Global economy

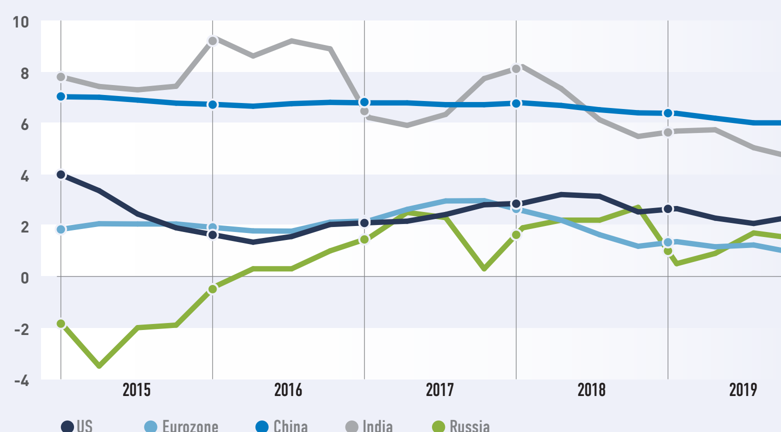
The declining global economic growth in 2019 was the most noticeable factor affecting demand, prices and expectations in the oil and other commodity markets. According to the IMF, the global economy grew by only 2.9% last year (as against 3.6% in 2018), the lowest figure since 2009. This slowdown affected both developed and emerging economies.

China's GDP growth decreased to 6.1% in 2019, which is just above the lower limit of the target set by the country's government. India's economic growth also remains fragile: in 2019, it was well below projections, with a number of indicators pointing to persistent obstacles for sustainable growth.

The main reasons for the slowdown of the world economy include trade wars, primarily the US and China's conflicts, which resulted in several rounds of mutual trade restrictions and a drop in trade turnover between the world's two largest economies. In late 2019 to early 2020, the countries came to agreements to resolve trade disputes which, if successfully implemented, could reduce trade tensions between them.

Trade wars may be part of a broader trend: the spread of protectionism and the regionalisation of the world economy both pose a risk to economic growth and energy demand. The growth of international trade has for some years lagged behind the growth of the world economy, which was not the case over the preceding period and in the paradigm of economic globalisation. The future of some integration associations

GDP of key economies in 2015–2019,
% year on year



remains in question, as was demonstrated by the withdrawal of the UK from the European Union in 2020, preparations for which had been under way since the 2016 referendum.

The global economic slowdown in 2019 was at odds with financial markets, whose stability is supported by regulatory incentives. Central banks chose to maintain their key rates or cut them as the US Federal Reserve did following the attempted increase in 2018. In this context, market valuation of assets against indicators such as profit reached their highest point for many years.

The world economy entered 2020 with persistent problems of high debt, the stark divide between the financial and real sectors, heterogeneous performance of national economies, and economic instability in some countries. The situation in global production, logistics and consumption was exacerbated by coronavirus outbreak in early 2020 which caused significant deterioration in the global economy and affected financial markets. Slowing growth and the risk of recession in key economies forced regulators to strengthen their stimulation efforts.

International situation

While there have been no major conflicts, the high level of international and regional tensions in 2019 had a considerable impact on the oil market.

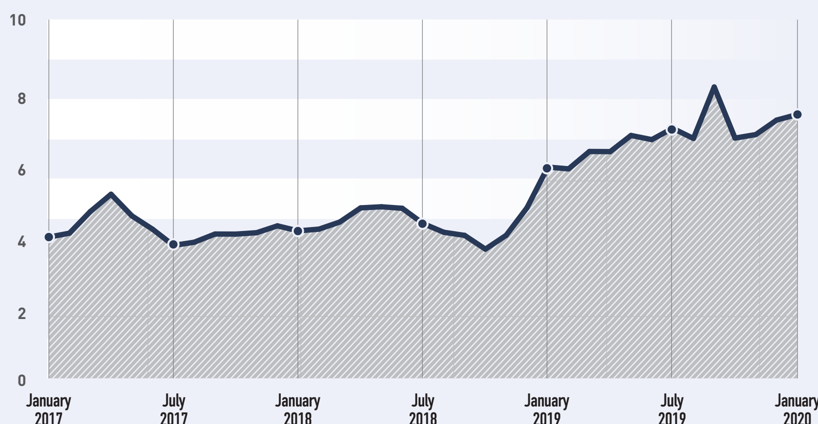
The effect of the US sanctions on Iran and Venezuela has led to a cumulative decline of 1.8 million bpd in production in these countries. Although production there saw stabilisation in the second half of the year, the situation in foreign policy and economics remains difficult.

