2020 Outlook

Foreword
Five themes

Infographic
An eye on 2020

Oil supply
Oil demand
Oil products
Refining
NGLs
LNG
North American gas
European gas
North American power
European power
Global power
Coal
Petrochemicals
Grains and soybeans
Biofuels
Policy and technology
This year has been marked by a tug of war between geopolitical tensions and macroeconomic concerns, rangebound commodity prices and – perhaps most importantly – rising consumer awareness of climate change. As we look ahead to 2020, the year will bring some of these themes into even sharper focus.

Energy transition
Energy transition is going to be ever-present, driving discussions and strategic planning in 2020. World leaders in both politics and industry are under mounting pressure from consumers to deliver increased energy produced with dramatically lower emissions and in more sustainable ways.

China’s economic slowdown
Tariffs and trade wars will continue to dictate global pricing and trade flows for multiple commodities in 2020, but the consequences of the ongoing dispute between China and the US, particularly, are now rippling out into the economy, sparking fears of another recession.

The rise of new markets
Investments are under way globally to support significant changes, such as the emergence of electric vehicles and a move from virgin to recycled plastics. But as with all nascent markets, infrastructure that makes these industries truly scalable and markets commoditized will take time to develop.

Weather-driven market events
Weather-related demand swings have always been a feature of commodity markets, particularly natural gas and electricity, but the cycle of significant climate events is increasing. As agriculture and biofuel demand grows, these swings will get larger, as will the demand for heating fuel.

Beyond blockchain
2020 could be the year of the centralized ledger, but potentially without blockchain technology itself. Smart contracts that offer a similar level of security are already a reality, albeit with centralized ledgers. These efforts could reduce costs and lower barriers to entry across commodities markets.

Martin Fraenkel
President
S&P Global Platts
An eye on 2020

The interactive timeline allows you to explore the news events that will shape 2020.

Hover over the events to read more.
The global economy is expected to stabilize in 2020, as policy makers respond to support economies around the world. Global oil demand growth is forecast to accelerate to 1.2-1.3 million b/d in 2020, from just under 1 million b/d in 2019, but the improvement is almost entirely due to changes in sulfur specifications for bunker fuels, a transformative industry regulatory change that will (temporarily) price off-spec fuel oil into power generation (creating more demand). Underlying demand growth (omitting bunker fuel spec change) is steady at around 1 million b/d in 2020. Demand growth will be driven by China, India, and emerging markets, and we see strength in the US petrochemicals sector.

Global oil supply growth is poised to improve dramatically in 2020, growing by 1.7 million b/d, after a 0.1-0.2 million b/d contraction in 2019. Little OPEC supply will be left to lose in 2020, following 2 million b/d of losses in 2019 tied to US sanctions on Iranian and Venezuelan oil. Saudi Arabia continues to exercise restraint in supplying markets to support balances and prices, as long as the rest of OPEC and its allies partake, as observed in December’s production cut agreement. US shale growth is set to slow materially (0.7-0.8 million b/d), from well over 1 million b/d during the prior two years, although contributions will still be meaningful and significant. Elsewhere, major new projects across non-OPEC countries are coming online, such as Brazil’s pre-salt, Norway’s giant Johan Sverdrup field, and the first project in high-potential Guyana.

Geopolitical risks to supply will remain high. US export restrictions on Iranian oil should persist through 2020, and Iran will continue to push back against sanctions pressure. More oil tanker skirmishes and maybe even attacks on oil infrastructure in the region are expected, not unlike the major attack at Saudi Arabia’s Abqaiq facilities last September. New US-Iran nuclear talks are possible, although unlikely. Still, the potential for some 2 million b/d of Iranian oil supply coming back to market, dependent on unpredictable US sanctions policy, will continue to serve as a potential supply overhang, weighing on the market.

Global oil supply growth will exceed demand growth in 2020, but this does not make for a loose market make. Stocks will be down slightly on the year, as supplies must make up for a wider deficit from end-2019.

Global oil supply disruptions

Shifts in global oil market balances

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Global demand growth will stay below trend due to economic weakness, with the likelihood of recession around 30%. Distillates demand will be boosted by IMO 2020, while petrochemical demand will remain robust. China is still crucial to growth.

