Portland Energy Market Report: November 2024

It would be an understatement to say that global geo-political tensions have been uncomfortably high throughout 2024, what with the ongoing wars in Ukraine, Palestine and Lebanon, missile exchanges between Iran and Israel, ongoing Houthi terrorist attacks on Red Sea shipping and an increasingly bellicose China in its dealings with Taiwan. In previous years, events like these would have sent oil prices sky-rocketing and yet for most of the year, the market has remained fairly stable. Plentiful oil supply has helped of course, but on the demand side, it has been China's faltering economy that has created a more bearish sentiment throughout the year.

Getting hold of truly accurate data for the Chinese economy is difficult and what information is available, has often been massaged to paint a favourable picture for the ruling communist party. The headline that is widely agreed is that China will miss its own target of 5.1% GDP growth in 2024 and that growth for the year will be around the 4.6% mark. These broad headlines tend to gloss over the more granular details that tell a more accurate story. Unlike the USA, where pent-up consumerism turbo-charged the economy in the post-covid period, the Chinese recovery in 2022 was patchy at best. In the period following the end of lock-down, China experienced an 18 month decline in retail sales growth and investor confidence has steadily declined in the same period. Last month, the CSI 300 Index (Chinese Stock Market) fell to its lowest point since January 2019, whilst unemployment has also steadily risen. Youth unemployment hit a record 20% in June 2023, before these statistics ceased to be published…

Perhaps the biggest factor behind China's growing economic pains is their faltering property sector. Prior to covid, property development accounted for a staggering 30% of the Chinese economy, but the drawn-out collapse of Evergrande (once the world's most valuable real estate company) from 2021 onwards has stimulated a nationwide property crisis. Enormous debts exist at both national and local government level and developers increasingly find themselves in a "debt trap", whereby new loans are taken out to repay existing debt, rather than to start new construction projects. Property investment and development activity in China in 2024 are both down by 10% versus the previous year and the knock-on deflationary effect of declining land values has further dented the ability of local municipalities to raise and spend money.

This doom and gloom can be overplayed of course. The Chinese economy is still growing and from an oil perspective, the country is still on track to overtake the USA as the world's largest oil consumer in the next 5 years. But it is precisely because oil markets have become so reliant on China's seemingly endless growth, that the "jitters" are beginning to develop. In the period 2005-2010 Chinese GDP growth on average was around 11.5% and demand for oil and petrochemical products boomed at the same time that oil supplies struggled to keep up. Even with a slight slowing of growth from 2010 onwards (6-8%), this still meant that China's annual increase in oil demand was averaging 600,000 barrels per day (bpd) – around 65% of the total global increase in oil consumption.

What we are now seeing with regards slowing Chinese demand is more profound and coupled with a slew of new oil fields coming on stream, this has resulted in prices being kept in check. Chinese refinery runs in 2024 have averaged 14.4m bpd, versus 15.5mbpd in 2023 (down by 7.1%) and for four consecutive months this year (Apr 24 – Jul 24), Chinese crude demand contracted by 280,000 bpd. In July, China's total crude imports were 9.97m bpd, which was 12% lower than the previous month (Jun 24 = 11.32m bpd). It is also worth remembering that the wobbles of the Chinese economy have a knock-on effect on neighbouring countries, all of whom are reliant on China one way or another. So a slowdown in Chinese oil demand has a tandem impact in bringing down demand across South-East Asia, which along with China has been the other great driver of oil demand growth over the last 20 years.

The slowdown in global oil consumption is largely the result of a decelerating Chinese economy, but it would be remiss to overlook one final point, which is the additional impact of Electric Vehicles. Over 50% of Chinese car sales are now electric and the country accounts for 60% of global EV sales. As a minimum, this means that 400,000 bpd of oil demand has now been displaced by EV technology in China. Whilst demand for petrochemicals (ie, plastics) looks likely to prop up oil demand growth for a few more years, it is difficult to see anything other than Chinese oil demand peaking around 2030, before a slow and steady decline thereafter.