strong. This coupled with the continued weakness in the \$ (making oil cheaper – see previous Portland reports), has prevented large drops in price and is potentially creating the basis for a new period of price increases.

Oil demand in the East has grown relentlessly over the last 10 years, as Chinese consumption in particular, has rocketed. In 1999, China was using less than 0.88 billion tonnes of oil equivalent per annum. At the same time, the USA was using 2.18 billion tonnes, which was equivalent to the combined consumption of Germany, Japan, China and Russia. In the space of 10 short years, Chinese consumption has soared, so that both the US and China used circa 2.15 billion tonnes of oil in 2009 (America's drop in consumption being largely driven by recession and some improvements in fuel efficiency).

The graph attached not only illustrates these figures, but Portland has also factored in the current energy usage per head in the top 10 energy economies of the world. With these figures, we have predicted potential oil demand in 10 years, if all the countries listed, use the same amount of energy per head as we currently use in the west (EU and Americas). The results are startling, with total world demand for oil increasing from the current circa 9 billion tonnes per annum to over 19 billion tonnes.

Of course a great deal can happen between now and 2019. It is highly likely that the pace of Chinese (and Indian) economic development will slow, meaning it could take much longer than 10 years for these countries to match western levels of consumption per head. Nonetheless, it is a sobering scenario and quite possibly an unsustainable position for the world. So when Portland states that alternative sources of energy are absolutely essential for our future, it is not only driven by green credentials, but based on what we believe are social, political and economic imperatives.