Diesel demand growth will be extraordinary in 2020, due to the IMO specification change. Petrochemical feedstock and aviation demand will also grow fast, driven by increasing middle class consumption in emerging markets. Conversely, gasoline demand will continue to decelerate, as growth in China and India is compensated for by a contraction in OECD countries and lackluster growth in Latin America and the Middle East.

As a result, 2020 global oil demand growth will stay below its long-term trend of 1.5 million b/d year on year (see chart below). This sign is not necessarily ominous. In fact, oil demand had grown well above trend during 2015-18, spurred by low oil prices and booming oil consumption in OECD markets. This temporary phenomenon has now come to an end, and OECD countries are expected to resume flat or produce negative oil demand growth in the coming years. Therefore, we forecast global oil demand will grow by 1.25 million b/d in 2020 and by a similar pace in 2021.

After that, we expect it to resume its long-term trend at around 1.5 million b/d. It is worth noting that less than 10% of global growth is expected to come from OECD countries in the coming years and more than 70% will come from Asia. Potential downside risks will come from recessions or higher oil prices. Currently, we pin the likelihood of a “normal recession” – that is, an economic downturn significantly milder than the 2008 Great Recession – at 30%. Such an occurrence would curtail oil demand growth to 0.4 million b/d.

Higher oil prices are also a possibility. However, in our fundamentals-driven oil price forecasts, we expect Brent crude to increase slightly and not to exceed $70/b throughout 2020. This implies limited year-on-year Brent price changes, with minor impacts on oil demand.
The change will require a major shift in the blendstocks used for bunker fuels, initially creating a huge disposition issue for 3 million b/d of high sulfur fuel oil (HSFO). This volume will be replaced by various low sulfur blends of residual fuels and distillates (VLSFO) and marine gasoil.

Alternative solutions for the shipping industry, such as exhaust gas scrubbers or LNG bunkers, will only be used by a small percentage of the fleet in 2020 (about 15-20%).

Refiners will need to take more expensive steps than are currently being used to rebalance product markets and that will drive prices much higher for VLSFO and middle distillate fuels (jet, diesel, MGO), while HSFO prices will fall.

These changes began to occur in the autumn of 2019 as shippers and refiners geared up for the change. The peak impacts are expected to emerge in March-May 2020, but they will then ease off, as refiners, shippers and bunker blenders work out more efficient ways to cover their requirements.

With higher bunker fuel costs, the cost to ship goods will increase not just for the oil tanker industry, but also for bulk shipping, container ships and all other segments of the industry.

This change will be one of the most disruptive to the downstream oil industry in many years. But its major effects will ease quickly.

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2019 refinery runs have been lower than in 2018, as planned/unplanned outages have been extraordinarily high. In 2020, outages will decrease while additional refining capacity will be commissioned, boosting crude demand significantly.

Refinery runs will move higher in 2020, given additional capacity and lower downtime than the record amount experienced in 2019. Expected new capacity will amount to 2.26 million b/d by the end of 2019, net of closures.

The pace of growth will slow considerably in 2020 to just under 1 million b/d of new crude distillation unit capability, but the new additions in both 2019 and 2020 significantly exceed predicted net demand growth, especially after adjusting for NGLs, biofuels and other related products.

A unique feature of the new capacity added in 2019 that will have an impact on 2020 is the number of mega-refineries being constructed. Just five facilities represent almost 1.5 million b/d of new capacity added during 2019, including the 400,000 b/d Hengli Petrochemical facility at Dalian and the 400,000 b/d Zhejiang Petrochemical complex at Zhoushan.

What is also distinguishing about much of this new capacity is that a number of refineries will be geared toward making chemicals, both olefins and aromatics. Indeed, as much as 40-70% of the output could go toward chemicals and away from traditional refined products.

Refinery margins will follow diverging trends. Due to the International Maritime Organization bunker fuel spec change, refiners processing sweet crudes and making low sulfur fuel oil are expected to produce higher margins than normal. Moreover, diesel crack spreads are expected to gain strength. This will support margins in sophisticated deep conversion refineries that do not produce high sulfur fuel oil. On top of that, Atlantic basin refineries will continue to show higher margins than most other regions, supported by the poor performance of Latin American and African refiners, which will most likely continue in 2020.

Global CDU capacity additions by year

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- Blog: Spotlight on Shandong’s small independent refiners (Oct 2019)
- Special report: Turning tides: The future of fuel oil after IMO 2020 (Feb 2019)
Production gains, driven by unconventional growth in North America, will keep NGL markets well supplied in 2020, while infrastructure projects will support increased exports into world markets, which have shown sufficient appetite to take up more LPG.