Drone strikes on Saudi Arabia's oil infrastructure in September 2019 were unprecedented in terms of their implications, demonstrating the sector's vulnerability to geopolitical factors. As a result of the attacks, global oil production dropped, albeit for a short time, by 5%.

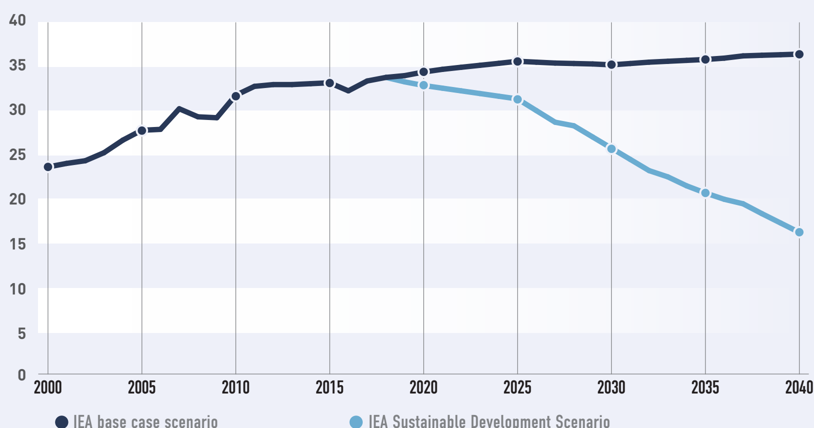
Regions that have traditionally been somewhat volatile were able to maintain relatively stable oil production throughout the year. The situation in Libya, however, remains uncertain. Overall, especially in view of OPEC+'s voluntary production cuts, the volume of lost production in 2019 turned out to be high by historical standards.

As at early 2020 there remained considerable potential for changes in oil supplies, in either direction. As demand fell amid the coronavirus pandemic, OPEC+ was unable to agree on further tactics, with the curtailment of OPEC+ countries' production having been stopped from April 2020.

Global shortfall in oil production, mbbl/d



Global carbon dioxide emissions by the energy, billion tonnes per annum



Regulation and climate agenda

International organisations, governments and society continue to pay close attention to climate change and pollution. Climate risks are at the top of the agendas of major international conferences, although commitment at a national level is variable. Russia joined the Paris Agreement in September 2019, whereas the US may formally withdraw, but not before November 2020.

While actual carbon dioxide emissions are already a long way off the original targets set in the Paris Agreement, many countries are publicly confirming their intention to reduce their carbon footprint in the long term. Some have stated their vision to become carbon-neutral by 2050. Nonetheless, it is the ambitions of corporations to become carbon-neutral by buying electricity from renewable sources on the market or by financing other actions to offset their carbon footprint that appear to be more realistic.

Environmental and social aspects of operations occupy an increasingly higher position on the agendas of industrial companies. Often acting in their investors' interests, such companies lead initiatives to develop low-carbon technologies and reduce the environmental impact of their sector. More specifically, some major funds have limited their investments in conventional energy or are planning to consider the carbon footprint in asset portfolio management.

