

Asian oil products demand to outweigh refinery capacity by 2025: McKinsey

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Asian demand for oil products will outweigh current and upcoming refinery capacity by 2025, Tushar Tarun Bansal, Director at McKinsey, told attendees at S&P Global Platts annual Middle Distillates Conference in Antwerp Thursday.

In particular, China and India were singled out as two of the largest consumers that will move from a current oil product balances to an oil product deficit by 2025.

In China, demand continues to rise, and refining capacity will be incapable of keeping pace resulting in China being reduced to a net importer, Bansal said. Beyond 2020, international players might see a revival in refining investment opportunities in China.

Bansal expects demand in China to grow by 5% per year between 2010 and 2018, changing to 2% per year by 2025 as the country moves from an industrial economy to a more service-oriented economy.

Current capacity will see 1% per year added over 2018-2025 creating a deficit between demand and capacity of around 180,000 b/d.

In India, demand will grow by 6% per year from 2010-2018 with a forecast of 4% per year growth until 2025. Diesel will drive a significant proportion of this demand growth, Bansal said. Addressing questions as to whether recent growth in India is purely attributed to a low flat price environment, Bansal said demand in India is both structural and strong, and not merely a product of recent low crude prices.

With strong growth until 2025, the current surplus will continue to reduce up to 2020, resulting in India becoming a net importer -- mostly of LPG and naphtha -- after 2020.

The wider Southeast Asian market will mirror the growth expected in China and India. Demand in Southeast Asia will grow by 3% per year from 2010-2018 with forecasts predicting 2% per year growth until 2025.

For Southeast Asia, Bansal predicts net imports of transport fuels to rise, driven by strong demand growth of 4.1% per year.

Due to this growth, Bansal said: "What we see today is a pressure point that will lead to the necessity of building refineries."

Alongside new refinery capacity, supply would also need to be imported from exporting regions. The primary deficits in India of LPG and naphtha would be supplied by the Middle East, with fuel oil -- although in surplus by 2020 -- coming from Russia and Venezuela, Bansal said.