NGL volumes will continue to grow in North America, particularly on the back of increased natural gas production from the Permian Basin supporting gas processing and NGL recovery over flaring.

Even in the face of lower production on the crude side, natural gas production is expected to grow steadily, resulting in more NGLs at the gas plant.

With limited upside for demand domestically, ethane is expected to stay in rejection. LPG and natural gasoline will likely move to export markets. LPG exports are expected to continue near nameplate terminal capacity throughout 2020.

The product length in LPG may exceed export capacity, in which case, incremental butane — and more so propane — could displace ethane at the steam cracker.

The US-China trade conflict and Saudi supply disruption will continue to impact LPG markets. Chinese buyers, particularly PDH operators, are largely captive to the monthly Aramco contract price, and are likely to continue seeing higher prices due to supply limitations and higher freight costs.

At least three PDH plants are expected to start up in China in 2020 on top of two others set to come online by the end of 2019, representing 118,000 b/d of propane demand.

 Freight costs will remain elevated through much of 2020 based on fuel costs surrounding the low-sulfur fuel restrictions as well as limited new ship capacity on the water.

India was a notable surprise for LPG demand in 2019, taking cargoes at a steady rate from the US and Middle East to support domestic fuel use. The government of Prime Minister Narendra Modi announced it had met its target of 80 million new households with LPG infrastructure in September 2019, and 2020 demand will hinge on the ability of the government to support the market at low retail prices.

To that end, an influx of investment in LPG receiving terminals (over 12 million mt/year) and distribution pipelines (over 14 million mt/year) will support fuel-use LPG in India.
The projected 32 Bcm growth rate in 2020 LNG supply will be the slowest in the past five years, but will still be large enough to stretch the market’s ability to consume it. LNG demand growth will not occur at a fast enough pace in 2020 to absorb all of this incremental supply unless it is priced low enough to do so. This mismatch will force down spot prices to clear demand at lower levels in order to push additional LNG into the power generation sector. Otherwise, even more LNG will end up in seasonal gas storage.

Additional LNG volumes coming from the US will primarily push their way into European markets unless price signals in Asia attract larger volumes during peak demand periods. In the second and third quarters of 2020, more and more LNG will find its way into European gas storage as a buyer of last resort. Within this context, the need to access more Ukrainian storage capacity will continue to build.

To release pressure on Europe, a major policy change or weather event would need to occur in order to spur additional LNG demand in Asia than is currently forecast. Candidates for such an event include China forcing more coal retirements, Japan extending restrictions on recovery in nuclear output, or India lowering pipeline tariffs, which would make inland LNG consumption more financially palatable.

LNG markets will need to watch Russian gas marketing policy closely, as it continues to evolve at both a commercial and structural level. Russia will continue to push more gas production into the market during gas injection season and also green-light additional final investment decisions (FIDs) on future pipeline and LNG export projects.

More broadly, additional FIDs on new global LNG production capacity will move ahead without being connected to long-term contracts with end-users. The LNG market will need to respond more broadly by incentivizing additional investment in LNG use and gas demand.

The surge in new LNG supply will finally come to an end by the middle of 2020, but not before it risks pushing down spot prices to lower levels for an extended period.

**New LNG supply investments surge in 2019**

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- **Infographic**
  - Europe’s balancing role challenged by fundamentals (Aug 2019)
What is somewhat different about next year is that the demand-laden imbalance will not create a bullish situation for Henry Hub. On top of the excess supply, which has pushed storage levels above the five-year average, the price of Henry Hub will be forced to stay in a range that will support a continual rise in the dispatch of US LNG cargos.

This emerging connection to European and Asian gas markets will place a ceiling on any sustained Henry Hub rallies in 2020.

Over 50% of US demand growth in 2020 will come from LNG feedgas, as the next 12 months will be a pivotal period for the LNG export capacity buildout.

Total LNG capacity will increase by 3.0 Bcf/d and push LNG feedgas to 11.3 Bcf/d by December 2020. Europe already has record level storage inventories caused by the region absorbing excess LNG supply.

If Europe is not able to draw down on storage inventories this winter, the region will not be able to absorb excess volumes in 2020 and this could cause the spread to tighten between Henry Hub and the Dutch TTF.

