Counting the cost: Impact of coronavirus on global oil markets

The coronavirus (covid-19) pandemic continues to bite across the world affecting many sectors including the oil and gas sector. Some of the measures taken by countries to combat the spread of coronavirus such as: closure of schools, universities and industries; suspension/cancellation of flights to and fro affected countries (British Airways and Emirates); lock down of cities in China, Italy and Spain; declaration of state of emergencies in the US and Spain; travel bans/restrictions to social places such as night clubs and churches; self-isolation of persons arriving from affected countries and suspension of several European football leagues will adversely affect the demand for oil and gas products. The ban on travel and reduction of economic activity due to the pandemic implies that less fuel will be used (jet, gasoline, diesel) while the shutdown of manufacturing centres and businesses will lead to less oil, oil products manufacture and usage due to insufficient manpower and lack of demand. As the virus outbreak spreads globally, the question now is what shall become of the oil and gas industry in 2020 and how deep will the impact be and for how long?

The effect of coronavirus on oil and gas markets is severe since it has curtailed movement of people and goods impacting global trade. According to the Energy Information Administration (EIA), USA, China, India, Japan, Russia, Saudi Arabia, Brazil, South Korea, Germany and Canada account for over 60% of global oil consumption. More to that, China accounted for 80% of global oil consumption growth last year. As the effects of coronavirus extend to other parts of the world, China will be affected the most since the pandemic has now restrained its ravenous hunger for oil. With the issuance of travel bans and reduction of economic activities in these countries, oil consumption is expected to fall to unprecedented levels this year. This decline in consumption could result in an oversupply of oil in global markets leading to reduction in production or/and reduction in global oil prices.

Rystad energy, an independent energy research institute postulates that the pandemic has brought reduced demand and staffing in the oil industry, leading to a decline in investment particularly in oil exploration and production to the tune of US$ 30 billion so far in 2020. To further push the nail into the coffin, 22 floating production, storage and offloading vessels out of the 28 currently being built are situated in the most adversely affected countries of China, South Korea and Singapore.

IEA predicts that as a result of this pandemic, global oil demand will turn out to be 99.9million barrels a day in 2020, which is a decline by 90,000 barrels from the previous year 2019 although IEA had forecast an increase in demand of 825,000 barrels per day in 2020. Therefore, as East African countries particularly Kenya and Uganda intensify oil and gas exploration activities, it is worth noting that revenues of countries that heavily depend on oil and gas exports are going to be adversely affected this year. The reduction in oil and gas demand will add salt to the wound since oil producing countries are yet to recover from an oil surplus in 2019 that led to a decline in prices. However, the question is whether this decline in global prices will trickle down and lead to a reduction in retail oil pump prices for the benefit of countries that are oil net importers.

Despite the reduction in global oil prices expected this year as a result of the coronavirus pandemic, speculators insist that the industry shall recover in the latter part of the year as the coronavirus spread is suppressed across the world.

Johnmary Migadde
Manager
Advisory
KPMG Uganda
E: jmigadde@kpmg.com

The views expressed herein are personal and do not necessarily represent the views of KPMG.

kpmg.com/socialmedia kpmg.com/app