Oil market in 2016

Since supply and demand for petroleum products are strongly correlated to economic and political developments in the world, the oil market in 2016 was highly volatile. As a result, in Q1 oil prices hit their 10-year lows, falling below **USD 30 per barrel**. The price level was difficult to predict due to such factors as periodic supply and demand imbalances, conflicts in African countries (Libya, Nigeria), and the **growing number of production wells in the US**.

Last year saw **expansion of the global market for refined petroleum products**. According to forecasts continued economic growth, especially in the CEE countries, will drive global demand for refining products in the coming years.

In total, global demand rose **1.4%** across almost all refined petroleum product categories.

In 2016, demand for gasoline, diesel oil, and LPG for road transport applications went up 2.1%, 0.1%, and 5.7% year on year, respectively. Consumption of JET aviation fuel also increased, by 3%.

Key drivers of the global market environment

OPEC output quotas

The continuing downward trend in crude oil prices was a source of major concern for most of the market players such as OPEC countries or Russia, whose budgets rely heavily on oil revenue. Having acknowledged the gravity of the problem, those countries took steps to halt the trend.

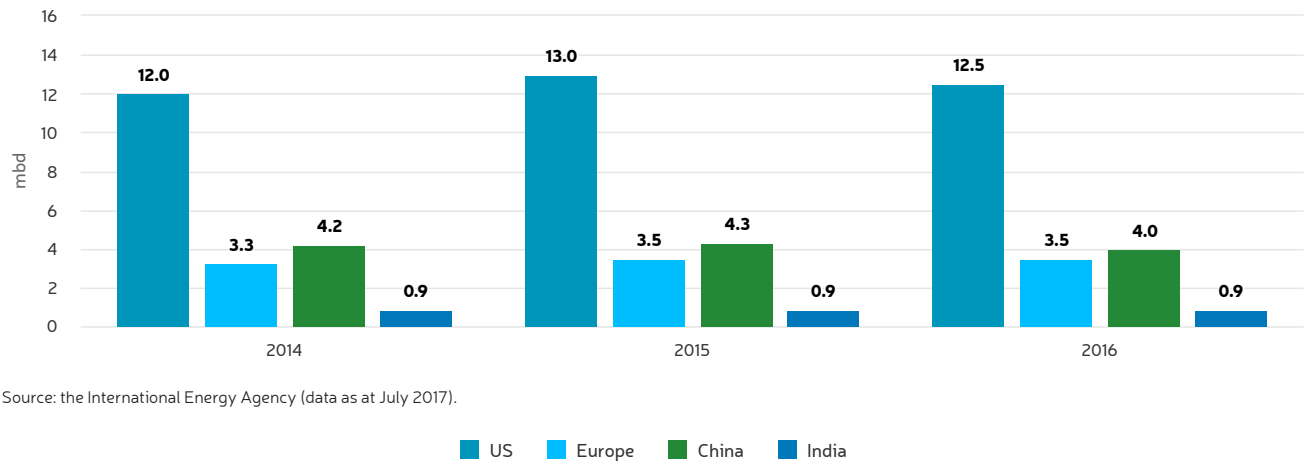
Rising production from shale gas deposits in the US

Globally, oil price growth is mainly tempered by rising production from shale gas deposits in the US, which is increasingly profitable due to reduced costs and technological progress. Unconventional production is also gaining popularity beyond the US.

Despite a decline in crude oil prices, production has remained high in the US since 2015. In Brazil, oil production from pre-salt reserves (5–7 km under the seabed) reached record levels in January 2017, and all indications are that there will be more oil from this source.

Accumulating stocks of crude oil across the world, especially in the US, also put a damper on oil prices. Stocks of oil in the US have reached their highest level in the last 30 years, at 520m barrels.

Crude oil production in the US, Europe, China and India



Source: the International Energy Agency (data as at July 2017).

Europe – demand up 2.2%

The economic upturn in the European Union and in the eurozone seen in 2016 led to increased demand for refined petroleum products, both aviation and automotive fuels. It is estimated that the aggregate demand for those products went up 2.2% on 2015. Consumption of JET aviation fuel, diesel oil, LPG, and light fuel oil rose 3.4%, 2.8%, 4.2%, and 0.9%, respectively. Lower demand was seen only in the case of gasoline (down 0.3%).

According to forecasts until 2022, the European market will grow, and total consumption of refined petroleum products is expected to go up by **1.3%**. This trend reversal has a significant impact on the Polish market.

> In the period until 2020, a strong increase is expected in the EU's consumption of JET aviation fuel and diesel oil, of 11.9% and 3.8%, respectively. According to forecasts, demand for gasoline will decline markedly, by as much as 11.0%.

In 2016, the motor vehicles market in the European Union grew 7.4% compared with 2015. The number of new cars exceeded 20 million. The number of new cars registered in the EU rose 4.5% in 2016, with the total number of new registrations coming close to 15 million. The number of lorries also increased, by 11.7%, and new registrations in this category totalled more than 2.3 million.

At the same time, however, new solutions are being consistently launched on the market to reduce the consumption of conventional fuels, electromobility and alternative fuels being cases in point. The last decades were also a period of deep demographic changes (ageing population) and progressing evolution of consumer habits, leading to fewer consumers in the future. In consequence, demand for gasoline is expected to significantly decline in the EU by 2022 (down 11.0%).

Polish fuel market – the Fuels Package boosts official fuel consumption

In 2016, Poland's GDP was up 2.7% [1], driven by uptrends in manufacturing and construction. The unemployment rate at the end of 2016 was one of the lowest on record, at 8.3% [2]. As a result, consumption rose across all product categories, including in the fuel market.

2016 was also the third consecutive year to see growth in official fuel consumption in Poland. It went up 13%, including: 15.5% for diesel oil, 7% for gasoline, and 1% (roughly on a par with the previous year) for light fuel oil.

Efforts to counteract the grey market in Poland, undertaken both by the government (the Fuels Package) and legitimate fuel suppliers, have reduced the market's size, additionally contributing to an increase in registered demand for diesel oil.

[1] Source: Central Statistical Office of Poland (GUS).
[2] Source: Central Statistical Office of Poland (GUS).

> In the period from August to December 2016, official consumption grew **20.1%**, beating even the most optimistic of analyst forecasts. During that period **diesel oil** consumption rose the most, by 25.4%, which led to a 133% increase in diesel oil imports year on year.

To compare, **from January to July 2016** fuel consumption grew 7%, including diesel oil up 8% and gasoline up 5.6%.

Polish companies are leaders on the domestic retail fuel market (gasoline, diesel oil, and LPG) – their market share in 2016 was 33.1% (down 0.6 pp year on year). The share of international companies was also down (0.3 pp year on year), to 21.6%.

In 2016, the market for LPG (a substitute of gasoline) grew 8%, to 2,535 thousand tonnes. The LPG market in Poland may be described as mature, with annual consumption volumes at 2,200–2,300 thousand tonnes in each of the last five years. Consumption of aviation fuel in 2016 rose 11% on the back of the growing number of airline services, expansion of new airlines and a steady increase in the number of passengers.