The Oil Drum
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Oil Demand Seems to be Moving Up - Are Higher Prices around the Corner?

Posted by Heading Out on January 13, 2010 - 10:25am
Topic: Demand/Consumption
Tags: oil demand, oil prices [list all tags]

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Increases in Chinese oil demand shouldn't be too surprising, given how rapidly personal auto sales have been increasing. The Chinese purchased 13.6 million cars and light trucks last year, compared to 10.4 million for the USA--they are now the world's #1 auto market. We should not be surprised if this demand continues to grow and exert upward pressure on prices.

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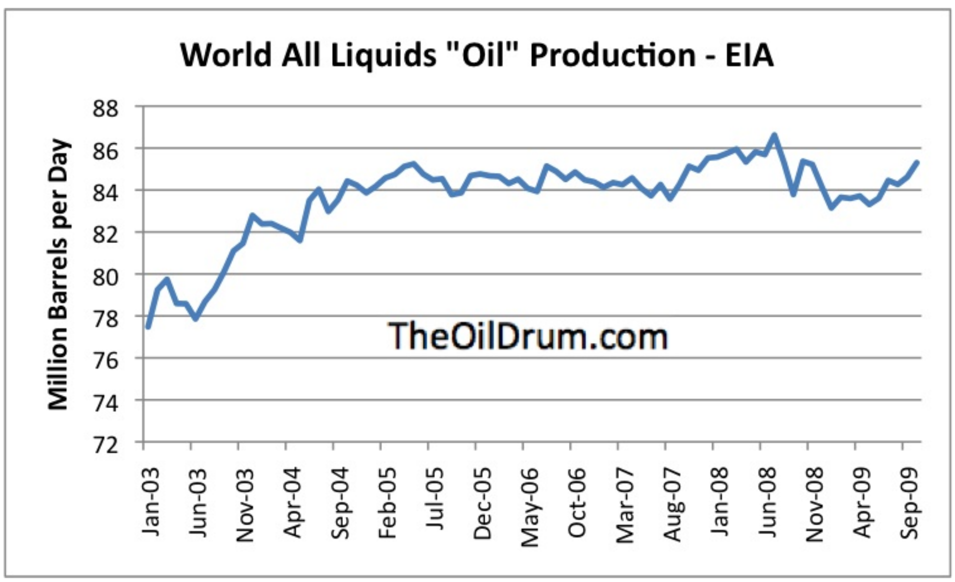

