

Plane speaking: IEA says aviation to hold back oil recovery

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Airlines have been forced to park their planes on runways as COVID-19 lockdowns has shut down most air travel, and caused huge drop in demand for jet fuel that has hit the oil industry hard

Demand for petrol and diesel is set to heal by the end of the year but the coronavirus crisis is likely to leave scars on the airline industry and the oil market, the International Energy Agency said on Tuesday.

The IEA continued to upgrade its forecasts for the oil market in its latest monthly report as more countries ease lockdown measures that have pushed the [world economy](#) into its greatest crisis since the Great Depression.

It now expects 2020 oil demand to come in at 91.7 million barrels per day, a drop of 8.1 mbd from last year. That is an improvement on its May estimate an 8.6 mbd reduction and the April estimate of a 9.3 mbd drop.

The IEA noted that year-on-year consumption figures have been rising steadily since "Black April" when the lockdown measures were at their peak. The 21.8 mbd drop in April was pared to an estimated 18.6 mbd reduction in May.

The drop is expected to narrow to 12.9 mbd in June and 7.4 mbd in July.

The Paris-based IEA pointed to a number of encouraging signs of a recovery.

"For demand, increased mobility indicators in the March-May period provided support: in particular, China's strong exit from lockdown measures has seen demand in April almost back to year-ago levels," it said.

It also noted a strong rebound in India in May, although demand was still well below last year's level.

"In the second half of the year the easing of lockdown measures in many countries should provide a boost," it said.

Aviation in 'dire situation'

The IEA released its first forecasts for 2021, when it sees demand rising by 5.7 mbd "as activity begins to return to normal across vast swathes of the economy".

That will bring global oil demand back up to 97.4 mbd, which it noted will still be 2.4 mbd below the 2019 level, which it said "is largely explained by the dire situation of the aviation sector".

The IEA estimated that demand for jet fuel and kerosene will fall by 62 percent in the second quarter from the same time last year, and only slowly recover as air travel is likely to be held back by restrictions and lower demand until a vaccine is found.

"Unlike gasoline and diesel, which are likely to recover to close to pre-crisis levels by the end of 2020, the outlook for jet fuel is more uncertain," it said.

The IEA said the industry would continue to be a drag on oil demand through 2021, estimating that after falling by 3 mbd this year, demand for [jet fuel](#) and kerosene will rise by only 1 mbd in 2021.

On the supply side, the IEA says global oil production is set to tumble by a massive 7.2 mbd this year and will only rise by 1.8 mbd next year if OPEC and its allies respect their pledges to cut output.

While oil prices have recovered considerably, with the main US contract WTI going from negative at one point to flirting with \$40 per barrel, it noted that this price was not sufficient for a significant rebound in US production, where shale oil output had contributed to global oversupply in recent years.

The IEA also noted that large stocks, including in the United States where they are at record levels, means there is little room for producers to sell to refineries in the short term.

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