S&P Global Platts Analytics still expects LNG feedgas utilization to average around 93% in 2020, similar to 2019, supported by positive netbacks. Other demand outlets offer limited upside risk despite weak prices.

On the flip side, production growth in 2020 will drop to a three-year low, largely driven by weak futures prices and tighter financing terms.

The 2020 Henry Hub calendar strip has struggled to rise above $2.50/MMBtu for most of 2019, resulting in an inability for producers to hedge at a level above the average breakeven prices for most dry gas basins.

These prices make it hard to justify dry gas drilling next year. Most gas production growth will come from associated volumes in the oil-rich Permian Basin, although delays in pipeline infrastructure will limit the ability of this gas to flow to primary downstream markets.

For the first time since 2016, demand growth will exceed production growth in 2020. Fueled by feedgas into LNG export facilities, overseas exposure will upend historical pricing norms for Henry Hub, as North American balances go global.
The 2020 market will be defined not only by its own bearish drivers but also by the legacy impact of 2019. Mild weather, abundant LNG inflows, and a persistent price contango during 2019 created a strong incentive for storage injections, such that 2020 will start with stocks well above the five-year average at close to full capacity.

Exacerbating this oversupply dynamic from 2019 will be the fact that winter 2020 will see not only continued resilience in US LNG inflows but also more Norwegian production. As winter turns into summer, the impact of these marginal volumes will lessen but remain key drivers, as will potentially faltering Asian LNG demand incentivizing greater LNG flows into Europe. Factors mollifying the excess of supply over demand will include the later-than-expected start-up of the Nord Stream 2 pipeline, and the yet-to-be determined outcome of the Russia-Ukraine transit negotiations, which expire on January 1. Renewed Russian gas flow restrictions on Germany’s Opal pipeline will also constrain Russian gas flows in Central Europe. Driven by policymaking, dramatically reduced Dutch flows from the Groningen field and at least a 7 million cu m/day decline in Russian imports will help prevent the oversupply situation from worsening. Any demand-side response to weaker spot prices will be largely limited to the power sector.

Market saturation and a weaker macroeconomic outlook limit demand growth elsewhere. If Asian LNG demand does not recover in 2020 from its relative lull in 2019, additional incremental LNG volumes from the US will push their way into Europe during the second and third quarters. Europe cannot repeat its 2019 role of storing 40% of incremental LNG supply in 2020 due to a lack of incremental storage capacity, so it is important to focus increasingly on the Asian gas demand outlook as a primary driver of European price.
Weather-adjusted grid-level demand for electricity in 2020 will stay flat in most of the US and Canada. The US Gulf (especially ERCOT) and Mexico will likely see meaningful growth driven by industrial and population growth. Continued energy efficiency gains, “behind-the-meter” generation growth and trade issues are going to limit load gains in the rest of North America.

With low natural gas prices contributing to challenging economics for coal-fired and nuclear generation, gas burn in the power sector will be higher year on year despite weak load growth and continued increases in renewable generation. Among nuclear generation units, Indian Point Unit 2 (New York) and Duane Arnold Unit 1 (Iowa), totaling around 1.7 GW of capacity, are slated to retire, with little potential for postponement. Support mechanisms for other struggling coal and nuclear units in the US remain possible after the legality of recent legislative policy measures in Illinois, Connecticut, New York, and Ohio was upheld by courts.

Weak load growth in North America (except West South Central US and Mexico) will limit price upside in 2020. Gas burn will still grow, due to sub-$3/MMBtu prices, new gas-fired generation build will slow and renewable generation will increase.

Gas burn in the Mexican power sector is also going to increase in 2020, as new combined cycle plants and new gas pipeline infrastructure enter service. However, a return to more normal hydroelectric generation in 2020 (after the recent low of 2019) is likely to temper some of the year-on-year gas burn growth.

Reserve margins are forecast to be robust (over 15%) in most of North America, with the exception of ERCOT. As a result, prices in Jun-Sep 2020 could be strong in ERCOT.

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Infographic
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Combined wind and solar generation in the major western European markets is expected to grow by around 10% year on year in 2020, with Spain seeing particularly robust capacity gains in response to policy incentives.

