Oil Market Report: February 2020

London's Oil Week takes place each February and provides an unerringly accurate pulse of the oil sector, both from the numbers of attendees present and the range of topics discussed. Back in 2013, when Portland first covered this event (https://stabilityfromvolatility.co.uk/market-reports/oil-market-report-213/), it was arguably the high point for the global oil industry, with prices topping $100 per barrel, demand booming and the new shale technology dominating every conversation. Attendance was correspondingly huge, discussions upbeat and as our report documented, every nationality and oil profession seemed to be present.

IP 2020 was always going to be different. In the run-up to the event, the mood music was already sounding rather downbeat, as it became clear that the scale and extent of entertainment would be trimmed down versus previous years. Traditional glitzy events from the likes of Saudi Aramco and the State Oil Company of the Azerbaijan Republic (SOCAR) would still go ahead, but the extravagance of yesteryear would be toned down and shock horror, events would be wrapped up early....(yawn).

Was this scaling down of social activity reflective of the challenges facing the oil industry and an indication that the sector is now heading into a more sober and serious phase? The event does certainly play a significant part in collectivising "oil thinking" and traditionally, it has been fairly immune to many of the trials and tribulations facing the industry. Back in 2015 for example and following the massive price crashes of the previous year, one IP Week speaker (a Commercial Director of an oil trading firm) famously opened his presentation by saying that "just because the product is worth a lot less, doesn't mean that we are moving any less of it about – or making any less money for that matter!" This year however, such bravado was much harder to find, as even the most thick-skinned of oil-men (for they are invariably men) are increasingly aware of the social pressures that now face their industry.

In the same way that in today's world, no single day passes without some form of discussion on climate change, so the official oil week programme for 2020 was dominated by the self-same subject – or perhaps more specifically, how the oil industry is to survive (and prosper?) in a world where its basic product is at the core of the problem. Of the 17 official conference presentations facilitated by the Energy Institute (the official hosts of the event), 12 of them focused on climate change and the transition to a low carbon economy. Of course discussions around CO2 and climate change have been covered at previous events, but Portland would wager that never have they taken centre stage in this way.

Even then however, and despite the best efforts of the Energy Institute to put climate change at the heart of the week's proceedings, the subject still had to play second fiddle to the even more pressing issue of Covid 19. In the run-up to the event, a string of oil majors such as BP, Exxon-Mobil, Repsol and Chevron had already "boycotted" the event, for fears of spreading and / or contracting the Coronavirus. Major supporting players such as VOPAK and Bureau Veritas also did the same, whilst the likes of Shell, PetroChina and RWE allowed their staff to attend, but cancelled their own social receptions.

What the no-shows missed was plenty of talk around the short-term and long-term impact of the virus on oil prices and specifically, how it was affecting Chinese consumption. Getting accurate figures in this area is difficult, such is the fluidity of the situation and of course the massaging of data that takes place within China (several conference speakers had obviously updated their presentations "on the hoof"). But the emerging picture was that there had been a 20% decrease in Chinese imports of oil and (based on PetroChina's own figures), a 25% reduction in February oil sales versus January (and as high as 60% specifically on jet fuel). Overall, total demand for oil has been reduced by a whopping 2m barrels per day in February, equating to 2% of global demand. No wonder prices sank like a stone as the week progressed...

All of which gave this year's IP week a rather peculiar air, combining as it did the growing existential crisis facing the oil industry, with the increasingly apocalyptic Coronavirus. Certainly the hedonistic feel of previous years seemed to belong to a different era, although much of the late night chat (be assured that some social events still went ahead!!) was around how the no-show from the oil majors was all a bit lightweight and OTT. Thinking about it though, maybe that was being too harsh. Perhaps their staff were back in the office trying to work out how to deal with a massive short-term drop in Chinese demand, coupled with the longer-term and almost impossible task of ensuring that "Big Oil" is as prosperous in the future as it has been in the past.