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# MORE AWE THAN SHOCK

In spite of the wars in Europe and West Asia, fears of an oil shock have not yet materialised. Things can change in a hurry, though

**S DINAKAR**
New Delhi, 29 April

The oil industry experienced three upheavals between 1973 and 1991, which seem to be etched in the memory of the industry's decision makers. Naturally, at the sign of a new crisis, the decision makers like to dip into those tumultuous decades to find ways to deal with the new shock, in addition, of course, to expert reports and forecasts.

So, the industry bigwigs turned the pages of history to get a peek into the future of oil price movements after Russia invaded Ukraine in 2022, Israel attacked Gaza in 2023, Iran-linked Houthi rebels pounded tankers crossing the Red Sea in support of Palestine the same year, and Iran rained missiles on Israel in 2024.

Except that the world has changed so much this century, with heightened environmental consciousness, renewable energy, and electric vehicles, that the old pages may have limited relevance. That is evident, at least so far, in the fact that oil prices have not spiked as much as feared. In fact, the peak the Indian crude oil basket touched since Russia invaded Ukraine in February 2022 was in June that year: $116.01 a barrel. It has not crossed $100 a barrel after July 2022 and has stayed below $90 a barrel this year.

Crude oil has not vaulted above $100 because the market expects regional powers to show enough restraint to prevent a sharp escalation of the Israel-Iran conflicts that might jeopardize oil supply from West Asia, says Vandana Hari, a Singapore-based energy expert. She adds that there is a protective risk premium in crude oil of around $12-15 a barrel, most of which will evaporate if Israel and Hamas strike a truce.

The movements of the Indian crude oil basket during the ongoing crises, and forecasts for oil prices are muted if you look at how oil moved during three major crises since 1971. All those crises stemmed from West Asia and involved Israel and Iran, the two countries at the centre of the current crisis.

The reasons are diverse. There is copious output by the United States, thanks to production from shale rock. Chinese demand is subdued because of its slow economy and rise of electric vehicles in the country. And discounted oil from sanctions-ridden Russia promises to temper the price increase for Indian refiners.

Chinese oil demand growth is set to decelerate as the year progresses — from 6.5 per cent year on year in the January-March quarter to just 1.3 per cent in the fourth quarter, US market intelligence agency Energy Intelligence says. Demand for China's main product, diesel, may have already peaked this year, and gasoline demand could follow suit and peak in 2025, says the agency, citing China's largest refiner Sinopec and China National Petroleum.

Goldman Sachs' base case is for Brent to stay below $100 a barrel, according to an April 7 note. The level could be breached if geopolitical impediments impact Opec's ability to deploy spare capacity because of damages to oil infrastructure.

Opec, or the Organisation of the Petroleum Exporting Countries, controls petroleum production, supplies, and prices in the global market.

### Years of shock

The First Oil Crisis started in October 1973, when war broke out in West Asia. It prompted the Arab nations in Opec to implement production cuts and embargoes to resist Western backing for Israel. The measures pushed crude oil prices from $2.7 a barrel to $13.

The Second Oil Crisis started with the coup in Iran in 1978, then the world's fourth-largest crude supplier, and carried on with the outbreak of the Iran-Iraq war in 1980, causing oil prices to rise threefold to $40.3 a barrel in two years.

The 1990 Gulf War triggered the Third Oil Crisis, after Iraq invaded Kuwait. Prices rose by 70 per cent to $26.1 a barrel in 1991.

However, experts are cautioning against relying too much into those shocks, which occurred during the pre-internet age. Oil behaves differently in the current era of information and climate change.

**The peak the Indian crude oil basket touched since Russia invaded Ukraine in February 2022 was in June that year: $116.01 a barrel. It has not crossed $100 a barrel after July 2022**

The needle on oil, relative to the surges witnessed during the past three oil crises, has budged much less. There have been periods of volatility, but expectations of $150-$200 a barrel have not materialised, despite Opec and Russia slashing their outputs, reducing supplies to the world markets.