Building on an emerging trend in 2019, power demand across western Europe is expected to remain weak in 2020. Economic slowdowns weighted to Germany and the UK have compounded the effects of energy efficiency improvements and reducing industrial energy intensity. Overall, S&P Global Platts Analytics forecasts power prices to fall by 10% in 2020, underpinned by lower demand, growth in renewables, and pressure on fuel prices. In most markets, gas use in power will remain well supported versus coal in 2020, reflecting strong carbon prices and lower gas prices.

Though changes in coal, gas and carbon market prices in 2020 will signal a retreat from record gas generation posted this year, we still expect European gas prices to fall to levels needed to trigger near maximum coal-to-gas switching again next summer.

However, the Great Britain market will see a downturn in gas running – by around 30% for next summer vs Summer 2019. The higher carbon price in Great Britain means coal has already been priced out for summer (three coal plants will close this winter), and the start of a new interconnector (ElecLink) with France in early 2020 will favour higher imports over domestic gas. However, any change in Great Britain's carbon cost structure after Brexit will impact its power premium to neighboring markets.

Germany's lignite fleet will come under further pressure from high carbon, low gas, and environmental restrictions on mining, and should again produce a repeat in turndows of output witnessed for the first time this year. French nuclear generation – one of the biggest drivers of European power prices – is forecast to be relatively robust in 2020, though we expect to see more use of downward flexibility, which has allowed France, unlike its neighbors, to avoid experiencing negative prices since June 2019.

French nuclear flexibility increases in Summer 2019

![Diagram showing French nuclear flexibility increases in Summer 2019](image)

Falling top-line demand and continued growth in renewables will lower prices and squeeze the operating space for thermal generation in European power markets during 2020, though gas will continue to outcompete coal for the remaining market share.

Western European power supply 2017-2020

![Chart showing Western European power supply 2017-2020](image)
Renewables additions are stalling, while thermal generation needs continue growing across the globe. Uncertainty remains around policy actions targeting unabated coal plant growth in emerging markets.

While solar photovoltaic additions remain the go-to technology in terms of annual installations, the pace of development continues to face uncertainties. In spite of a fairly large amount of capacity awarded through competitive auctions in 2019, official statistics continue to point to sluggish solar PV capacity growth, especially in China, the major market for solar PV. Growth elsewhere in the US and Europe has, so far, not accelerated to the extent that makes up for the declines in Chinese growth. A slowdown in wind capacity additions is also on the cards.

In this context of enhanced uncertainty for renewables development, S&P Global Platts Analytics continues to see renewable and hydro growth in 2020 accounting for slightly more than half of the power demand growth globally (up 2.8% year on year), leading to an additional call on conventional capacity. After posting strong growth in 2019, nuclear will continue to trend higher globally in 2020, largely as a result of China’s ambitious newbuild program. Platts Analytics also forecasts a relatively large increase of 50 TWh in nuclear power generation for 2020 in South Korea. The boost in generation comes from new reactors and restarts at existing units after prolonged maintenance related to earthquake safety issues. Japanese nuclear output will be slightly below 2019 levels, as work related to terror-proofing affects availability.

Coal-fired generation continues to shift from the West to the East, with coal representing an affordable option in emerging countries that have growing electrification needs. In Southeast Asia, power demand growth is well above global trends, leading to higher coal use. As large coal retirements take place in the US and Europe, coal will continue to be built in Asia.

In LNG importing countries across Asia, coal is also particularly sticky, but the key question will be to what extent policy actions in response to air quality or other pollution concerns will further undermine coal usage.

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Coal prices were down by roughly a third on the year at their lowest point of 2019, as coal had to compete with weakening natural gas in Europe. Coal demand growth also slowed in China. Producers ramping up during the previous bull market left global coal markets in oversupply despite blistering growth in Southeast Asian imports and solid coal demand in India.

Chinese coal demand growth should rebound from very low levels in 2019, but growth will be limited by stagnant power demand growth, as the economy continues its shift from manufacturing, and GDP growth shifts into a lower gear. Higher-than-normal coal stockpiles at the start of the year and slowing hydro generation growth will keep downward pressure on coal demand. China’s own domestic coal production (over half the world’s coal output) is rebounding due to industry restructuring, which presages falling import demand by the world’s largest thermal coal importer.

