PRESS RELEASE
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# Crude oil markets enter tipping zone as electrification effort intensifies: ICRA

Rating agency ICRA projects global crude oil demand growth to decelerate significantly from pre-Covid levels, primarily due to the subdued demand from China. It anticipates that this downtrend signals that crude markets may be entering a tipping zone, characterised by weakening growth dynamics owing to accelerating electrification. ICRA's outlook on the Indian upstream sector, however, remains Stable.

Commenting on the global crude oil markets, **Girishkumar Kadam, Senior Vice President and Group Head, Corporate Ratings, ICRA Ltd**, said: *"Weakening Chinese demand, impacted by factors like large scale renewable capacity addition, burgeoning electric vehicle sales, prolonged real estate slump, vast national high-speed rail network, substantial share of LNG and electric trucks and an ageing population – may be a drag on global oil prices. The crude oil demand growth going forward is likely to significantly trail the pre-Covid historical average annual growth rate."*

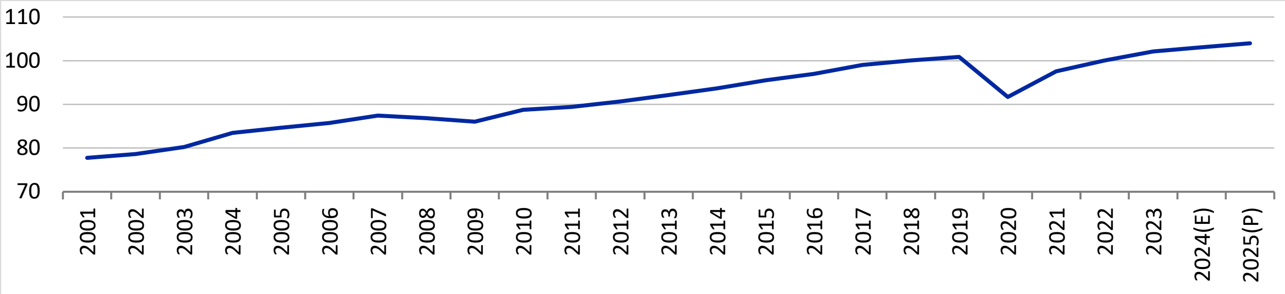
China's crude oil demand increased by 9.3 mbd over 2001-2019, accounting for ~40% of the global crude oil demand increase of 23.8 mbd and accordingly China has been an engine of growth for the global demand. However, Chinese demand has been impacted by structural factors rather than transient reasons, owing to which global crude oil demand may be entering a zone of weaker growth as electrification efforts intensify.

China alone accounted for more than 50% renewable capacity additions globally in CY2023. Similarly, in the current year China is adding more than 330 GW of solar and wind power, again higher than the rest of the world combined. Renewable energy generation has outpaced the rise in electricity demand. Additionally, in CY2023, 39% of new vehicle sales in China consisted of electric and plug-in hybrids. In September 2024, new energy passenger vehicle retail sales reached 1.12 million units with their market share increasing to 53%. Chinese gasoline demand, therefore, is expected to peak in the next 2-3 years. Its LNG truck sales have also surged in recent years, owing to tightening emission regulations, subsidies, expanding number of fuel stations and favourable economics of LNG vis-a-vis diesel. State-owned PetroChina reported that China's gasoil consumption reached its peak in 2023, as LNG-powered heavy-duty trucks increasingly replaced diesel-powered vehicles.

The prolonged real estate slump, an ageing population leading to shortage of effective labour supply, thus affecting production and a vast high speed rail network are other factors leading to a deceleration of oil demand growth in China.

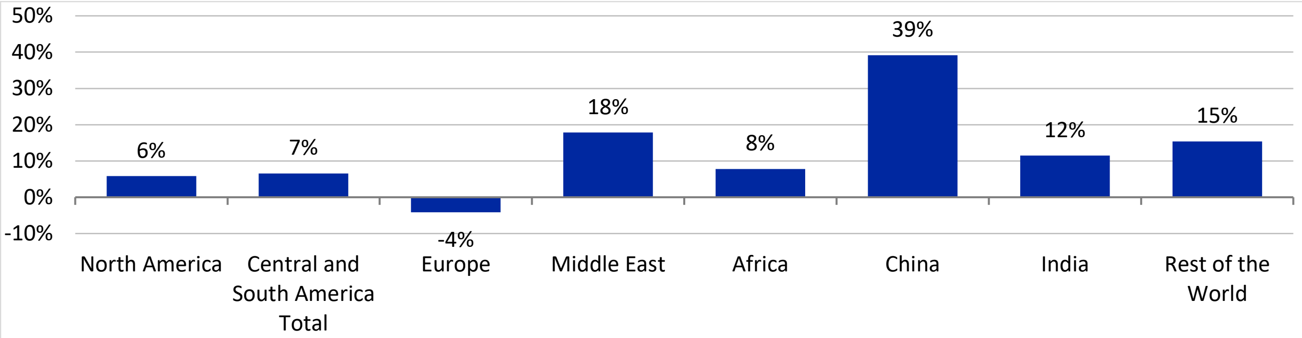
Crude oil prices are likely to remain low owing to weak demand and elevated production in the US, despite OPEC+ extending its production cuts. ICRA expects crude price to average at $60-65/bbl in the next five years, but any adverse geopolitical developments could lead to a spike in crude prices. The operating profits of domestic upstream companies would be adversely impacted and are likely to be lower by Rs 13,000 crore for a $10/barrel decline in crude oil prices. Despite this, capex by domestic upstream companies is likely to increase owing to healthy returns at levels of $60-65/barrel.

**Exhibit 1: Trend in Global liquids demand (mbd)**




*Source: EIA, IEA, ICRA Research*

**Exhibit 2: Percentage contribution to global demand growth of various regions**




*Source: EIA, ICRA Research*

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