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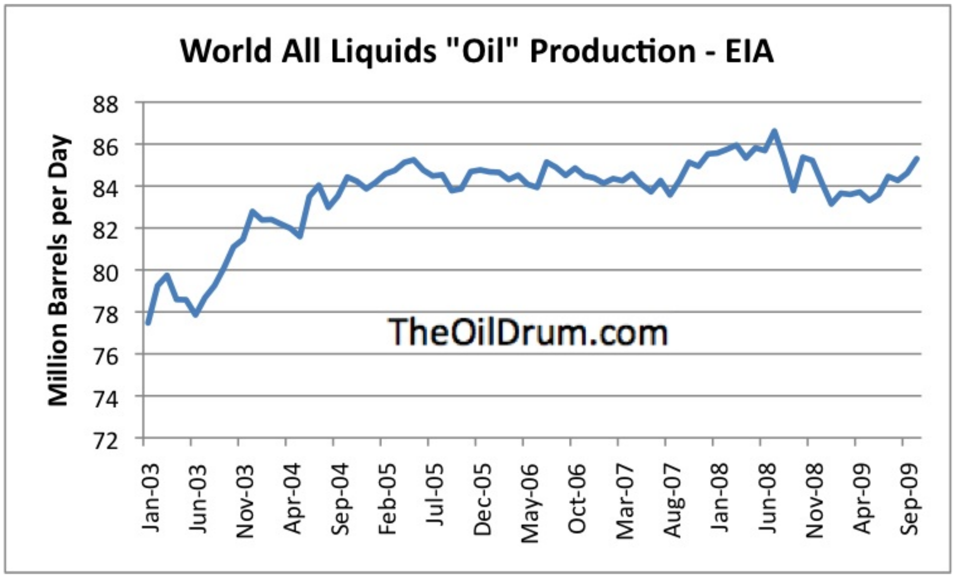
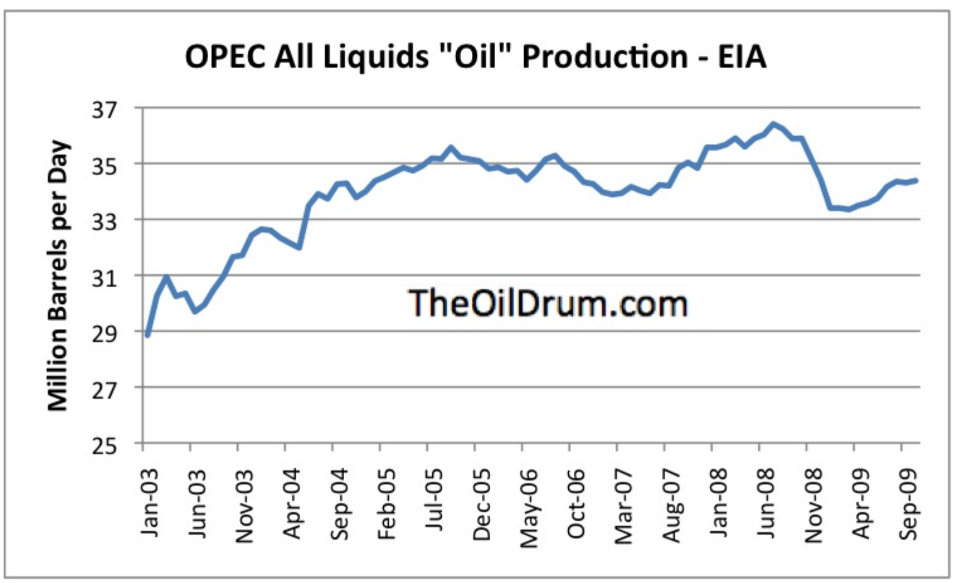
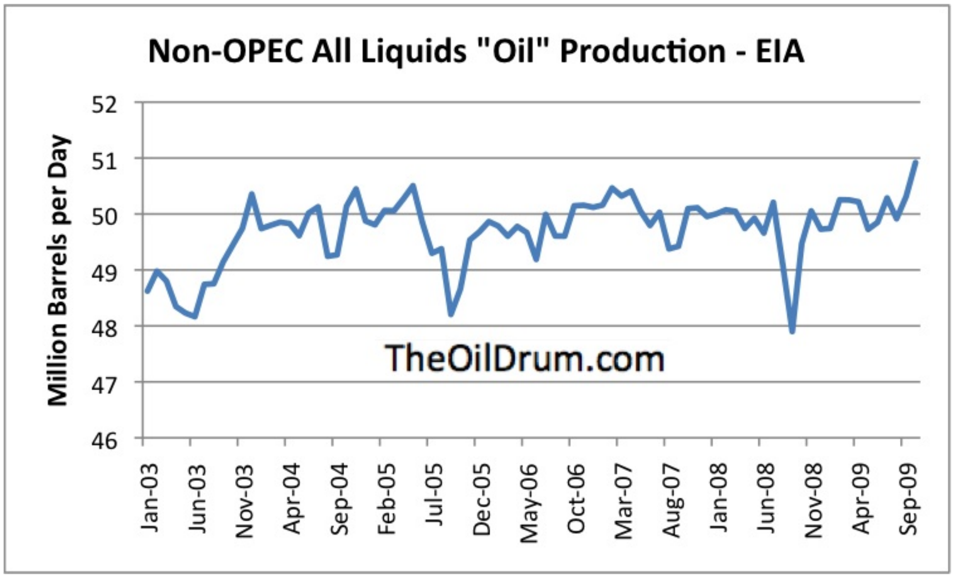


If we go to the EIA web page, the figures released a couple of days ago (which are only compiled through this past October) show that peak world production was in July 2008. (Note that this counts all liquids, including ethanol, and natural gas liquids.) At that time, total production was 86.620 mbd, of which OPEC produced 36.412 mbd and the USA some 8.830 mbd. In January a year ago, production was at its lowest over the last couple of years at some 83.145 mbd; OPEC was at 33.402; and the USA at 8.731 mbd.