In Europe, abundant gas supply is expected to keep European gas storage nearly full and prices constrained. With weaker gas prices, we may again see the coal-gas switching channel (the range of coal plants displaced if gas plants are cheaper to run) maximized next summer, as was the case in 2019. Even low-cost lignite generation is at risk of being displaced. While we reassert our standing view that US and Colombian exporters will pull back from selling into 2020 seaborne markets due to a lack of price support, signs are emerging that Russian coal exporters are seeking to grow market share in both the Atlantic and Pacific basins, which will drag on prices.

While we expect continued brisk growth in Southeast Asian coal imports in 2020 to soak up some of the current oversupply in the market, we believe that additional production cutbacks will be needed to bring the market back into equilibrium. The potential is there to see consolidation and reorganization in the Indonesian coal industry next year, but until major cutbacks from global miners emerge, a bearish stance on coal prices remains.

After a bull market that ran from 2016 to 2018, global coal prices appeared to bottom out by the third quarter of 2019. Looking out to 2020, we remain cautious regarding any significant rebound. Overall global demand lacks upside signals.
Ethylene cracking margins throughout 2020 are once again expected to favor light feedstocks, particularly propane and butane (LPG), owing to the growing surplus in North American NGLs, which has created a supply push into the global market.

To take advantage of these margins, the ethylene cracker fleet outside North America will operate at maximum LPG feedslates, while North America will continue to consume ethane-heavy feeds.

Cracking of ethane in North America has resulted in an oversupply of ethylene and polyethylene. Entering 2020, new ethylene export capacity located along the US Gulf Coast will commence operations.

The capacity will allow for ethylene to be exported primarily to Asia, narrowing the wide open arbitrage opportunity between the two regions.

Coincidentally, light paraffinic naphtha supplies will be tight, as refiners adjust yields to meet marine gasoil demand upon the implementation of the 0.5% sulfur limit for marine fuels on January 1, commonly known as IMO 2020. With this yield shift, refiners are expected to operate their fluid catalytic cracking (FCC) units at lower severity (maximum distillate mode), which reduces the supply of refinery grade propylene (RGP) by up to 15% and could incentivize higher utilization rates for propane dehydrogenation (PDH) units to produce on-purpose propylene.

Shifting cracker feedslates away from light naphtha will reduce the production of butadiene and aromatics such as benzene, toluene, and xylenes (BTX) at these units. However, new Chinese refinery-to-petrochemicals projects, including Zhejiang's Rongsheng and Sinopec-KPC's Tlajin, are slated to start operations in 2020 and will more than compensate for the lower aromatics supply from ethylene crackers.

These projects will bring roughly 4 million mt/year of incremental aromatics supply to the Asian market to support production of polyester for use in polyethylene terephthalate (PET) bottles and fibers.

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- A sea of challenges: The impact of IMO 2020 on petrochemicals (May 2019)
The proliferation of African swine fever in Asia remains the biggest factor weighing on global demand for soybeans, even though the two-year trade dispute between China and the US has been grabbing the headlines.

For the 12 months ended September 1, 2017, China imported 94 million mt of soybeans, a volume which until then had sustained growth of 3% a year. By the end of September 2019, imports were down to 83 million mt as China admitted its hog herd had been infected by ASF, a disease with a 100% mortality rate.

With Chinese imports down 12% in 24 months, US exports fell 20% over the same period as non-China buyers could not make up for the loss in demand. In 2020 demand for soybeans will be flat as ASF continues to spread in Asia.

Peronism staging a comeback in Argentina could reduce supply from the world’s leading soy meal supplier and also contribute to rising soy oil prices.

Barring a major weather event, Brazil will produce 125 million mt of soybeans in 2020, a record high, while US plantings add considerable acreage after a rough 2019 planting season. Excess global supplies of the oilseed will total over 100 million mt resulting in a $9.00-$9.40 a bushel forecast.

Corn has demand woes of its own. Ethanol faces an uncertain future after 19 ethanol plants in the US were shuttered in 2019 due to strong cash markets in the east from delayed plantings, along with weak demand.

Survival of the fittest will continue to be the theme for ethanol in 2020, given uncertainty around government mandates.

Global import demand in 2020 is expected to be 167 million mt, up almost 5% from 2019, but given increased competition from Brazil, Ukraine, and others, US exports are expected to be 20% lower than in 2018.

At just over 300 million mt, global supplies of corn in 2020 will set a three-year low. Chinese demand for corn, non-existent of late given abundant domestic supply, will play a key role in pricing, with an expected range in 2020 of $3.60-$3.80/bu, up slightly from 2019 and 10% higher than in 2018.

