

## Sharp jump in European product demand not what it appears

**Key take-away** – In contrast to other regions, the sharp year-over-year jump in European oil demand during 1q15 was not about consumers running rampant from oil price elasticities. Rather, the majority of the demand gains were from cold weather, aided marginally by improving European macroeconomic performance.

With the global oil markets massively-oversupplied and out of balance, the re-equilibrium process depends upon the removal of high-cost supply and a rise in oil demand from lower prices. With stabilising US oil rig counts and continuing pockets of non-OPEC production growth, the supply aspect of OPEC's strategy remains mixed; so the rising demand narrative remains a vital element of OPEC's external and internal communication strategy. Various media outlets have been cooperative in amplifying this message of market-clearing demand.

Certainly, for fuels that are more price-elastic, the recent oil demand statistics support this narrative. During 1q15, US oil product demand leapt by 481 kbpd year-over-year (yoy), according to EIA data, led by a 278 kbpd jump in gasoline demand. Indian drivers embraced the lower prices with a spectacular 16.2% yoy surge in petrol consumption in 1q15, while Chinese motorists are on pace to lift gasoline demand by 7.4% for 2015, according to the IEA.

Following eight years of consecutive oil demand declines, the 4.0% yoy jump in EU-28 oil demand in 1q15 has prompted additional market commentary on how low oil prices are driving sharp demand gains, but in the case of Europe, this theme may not apply.

### **Colder weather drove 54% of incremental EU oil demand in 1q15**

With a 15-30% yoy rise in European heating degree-days during January and February, EU-28 heating oil demand probably jumped by 233 kbpd yoy during 1q15 and represented 47% of total incremental EU demand for the quarter. Combined with an 18.0% yoy surge in LPG consumption, the residential heating share of this extra demand suggests that cold weather accounted for 54% of the 500 kbpd rise in total EU demand.

### **Gasoline demand actually declined**

Consumption of gasoline among the EU-28 countries actually fell 1.1% yoy in 1q15, as fuel taxation policy limited European motorists' exposure to the full market percentage price decline in petrol. Still, the modest drop does represent a departure from the strong trend of 4% annual losses seen during 2008-13, so petrol may be exhibiting a moderate price-elastic response.

### **Diesel demand growth decelerated, but improving European macro supports**

EU-28 diesel demand rose by 1.2% yoy during the first quarter, representing a marked deceleration from the 3.2% pace shown in 2014, despite real GDP growth remaining in the same 1.2-1.4% range. Diesel consumption levels remained consistent with the current macroeconomic environment, but probably suffered slightly from slower trade growth among Germany and the other EU exporters.

### **Jet fuel demand growth exceeded trend in 1q15**

Jet fuel and kerosene sales amongst the EU-28 countries leapt by 3.7% yoy during the quarter, supported by improving business sentiment from gradual gains in the European macroeconomic outlook. This robust performance follows more a modest 0.8% rise in 2014 and the 0.2% average rate of decline over 2009-14.