Oil prices rose by three to five times in the past when the Gulf nations were at war. But European benchmark Brent has declined by around $3 a barrel after crossing $91 a barrel in early April. Of course, analysts expect the prices to increase if hostilities escalated between Iran and Israel, or if Opec and Russia extended their production cuts, which are meant to end after June. But nowhere is the increase comparable to the past crises. Moreover, the Biden administration wants to keep a lid on oil prices in a US election year.

"An expanding conflict in West Asia is a cause for concern for crude oil and natural prices because about 20 million barrels per day of crude oil and condensate equivalent to about a fifth of the global consumption pass through the Strait of Hormuz, of which about 70 per cent comes to Asia," says Prashant Vasisht, senior vice president and co-group head, corporate ratings, at Mumbai-based ratings agency ICRA.

ICRA, a US Moody's affiliate, expects the average crude price for 2024-25 to be between $80 and $90 a barrel. Bhanu Patni, Associate Director, India Ratings & Research, expects oil to stay over $80 a barrel.

### Risks baked in

US investment banks are somewhat sanguine about oil prices, but some forecasts for 2024 are still below this April peak.

Oil prices have about $5 to $10 a barrel of geopolitical risk currently baked in and without fresh developments or escalation in tensions, the path of least resistance for prices will likely be lower, Goldman Sachs' head of oil research, Daan Struyven, told Bloomberg TV.

JPMorgan said last month that Russian output cuts of close to 500,000 barrels a day could push Brent oil prices to mid-$90 by May and close to $100 by September. Morgan Stanley lifted its forecasts this month for Brent crude in the April-June quarter to $92 a barrel from $87.50, third quarter to $94 from $90, fourth quarter to $87.50, and first quarter and second quarters of 2024-25 at $82.50 a barrel, citing higher geopolitical risks impacting the market.

### Indian scenario

The Indian crude oil basket witnessed a 23 per cent increase in prices from $94 barrel in February 2022, when Russia invaded Ukraine, to a peak of $116 in June after western sanctions cut in. Prices slumped by 35 per cent in a year to $74.93 a barrel in June 2023, and averaged $89.57 a barrel this month, according to the oil ministry. These prices do not account for rates of the discounted Russian oil.

"India still has a decent share of supply of Russian crude, which comprises 30 per cent of India's total imports by end FY24, and it should help to keep India's import bills for crude oil under check," says Hardik Shah, Director, CareEdge Ratings.

Another key reason for price stability despite Opec's output cuts and the ongoing conflict is the record US output. US crude oil exports in the first half of 2023 averaged 3.99 million barrels per day, a record high for the first half of a year since 2015, according to US government data — that is equivalent to 85 per cent of India's current crude imports.

US elections are the key to where oil prices head, says R Ramachandran, former refinery director with Bharat Petroleum. A Trump presidency means the US will keep producing oil.

Prices will remain range-bound if the current scenario persists, but if fighting escalates and Iraq is drawn into the conflict with Iran and Israel, Opec's spare capacity may just be adequate to make up for the loss of capacity from the hostilities.

The flare up will also affect transport and insurance costs, as tankers are rerouted and war premiums get added, says Ramachandran.

## FLOATING SAFE

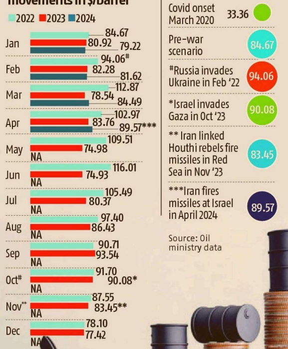
**Indian crude oil basket movements in $/barrel**

| Month | 2022 | 2023 | 2024 |
|---|---|---|---|
| Jan | 84.67 | 80.92 | 79.22 |
| Feb | 94.06* | 82.28 | 81.62 |
| Mar | 112.87 | 78.54 | 84.49 |
| Apr | 102.97 | 83.76 | 89.57*** |
| May | 109.51 | 74.98 | NA |
| Jun | 116.01 | 74.93 | NA |
| Jul | 105.49 | 80.37 | NA |
| Aug | 97.40 | 86.43 | NA |
| Sep | 90.71 | 93.54 | NA |
| Oct* | 91.70 | 90.08* | NA |
| Nov** | 87.55 | 83.45** | NA |
| Dec | 78.10 | 77.42 | NA |