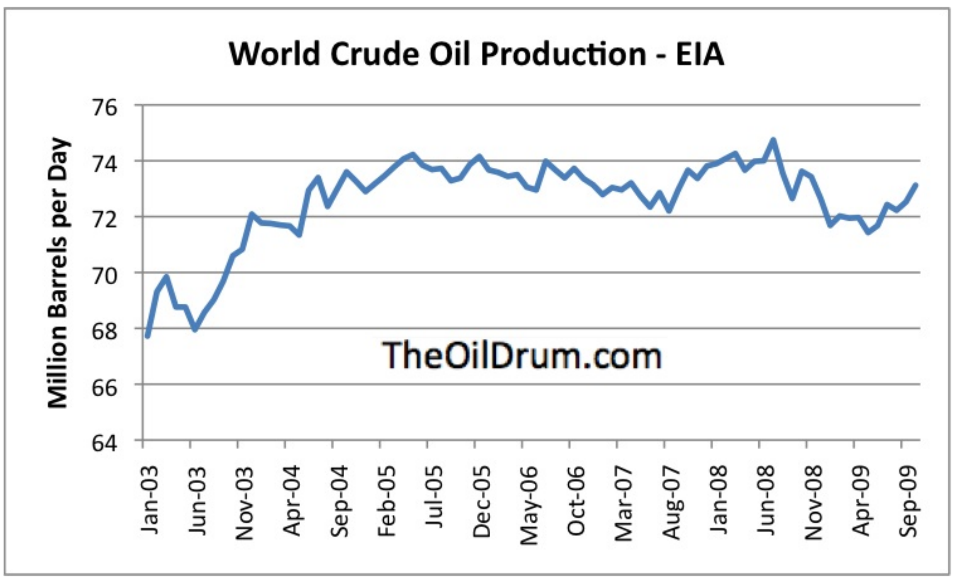


By October 2009, however, world production had returned to 85.302 mbd. This is very close to the average value for 2008, and some 1.3 mbd above the average, to date, for 2009. OPEC production was running at 34.381 mbd.



Non-OPEC production, which has been bouncing around 50 mbd since December 2003, and which has been predicted to be in terminal decline, did reach a new peak (according to the EIA) of 50.921 mbd in October. However, the general prediction for non-OPEC production relates to crude oil production, rather than all liquids, which is the EIA figure.

It would thus appear that we are within 1.3 mbd of reaching a new record for production (and this was for last October, and as I noted above, sales in December were significantly up in China).



The numbers for crude oil alone are obviously lower. In July 2008 world production was 74.746 mbd, with 33.138 mbd of production from OPEC; after a nadir of 71.430 mbd last May, when OPEC was at 30.399 mbd, by October production was back up to 73.121 mbd, with OPEC at 31.012 mbd. The difference between peak and October is 1.6 mbd.

Until now I have anticipated that we would not revisit the levels of production that we were at when oil reached $147 a barrel (which was in July 2008) for at least another year. Depending on how you view these levels of production, that pessimism about the growth or regeneration of the world economy for which this might be considered to act as a proxy appears that it might be too conservative a view. We may well exceed the current maximum values by sometime this summer, when we usually see peak annual demand.

The question will then become one of the availability of the market to meet the higher levels of demand, and can this be done without returning to the high prices that were encountered the last time around. And with those questions comes the slightly longer term one as to how much higher world oil production can be raised, before we bump into a physical production limit.

I tend to believe the generalized view that non-OPEC production is at a peak--if not, over a sustained period, just about past it. But even if non-OPEC overall production level is sustained or slightly increased, this will still throw the burden of meeting significant increases in global demand on OPEC, and this re-opens the debate over how much additional oil that they can bring to the market, given the slow release of the production quotas under which they have been operating for the past year. (Saudi Arabia, for example, which peaked at 9.7 mbd in July 2008 and dropped to 8.062 mbd in February of 2009, crept back up to 8.54 mbd in July and was at 8.34 mbd in October. Over this period Russian production has steadily increased, with October levels reaching 9.629 mbd. This contributes to the non-OPEC rise. USA production is also up recently, and North Sea production seems to be recovering from a dip.)

Well, those are the numbers. They are moving up faster than I had expected, and I'm afraid it will likely mean that higher gasoline prices will rise faster than I had expected to be the case. That is because you don't get these levels of production unless someone is buying and using the product. As demand rises, we will have the opportunity to see whether the claims that have been made about high global reserves being available to expand production are true. Also, if oil prices do rise, we can also see whether and when they impact the global financial recovery.