Energy Intelligence

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South and Southeast Asia Trail in Demand Recovery

While the US and China have both seen robust recoveries in oil demand, South Asia and Southeast Asia are on a bumpier path, as countries struggle with new Covid-19 outbreaks and vaccination campaigns fall short.

This could potentially cap global oil demand and leave Asian refiners struggling for another year, or more (IOD Jun.24'21).

Tale of Two Recoveries

There has been euphoria over the recovery in the US and optimism about the prospects for a similar rebound in Europe, particularly in the UK and Germany, independent consultant Vandana Hari told the online Oil Products Forum organized by Conference Connection this week.

But in Asia, the picture is more mixed, and Southeast Asia has actually experienced the worst of the pandemic in recent weeks and months, Hari added.

Indonesia's largest island, Java, and its province of Bali will enter a full lockdown from Jul. 3 until Jul. 20 as they battle a surge in Covid-19 cases. And in Malaysia online school and work from home have been the norm since Jun. 1.

India only recently started emerging from a devastating second wave of the pandemic, with state governments easing lockdown restrictions, which drove rising demand for gasoil and gasoline in June versus May (IOD Jul.1'21).

But there are already worries about a possible third wave of infections in India as people let their guard down.

Half of Australia's population is under lockdown now after an outbreak of the Delta variant of Covid-19 in Sydney in late June.

Outlook Changed Since Start of Year

The latest outbreaks mark a sharp turnaround from the beginning of the year in Asia, when gasoil and gasoline demand were recovering fast, China's refining runs were at record highs and India believed it had beaten the pandemic.

Since then "things have reversed: strong vaccinations have led to the West driving the demand recovery," energy consultancy FGE's director of Asia oil, Sri Paravaikkarasu, told the forum.

After falling by 1.38 million barrels per day in 2020, oil consumption in non-OECD Asia (excluding China but including India) will regain 750,000 b/d of the lost demand in 2021, the International Energy Agency said in its June oil market report.

It also forecast that oil demand in the region will rise by a further 780,000 b/d in 2022, but that would put it only slightly above 2019 levels.

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"Vaccinations are projected to be very uneven across the countries in the region, and Covid waves could reduce mobility and demand over the forecast period," the agency warned.

Downstream Still Under Pressure

The recovery in oil demand, and the accompanying rise in oil and gas prices, has so far benefited the upstream sector much more than the downstream sector, especially in Asia, where -- except for China -- demand remains subdued.

Asian refining margins are still nothing to celebrate. The Energy Intelligence refinery model -- which charges variable costs only to incremental runs -- shows that Asian refiners are still losing more than $1 per barrel on incremental runs versus a gain of $5.50/bbl for US refiners (OMI Jun.16'21).

It will take at least 12 more months for the region's products market to make a full recovery, said FGE's Paravaikkarasu.

Asia's gasoline and gasoil demand will exceed 2019 levels by the end of 2021, but demand for jet fuel will only return to pre-pandemic levels by 2023 because of slow vaccination rates in Southeast Asia, FGE estimates.

Asia Soon to Be Gasoline-Short

Gasoline, naphtha and jet fuel will drive growth in Asia's oil demand in the short to medium term, as a growing middle class takes to the roads and to the skies.

But refiners have been turning their focus to petrochemicals -- with naphtha as a feedstock -- to boost profitability and prepare for a transition away from petroleum-based fuels in the longer term.

As refining projects are postponed or canceled -- because of the pandemic and the transition to low-carbon energy -- Asia could soon find itself short of refining capacity, according to some estimates.

FGE sees a further 1 million b/d of refining capacity closing down between 2020 and 2023, with no big new refineries on the cards after 2023.

In Australia, BP and Exxon Mobil closed their Kwinana (139,000 b/d) and Altona (84,000 b/d) refineries this year.

Royal Dutch Shell has closed down its 102,000 b/d Tabangao refinery in the Philippines, and is also downsizing its Pulau Bukom refinery in Singapore.

As a result, Asia will soon have a gasoline deficit in about two years' time and the product will start to command a price premium, said FGE's Paravaikkarasu.

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