**Indian crude basket**

| Event | $/barrel |
|---|---|
| Covid onset March 2020 | 33.36 |
| Pre-war scenario | 84.67 |
| *Russia invades Ukraine in Feb '22 | 94.06 |
| *Israel invades Gaza in Oct '23 | 90.08 |
| ** Iran linked Houthi rebels fire missiles in Red Sea in Nov '23 | 83.45 |
| ***Iran fires missiles at Israel in April 2024 | 89.57 |

Source: Oil ministry data



**Russian discounts in $ per barrel**

| 2022-23 | $/bbl | 2023-24 | $/bbl |
|---|---|---|---|
| Q1 Apr-Jun | -9.0 | Q1 Apr-Jun | -10.8 |
| Q2 | -11.4 | Q2 | -5.4 |
| Q3 | -6.6 | Q3 | -3.5 |
| Q4 | -15.1 | Q4 | -3.5 |

Discounts calculated of dated Brent on delivered basis to India
Source: Industry sources

A scene of explosion after an Israeli strike on Gaza last October.
PHOTO: REUTERS

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# India's natural gas consumption to surpass 64 BCM in 2024, says IEA

**Rishi Ranjan Kala**
New Delhi

Natural gas consumption in India is expected to grow by 7 per cent y-o-y to 64.35 billion cubic meters (BCM) in the current calendar year aided by lower prices and rising demand from power and industrial sectors.

According to the International Energy Agency (IEA), India is expected to see an increase in LNG imports due to the decline in spot LNG prices in 2024. However, this growth could be tempered by the increase in domestic gas production from ONGC's Krishna-Godavari field.

"Following an announcement by PM Modi in January, 2024, the $67-billion investment plan for developing India's natural gas supply chain is set to maintain its momentum over the coming years. India's natural gas consumption in 2024 is projected to increase by over 7 per cent," the IEA said in its latest gas market report.

During October 2023-February 2024, India's cumulative natural gas consumption rose by 17 per cent y-o-y to 28.12 BCM. In the 2023 calendar year, the consumption stood at 60.12 BCM.

India consumed 66.63 BCM natural gas in FY24, compared to 59.97 BCM and 64.16 BCM in FY23 and FY22, respectively.

**GROWING CONSUMPTION**

Fertilisers followed by the Power sector, city gas distribution (CGD) and refineries are top natural gas consumers in the country.

Lower natural gas prices continued to stimulate gas demand in India, with gas use in industry rising by an impressive 15 per cent y-o-y during the October 2023-February 2024 period, the IEA said.

According to the Petroleum Planning & Analysis Cell (PPAC), India's primary natural gas supply (including net domestic production and LNG imports) increased by 16 per cent y-o-y between October, 2023 and February, 2024. This strong growth in supply reflects growing demand for natural gas across all sectors, it added.

The increase in consumption was mainly driven by the oil refining sector (up by more than 70 per cent y-o-y) and industry (up by over 15 per cent y-o-y), the agency noted.

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# KEEPING OIL PRICES IN CHECK IN A WORLD AFIRE

*"Rational or not, fear is painful and debilitating, and policy makers must endeavour to protect the public from fear, not only from real dangers."*
—Daniel Kahneman, Israeli-American Nobel-winning economist

RANJAN TANDON
Senior markets specialist and author

OIL prices are up 17 percent since January this year in a lurking trepidation predominantly revolving around mounting tensions in the Middle East. Though it is reminiscent of the Iranian revolution-led 1979 oil crisis and the 1990 Gulf War, when prices touched preposterous levels, the markets are thankfully devoid of similar mayhem. Apprehensions of supply constraints and disruptions have moved prices higher. While continuing with the production cut of over 2 million barrels per day, the OPEC+ group prefers selling lighter grades with higher margins, thus exacerbating the availability of crude. The situation is compounded with Mexico cutting down exports and imposition of fresh sanctions on Venezuela.