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- News: China’s soybean imports from Argentina spike amid trade tensions with US (Nov 2019)
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By contrast, world biofuel production is projected to increase by 118,000 b/d to only 2.8 million b/d in 2020. The rise in the US, the largest consuming market, is expected to be relatively small, with more robust growth forecast for Asia, Brazil, and Europe. Ethanol accounts for around 70% of total biofuel output and is projected to grow 73,000 b/d to 2.0 million b/d by 2020 and to account for 7.6% of the world gasoline pool. Over 80% of the world’s ethanol is currently produced in the US and Brazil.

Biomass-based diesel output is expected to grow by 45,000 b/d to 862 million b/d in 2020, making up about 4.1% of the world diesel market. Europe is the dominant consumer, but similar to ethanol, the Asian market is growing at a faster pace.

In the US, both ethanol and biomass-based diesel demand will remain relatively unchanged at 944,000 b/d and 167,000 b/d respectively for 2020. The only segment expected to grow faster is renewable diesel made from the hydrogenation of fats and oils. Several new renewable diesel facilities are expected to come online over the next two years.

Brazil is the second largest ethanol producer after the US and produces nearly all of its ethanol from sugarcane. Though corn ethanol represents only 4% of total production, its growth has been exponential and is expected to continue in the medium term. Fuel price reform in July 2017, along with higher crude prices, has completely transformed the dynamics of the sugarcane industry and has led to a dramatic change in the ethanol fuel mix. This trend is expected to continue into 2020 and could become the norm in light of the implementation of the RenovaBio program to boost the use of biofuels at the expense of fossil fuels in 2020.

China alone will account for 27% of incremental biofuel demand in 2020 with demand increasing by 42,000 b/d to 126,000 b/d. S&P Global Platts Analytics forecasts an implied ethanol blend of only 3.5% in gasoline.

Falling corn inventories, high import tariffs on US ethanol, and the slow rollout of new capacity will prevent China from meeting its 10% mandate in 2020.

Biofuels demand will grow by an extra 156,000 b/d to 2.9 million b/d or 5.9% of the road transportation fuel market in 2020, compared with 5.7% in 2019. About 87% of total demand now comes from government mandates and this share is expected to remain high for years to come.

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S&P Global Platts Analytics expects a ramp-up of electric vehicle sales in the EU in 2020, which would reduce manufacturer exposure to fines in the first year of the new EU Vehicle Standards. After a slower 2019 (given shifting policies and auto sector weakness), China’s New Energy Vehicle Mandate will ramp up in 2020, driving EV adoption. Providing headwinds, China will likely phase out consumer EV purchase subsidies by year-end 2020.

The stage is set for growth of battery storage in 2020. Some 70 GW of batteries have requested interconnection across the US, as FERC Order 841 will provide more clarity on revenue models. Solar plus storage will be competitive in select regions, supported (for now) by federal investment tax credits. Residential solar plus storage installations in Germany are accelerating, as customers decrease reliance on the grid. South Korean battery storage will look to recover from a 2019 beset by fires and safety concerns.

2020 could be a banner year for versatile use of hydrogen. The Japan Olympics will see $350 million allocated for subsidized fuel cell electric vehicles in addition to plans to power a residential Olympic village. Greater hydrogen uptake will drive cost reductions. Germany continues to test injection of hydrogen into the natural gas grid – as low-carbon hydrogen could help integrate renewables and decarbonize key sectors of the economy.

Expiring tax credits in the US are impacting EVs and renewables, and the federal government continues to roll back environmental policies. States and regions are countering by driving new efforts and setting goals of 100% clean power. Existing environmental markets (EU ETS, WCI, RGGI, LCFS, and RECs) continue to face challenges as they shift to more stringent phases.

US presidential elections will command a lot of attention – but special care should be paid to the US Senate, which historically has dampened dramatic shifts in policy. All eyes will be on the planned launch of China’s national carbon pricing effort. Paris Agreement commitment updates will also be communicated in 2020, as the US formally withdraws.

More from Platts
- Podcast: Stationary storage market today and expectations for the future (Nov 2019)
- Blog: Democrats’ fracking ban proposal already having impact on US energy investment (Oct 2019)
EXECUTIVE SUMMARY

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