Oil Market Report: June 2024

Normally at this time of the year, we look back over the past 6 months to see how oil and energy markets have developed since January. But with 4 general elections taking place in 4 major countries around the world in the space of (roughly) 30 days, it felt more appropriate this month to look at each country and how their approach to oil and energy differs.

First up at the end of May was the South African election, which saw the party of Nelson Mandela (The African National Congress = ANC) take a huge bloody nose, as it lost its overall majority and was forced to go into coalition with the main opposition party (Democratic Alliance). Having been in absolute power since the ending of Apartheid, this was huge news in South Africa and the dire state of the country's power infrastructure was a major factor behind the ANC's failure.

Despite having huge mineral reserves and so much coal that the national oil company (SASOL) actually refines the stuff to make it into diesel, bountiful raw material supply has not manifested itself in energy resilience. Since 2008, the country has experienced rolling black-outs (euphemistically called "load shedding"), often lasting more than 10 hours at a time. This culminated in 2023, when the national power provider (Ekstrom) - responsible for supplying over 95% of the country's electricity - suffered an incredible 1,742 hours of power outage (around 73 days). These major interruptions to the nation's power supply have disrupted productivity, deterred foreign investment and more importantly to voters, negatively affected public safety because of minimal street lighting. No wonder the ruling party was punished at the ballot box.

Next on the election timeline was Mexico, where the populist left-winger Andres Manuel Lopez Obrador, was replaced by his protégé Claudia Scheinbaum (who becomes Mexico's first female President). Both Obrador and Scheinbaum are avowed economic nationalists (ie, believing in state owned entities, rather than private corporations) and for the last 5 years, the national oil company (PEMEX) has been used as a vehicle for both state building and poverty alleviation. New domestic oil exploration licenses have been granted, whilst 7 new refineries are in the process of being built (to end the country's reliance on US imports of fuel). At the same time, subsidies on fuel, gas and electricity have all been increased. This pro-fossil fuel stance makes for an unusual left-wing administration in global terms, because decarbonisation programmes have principally become the mainstay of left-leaning politicians around the world. This is not the case in Mexico, where its socialist leaders see fossil fuel power as inextricably linked to political power.

Unlike South Africa and Mexico, where energy policies have few international ramifications, India probably has more impact on the global energy picture than anywhere in the world at present. In a country where the population (1.6bn) has now outstripped China (1.4bn) and where economic growth (6.7% GDP growth in 2023) mirrors growth in energy demand (up 7% in the same year), decisions in this area have profound reverberations. Be they in Europe, with its reliance on imported Indian diesel or in Russia, where India's frenzied purchase of cheap crude is propping up Putin's war machine. Or perhaps it is in the gas markets, where we now see increased price pressure on seaborne cargoes of Liquified Natural Gas, as they are drawn to the Indian market.

In the election itself – culminating in June – we once again saw a ruling party (this time the Bharatiya Janata Party = BJP) performing badly. Whilst the BJP still retained power, it was still a surprise to see the increasingly messianic Narendra Modi lose his overall parliamentary majority and have to form a coalition government. Nonetheless, this still means that Modi will be shaping energy policy for years to come and there is little evidence that he will balance his great desire for economic growth, with the inevitable implications this has on India's CO2 footprint. Over 70% of power generation in India comes from coal, which makes the country the third biggest CO2 emitter in the world (2.7bn tonnes per annum) and so inevitably, India's decisions around energy use affect far more than global markets...

Finally, we have dear-old Blighty, which sees its general election on 4th July. Whilst by no means a central issue in the election, energy policy has at least been debated. In Scotland the future of the oil and gas sector is a predictably hot topic, with the Scottish Nationalists brassily declaring themselves as the protector of North Sea jobs, having spent the last 5 years denigrating the sector to appease their coalition partners in the Green Party. Meanwhile Labour's plan for a Great British Energy Company (with its main focus on renewables) is ambitious for a seriously indebted country, but as a bold new idea, merits some credit. As for the Tories, they have chosen to push back the ban on petrol and diesel cars to 2035. This actually achieves little, because most car manufacturers had already committed to the earlier deadline (2030). At the same time, it has generated unnecessary heat from the green lobby and has also meant that the real environmental achievements in the UK of the last 10 years (largest offshore wind generation in Europe, frequent coal-free electricity generation, highest number of electric / hybrid cars registered in Europe in 2023, explosion in solar power generation) have all been overlooked. And if you can't manage the message on the things that you have done reasonably well, you are definitely going to be up against it when it comes to the things you have done badly...!