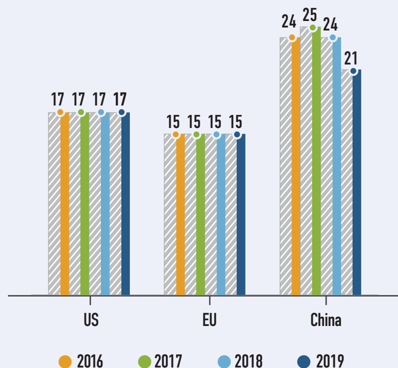
Renewable energy and automotive markets

The situation around renewable energy remains stable. Annual investment in renewable energy, including hydropower, has remained at the $300 billion level over the past decade, with renewable energy remaining ahead of other sectors of the global electric power industry. China continues to be a key market player, accounting for almost half of all renewable energy investment. Stable investments help to expand the installed capacity and increase the share of renewables. Germany is a case in point, where electricity from renewable sources accounted for 46% of the total electricity output in 2019.

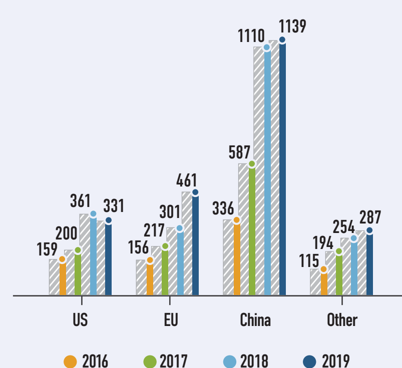
Sales of electric vehicles (EVs) grew only marginally in 2019, as a result of a reduction in subsidies by China causing EV sales to slump at midyear amid low overall demand for cars. Passenger car sales were markedly down on the world's two largest markets, China and the US. The EU saw sales spike at year-end as manufacturers sought to maximise sales by offering cars on special terms ahead of the forthcoming new limits on emissions.

New energy and transport segments retain their high dependence on government support and regulation. While reducing subsidies for renewable energy and electric transport, regulators are at the same time increasing the load on traditional power generation and internal combustion engines. The EU has adopted a new plan to limit motor vehicle emissions, and China is increasing mandatory quotas on EV production. Car manufacturers' plans and agencies' outlooks on the development of electric transport are ambitious. It is expected that many new models

Car sales on major markets, millions of units



EV sales on major markets, thousands of units.



of electric vehicles will appear on the market in 2020-2022 which, together with the efforts of regulators, will revive the market.

Oil demand

Growth in global consumption of liquid hydrocarbons slowed down in response to low levels of economic growth and competition from electricity and gas. According to the International Energy Agency (IEA), liquid hydrocarbon consumption rose by only 0.9 mbbl/d in 2019, the lowest growth rate since 2013. Analytical agencies expected to see some acceleration in demand growth in 2020, but downgraded their forecasts because of the coronavirus pandemic. As a result, global oil consumption is expected to decline for the first time since 2009.

The long-term outlook of market watchers, however, remained largely unchanged. Under the IEA's base-case scenario, oil demand growth will not stop until 2040 at the earliest. The decrease in the consumption of oil products by passenger transport after 2020s notwithstanding, the growth in demand from freight transport, aviation and petrochemicals will ensure a moderate, but nonetheless positive, trend in market volumes.

More radical scenarios, which envisage a peak in oil demand around 2030, suggest significant changes in the regulatory environment and reallocation of investment towards low-carbon energy. There are currently no viable mechanisms to ensure consistent implementation of the low-carbon agenda, and the issue of energy transition and its adoption by consumers remains open.

