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# TOP FACTORS TO LOOK OUT FOR IN 2021

## PLATTS ANALYTICS SPECIAL FEATURE

**December 2020**

After such a disruptive year, the overarching theme of 2021 will almost certainly be recovery and reaction from COVID-19; how fast and how high. In many ways, the recovery is already well underway, with demand and prices in some sectors/fuels already close to, or even above pre-pandemic levels. On the flip side, the global macroeconomy and energy demand is not out of the woods yet. Coronavirus infections continue to climb, and vaccine deployment, particularly widespread deployment is still months away, which will weigh on the demand and price recoveries in the opening months of the new year. The balance between a return to normal or even a "new normal" and uncertainty/risks over lingering coronavirus infections will be key to energy pricing pathways 2021.

Platts Analytics assumes global GDP growth will rebound by 5% in 2021, highlighted by an acceleration in the second half of the year to 7-8% annualized growth. There is still a risk that lingering impacts of second wave cases stunts GDP growth in both the timing and momentum of recovery. In a more pessimistic economic outlook, growth falters but remains positive, if only by just 1.0%. On the flip side, broad vaccine deployment by mid-year could stimulate a recovery in GDP growth to 6.5%. Oil-based transportation fuels will be the most sensitive to the economic recovery as mobility restrictions ease. The response of US shale production to change in oil demand will have an outsized impact on global natural gas and NGL markets via their production associated volumes, which will send ripples throughout the wider energy complex.

There will undoubtedly be unforeseeable twists and turns over 2021 (although hopefully less painful than in 2020), with considerable risks to the recoveries of demand, supply, and prices. However, fundamentals and data will matter more than ever, requiring a steady, holistic perspective on fundamentals across the breadth of the energy market. While there is no such thing as 20/20 vision when it comes to forecasts, Platts Analytics will continue to strive to bring clarity to the energy markets, enabling our customers to act with conviction in 2021.

Below are some of the other key themes to look out for in the commodities market during 2021:

### OIL AND PETROCHEMICALS

1) **While a COVID-19 vaccine is the light at the end of the tunnel, it is going to be a bumpy ride for oil demand.** Widespread vaccine deployment will not occur until H2 2021, which will not prevent periodic lockdowns for several months. Complicating matters is that the initial distribution of the vaccine will skew toward the elderly and frontline workers – important groups to be sure – but not ones that aid the recovery in demand. Additionally, wealth inequality will likely grow, stunting the growth in the global middle class, the real engine of oil demand growth. Oil demand will certainly rebound in 2021, but consumption is still expected to be over 2 million b/d less than that of 2019.
2) **With greater global reliance on Middle East Oil, OPEC+ will be the dominant factor for 2021 oil supply** on two fronts. Political risk: Libyan supply is defying expectations, rising to 1.2 million b/d although the ceasefire is tenuous. Iran/Venezuela offer upside to supply with a new US administration, but progress will be slow. Policy/cohesion: It will be increasingly difficult for OPEC+ to walk the tightrope between volume and price, with the organization looking to both increase revenues and prevent a sizeable rebound in US market share.
3) **Squeezed refiners need a demand outlet or face closure.** Even assuming a rebound in refined product demand in 2021, growth in refining capacity (largely in Mideast/Asia) will be far larger. A continued influx of biofuels and NGLs supply will further weigh on crude runs in 2021. This will squeeze margins of existing refineries, particularly if the demand recovery for transportation fuels is sluggish, and refinery closures are inevitable. Refineries that focus on costs, local markets, and integration with petrochemicals or transformation into bio-refineries will be well-placed to survive.
4) **Petrochemical feedstock volatility to surge as derivatives take the lead.** Petrochemical sector growth will accelerate in 2021, driven by a recovery in durable goods (primarily propylene derivatives) and further growth in demand for packaging (ethylene derivatives). However, producers have painted themselves into a corner with high aromatics inventories in Asia just as a massive build out of aromatics capacity occurs. The market will be forced to manage these rising inventories and the corresponding pressure on polyester-chain margins, along with possible gyrations of FCCUs to manage gasoline and blendstock inventories, by focusing on cracker feedstocks and leveraging on-purpose units like PDHs. Without careful management of feedstocks and products, the market has the potential to experience a year of volatility which could be particularly painful as HDPE and LLDPE margins will also be under pressure during 2021 due to capacity additions.

## NATURAL GAS, COAL, AND POWER

5) **Gas-to-coal switching will not be enough to prevent Henry Hub prices from hitting seven-year highs and LNG shut-ins**. US gas supply will be squeezed by a loss of associated gas production from weaker shale oil drilling and higher ethane recovery in 2021. Gas-to-coal switching and continued growth in renewable generation will be necessary over 2021 to ensure there is adequate natural gas storage for the 2021/2022 winter. Even this will not be enough, and LNG export curtailments may be required to balance the market. The key factor to watch is the responsiveness of dry gas production in this environment and the extent of associated gas production declines.

6) **New (super chilled) Cold War on LNG/gas between the US and Russia over Europe.** The delayed completion of the Nord Stream 2 pipeline in 2Q 2021 will join the recently-completely Trans Adriatic Pipeline (TAP) and rebounding Algerian gas flows as incremental gas supply flowing into Europe. With too much supply chasing too little European demand amid record high storage, US LNG exporters will occasionally be on the outside looking in during 2021.

7) **LNG buyers to stay in the driver's seat despite Asian demand surge.** Asian LNG demand will rebound sharply in 2021, but weak European LNG demand, a 3.5% expansion of global new liquefaction capacity, and low oil-linked LNG contracts will keep buyers spoiling for choice over the next year. Demand and price seasonality will intensify in 2021, with both winter tightness and summer cargo cancellations occurring over the year.

8) **2021 could be coal's "last hurrah" of demand, beleaguered producers will still be challenged.** Gas to coal switching and recovering power demand in the US will increase the call on coal supply in 2021 although financially distressed US coal producers will be challenged to adequately ramp up supply. Despite an expected recovery in consumption, China's imports may decline again in 2021 as the world's largest coal producer and consumer strives for self-sufficiency. Demand growth in the rest of the world may not be enough to compensate for the loss in Chinese import demand.

## AGRICULTURE, RENEWABLES, AND POLICY

9) **Low carbon energy to rebound and advance, further challenging the recovery in fossil fuels.** New solar/wind additions will increase in 2021, driven by a host of grid parity solar projects in China, a rebound in Indian installations, and potentially deferred US installations from 2020 into 2021. Coupled with a recovery in nuclear generation, growth in low-carbon electricity supply will eat into the recovery of fossil fuel demand in the power sector. Biofuels demand will also grow faster than liquid fossil fuels in 2021, driven by a higher blending rate and a ramp up in renewable diesel capacity.

10) **Can environmental policies shift from rhetoric to action?** The US election will certainly result in more aggressive environmental policies, although yet undecided control of the Senate will factor into how much ability the incoming Biden administration will have to enact impactful changes. Recently announced net zero pledges from China, Japan, South Korea, and Canada as well as greater climate ambition from Europe grabbed headlines, lack clear pathways to achieving these goals. Unilateral/regional actions could lead to either a greater dichotomy in climate action with border carbon tax adjustments separating the two sides or inspire greater global ambition at the UN Climate Change Conference (COP26) in November 2021. Despite this greater focus on long-term carbon reductions, the economic recovery, gas-to-coal switching, and low fossil fuels prices will drive energy sector $CO_2$ emissions 1.4 gigatons (4.4%) higher year on year in 2021.