The Ukrainian drone attacks on Russian oil refineries, most recently in the Smolensk region, could affect availability of diesel and gasoline. Though this could bring more Russian crude into the market, in the long run, the lack of refining capacity could lead to paucity of finished products, thus pushing their price higher. The Houthi attacks in Red Sea have added to the uncertainty and costs due to war risk insurance premium.

However, considerable supply exists in Africa. Nigeria holds surplus stocks despite increased domestic consumption post the commissioning of the Dangote refinery near Lagos. Libya resumed production at El Sharara oilfields in late January. Angola and Algeria continue to dominate as the largest exporters out of Africa while posting incremental production figures.

Though OPEC+ continues with output cuts, it is felt that the combined increase in supply from Brazil, Guyana, the US and Canada can significantly off set this depletion. Price weakening in physical market can partly be attributed to augmented shale supply from the US and recovery in production outages. The inclusion of West Texas Intermediate Midland in the Dated Brent basket in May 2023—owing to its low sulphur and low density—has further lent support to the Brent benchmark while maintaining supply adequacy.

On the demand side, too, factors exist that can help cool prices. India's import of Russian oil for domestic consumption as well as to slake European demand for finished products helped stabilise oil prices while averting a sharp rise. A sombre economic prospect in China for the rest of 2024 and an unprecedented declining demand ahead of the summer season in the US have also aided in softening prices.

AFP

> Increased production in the Americas and Africa, including from the huge Dangote refinery in Nigeria, is balancing OPEC+ output cuts. India's Russian oil imports and China's dipping growth are also keeping prices cool. For the Middle East's oil fraternity, economic considerations remain paramount despite the Gaza war

Beijing's involvement in brokering a diplomatic truce between Tehran and Riyadh in March 2023 was termed a "détente with far more depth". The reconciliation energised numerous other diplomatic restorations such as the one between Bahrain and Qatar, and Syria's return to the Arab League. China's growing territorial dominance is a catalyst for Washington's efforts at de-escalation of a direct conflict between Israel and Iran while desisting from imposing any further sanction on Iran's oil sector, which could negatively affect supply.

Iran has increased its oil exports to levels not seen in last five years, while China continues as its major buyer. Though the present Gaza episode has prompted Tehran to "review its nuclear stance", economic considerations remain paramount for the oil fraternity in the Middle East. Saudi Arabia holds long-term development plans while steering away from overt dependence on oil. After resumption of diplomatic ties, the UAE is keen to improve trade ties with Iran too. Any broader hostility would jeopardise regional growth.

With elections in 64 countries and the European Union in 2024, involving almost half the world's population, oil could well be the lead actor in deciding political fate for some. With the US and UK slated to go to polls at year-end, taming oil prices is pertinent for the "healthy survival" of major economies.

Oil prices are not merely the consequence of physical 'inventory and availability', but also a reflection of the sentiments on crude futures market. At present, oil futures are less volatile, translating to a muted optimism and less confounding geopolitical apprehensions. Past stockpiling of crude at lower prices by China is bearish for current demand. Despite shale production touching a record high, the US is in no hurry to replenish its depleted strategic petroleum reserve, as it maintains a buffer to satiate market appetite should there be a dramatic rise in prices.

Conventional sources are gradually ceding their dominance to niche territories in Latin America as major oil producers Exxon, Chevron and Total enter into fresh alliances with local producers. While addressing supply issues, such moves also assist in posting better financials and rewarding shareholders. Post sanctions, Caracas is 'flirting' with digital currency for its oil trade to ease export woes.

Year 2024 could witness a slight deficit in overall supplies against projected demand, keeping in mind the continued OPEC+ cuts. Should the geopolitical situation change dramatically for the worse, despite increased contribution from the Americas, the $100 price level could be revisited. A $90 scenario seems plausible around the middle if the status quo holds.

*(Views are personal)*

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