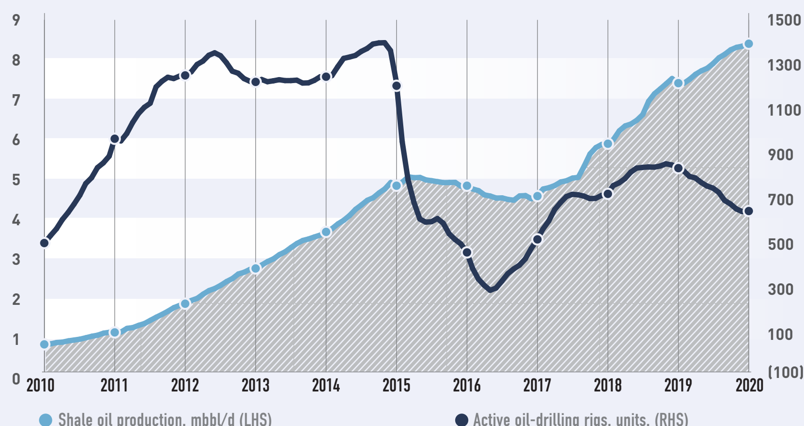
Oil supply

As in previous years, the US was the main contributor to global oil supply growth in 2019: its oil production averaged 12.23 mbbl/d, up 1.24 mbbl/d year on year. Total liquid hydrocarbons supply was up 1.58 mbbl/d (19.51 mbbl/d as against 17.93 mbbl/d), once again outpacing global demand growth.

This growth, according to Baker Hughes, was driven mainly by shale production, while

Changes in oil consumption by sector to 2040 (forecast), mbbl/d

Oil drilling and production from low-permeability reservoirs in the US, mbbl/d.



Diesel fuel/high-sulphur fuel oil price differential in Northern Europe, $/tonne

the number of operating drilling rigs in the US decreased from 885 to 677 over the year. The drop in oil prices in early 2020 led companies to reduce drilling activity further, and agencies to revise their estimates significantly. Under the impact of decreasing demand and prices, oil production in the US may slump in 2020 for the first time in several years.

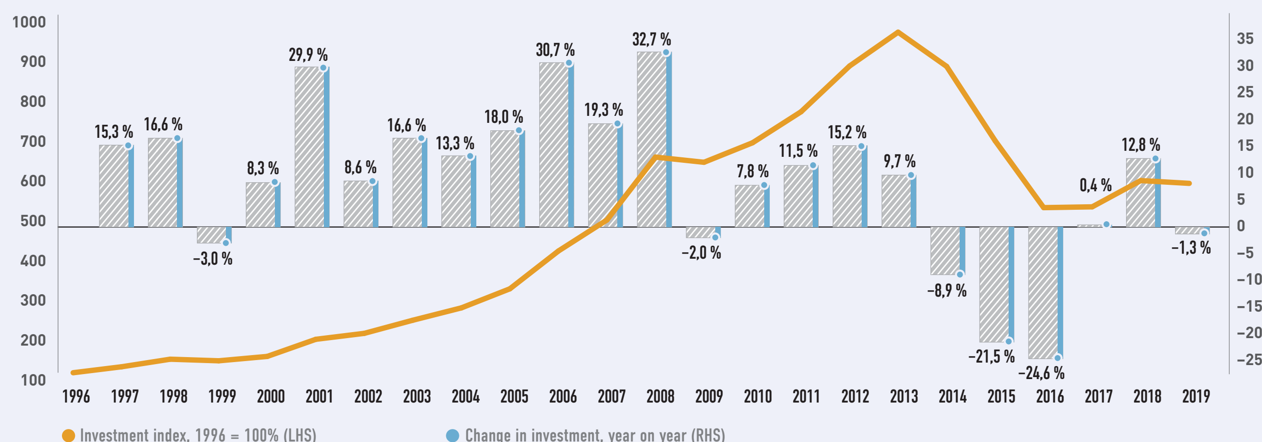
The slowdown in shale production may be offset by the supply from new production projects in non-OPEC+ countries. Major projects launched in 2019 have already had a significant impact on oil supply across various regions. Given the slowdown in demand, this has limited the capacity of OPEC+ countries to increase production; throughout 2019 they continued to take steps towards balancing supply and demand on the global oil market. In December 2019, OPEC+ members agreed not to include gas condensate numbers in the overall oil output for the Russian Federation and to lower oil production quotas in the following months due to lower seasonal demand over winter months.

In March 2020, OPEC+ members failed to reach a common position on further production cuts and so moved to independent production planning. As a result, oil prices hit their lowest since the early 2000s and the global market saw a significant surplus of oil in the first quarter of 2020.

