LONG-TERM OIL PRICES: PEAK DEMAND VS. DECLINING SUPPLY

Evonne Tan, Saudi Aramco, evonne.tan@aramco.com

Overview

Stimulus packages, which had an impressive focus on climate, implemented by governments to rescue the economy from destruction brought about by COVID-19 and the Russian invasion of Ukraine in February 2022 have contributed to the acceleration of energy transition in key energy consuming nations. Along with it is an implied peak oil demand in the foreseeable future. The concept of peak demand has been raised numerous times, even pre-COVID-19. In 2018, Spencer Dale (BP's chief economist) and Bassam Fattouh (Director of OIES) said "The significance of peak oil demand is that it signals a shift from an age of perceived scarcity to an age of abundance". So, what does this mean for oil supply, and consequentially oil price, in the long term? The natural assumption would be that once demand peaks, there will be a surplus of supply resulting in declining oil prices. But will that really be the case? The objective of this paper is to take a closer look at the fundamentals and factors that will shape future oil supply and price.

The conclusion from this paper is that long-term oil price support is essential given the need for continued greenfield investment, even in a climate friendly scenario, as the rate of fundamental oil supply decline exceeds the rate of demand decline. Downside risks to future supply due to increasing cost and declining oil and gas (O&G) investments, which will be exacerbated by energy transition, could in turn provide upside to long-term oil price. Steep withdrawal of investments from the upstream sector that is not aligned with global oil demand trajectory, will result in gaps in demand-supply that trigger high and volatile oil prices.