Petroleum-products market

The global petroleum-products market remained well balanced for most of 2019. There were no supply disruptions amid the slowing demand, and even a higher level of refinery maintenance did not noticeably affect the crude and product differentials. The supply was supplemented further by the commissioning of major new

Investments by major foreign oil companies, $ billion



refining facilities in China, the Middle East and Africa.

The most notable – and expected – market highlight was the drop in prices for high-sulphur fuel oil at the end of the year, as the shipping industry was actively preparing for new International Maritime Organization (IMO) regulations to take effect. The new rules restricted the use of marine fuels with sulphur content exceeding 0.5% in international waters without additional exhaust gas cleaning. As suppliers had to build up reserves of low-sulphur fuel, demand for high-sulphur fuel plunged.

Fuel-oil prices nonetheless began to recover in early 2020. The subsequent slump in global petroleum-products consumption amid the coronavirus outbreak offset the impact of new regulations on prices.

Strategy adopted by oil companies

For the majority of oil companies, financial discipline remains as relevant as before. Nevertheless, oil price stabilisation and paybacks obtained in 2019 enabled producers to relaunch projects that had been initiated earlier and to actively approve new ones. The sector's ability to launch sophisticated projects quickly has eased experts' fears over potential oil shortages resulting from underinvestment in 2015–2017.

Total global investments in hydrocarbon production increased in 2019. According to IEA estimates, they totalled $505 billion in 2019, up 6% on the previous year. A global recovery in the number of prospecting surveys led to an increase in discovered reserves. Some estimates suggest that oil and gas discoveries in 2019 exceeded 20 billion tonnes of oil equivalent (btoe), of which two-thirds are attributable to gas.

The Guyana Shelf has the potential to become the new global production hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

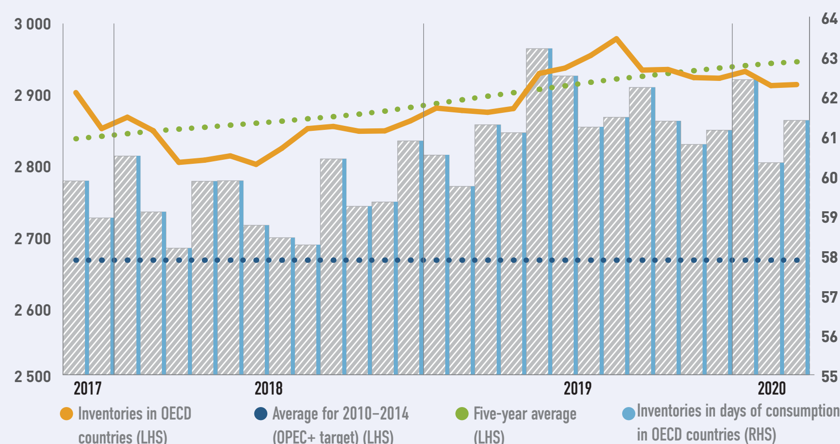
About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell.

International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain in the gas business by developing

their LNG segment, acquiring power-generation and distribution businesses, and developing renewable energy capacities. Investments in new mobility (batteries, EV charging stations, and car sharing) and the environment (plastic recycling, forestry) are done primarily through venture funds and have a much smaller scale.

Overall, the sector maintains its financial and operational efficiency priorities, including the use of 'agile' methods and accelerated adoption of technology. Environmental matters and corporate social responsibility (CSR) are receiving ever more attention.

Inventories of oil and petroleum products in the OECD countries, mbbl.



Market balance, inventories and key drivers for 2020

Despite production cutbacks in Iran and Venezuela, and the repercussions of the attacks in Saudi Arabia, the global oil market did not experience any shortages throughout 2019. In fact, the OECD countries' total inventories of crude oil and petroleum products grew year on year. Given the situation around the coronavirus outbreak, and the termination of OPEC + agreement, we may see a considerable surplus on the global oil market in 2020.

The set of factors affecting global oil markets and companies' operations remains complex. On the supply side, in addition to the ability of various countries to maintain production levels amid price volatility, the market will be affected by the political situation in the Middle East and North Africa. Demand, in turn, is likely to be driven not only by economic growth and the impact of the coronavirus pandemic, but also by weather factors, progress in EV adoption and government restrictions on the use of internal combustion engines. Instability of financial markets and fragile investor sentiment add to price uncertainty. In this context, it is likely that the global oil market will continue to experience price volatility, fluctuations in supply and demand, as well as a wide range of forecasts.

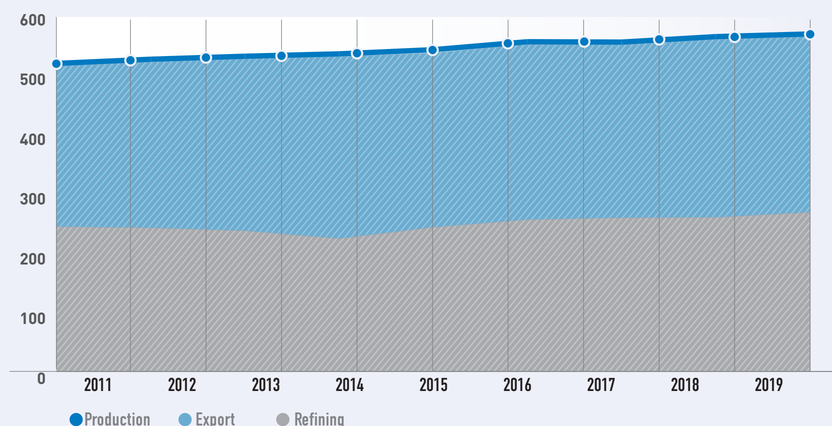
Russian oil industry

The macroeconomic situation in the Russian economy in 2019 - early 2020 remained stable. The economic growth continued, albeit on a modest scale. In 2019, Russia's GDP grew by 1.3% against 2.5% a year earlier.

Economic stability was supported by a strong export balance, despite falling global hydrocarbon prices, and a budget surplus. Expectations of a significant acceleration of inflation against the backdrop of VAT growth proved misplaced. In fact, the year-end growth in consumer prices slowed to 3%, which was another record. Low inflation allowed the Central Bank to continue reducing its key rate (6.25% at year-end).

Taxation changes in 2019 were not substantive; they continued the thinking behind previous decisions. The procedure for calculating the damper component for motor fuel was further clarified; the list of excisable middle distillates was expanded; and the roadmap for introducing tax concessions in oil production was approved. The reduction of netback indices for motor fuels in the context of moderate global prices and stable rouble rates made it possible not to extend

Russian oil production and exports,
million tonnes



domestic price constraints. Overall, domestic petroleum-products prices remained stable.

The limitations of the OPEC+ deal notwithstanding, crude oil and condensate production in Russia hit an all-time high of 560.2 mt in 2019 (+0.8% on 2018). Oil exports grew considerably (268.4 mt as against 258.2 mt in 2018), despite the Druzhba oil pipeline contamination. The ongoing modernisation of domestic refineries meant a boost in output of gasoline, diesel-fuel and aviation fuel, reducing overall volumes of primary distillation which, in turn, led to growth in production of fuel oil and heavy marine fuels.

The economic climate was mirrored on the petroleum-products market and in the key drivers of demand. Sales of new cars in Russia were down 2.3% to 1.759 million units and, according to industry forecasts, this trend may continue in 2020. Real disposable income declined in 1H 2019, triggering a slight reduction in the annual gasoline demand. By contrast, diesel-fuel consumption continued to grow (by approximately 1.3%), which was supported by growth in the key sectors of consumption (mining, agriculture, construction, railway transport). As ever, changes in consumption levels by the air transportation sector were more pronounced: passenger traffic spiked 12.9%, while cargo traffic plunged 6%. Demand for jet fuel edged up 3% over the year, although early 2020 saw a substantial reduction.

The decline in global oil prices in spring 2020 put pressure on the rouble exchange rate and other indicators, exacerbating the macroeconomic situation in Russia as a result.