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Oil demand surges, market set for deficit and volatility: IEA

Rising vaccination rates help underpin robust economic activity

PARIS: Oil demand surged last month as rising vaccination rates helped underpin robust economic activity, but with OPEC+ nations pumping less than needed prices are set to be volatile until it reaches a deal to raise output, the IEA warned yesterday. A meeting of OPEC+ nations earlier this month was deadlocked over plans to gradually ease production cuts, imposed to reverse the plunge in oil prices at the start of the coronavirus pandemic as demand tumbled.

But demand is rebounding, with the International Energy Agency estimating it surged by an estimated 3.2 million barrels per day (mbd) last month, which is more than a third of the overall drop in demand last year. The IEA expects oil demand to rise by another 3.3 mbd in the three months from July. That is more than twice as large as the seasonal increase registered during the same period in 2019, which the IEA said is a result of easing COVID restrictions and increasing vaccination.

While OPEC+ had been set to gradually raise oil output, the stalemate means production is frozen at current levels until an agreement is found. "Oil prices reacted sharply to the OPEC+ impasse last week, eyeing the prospect of a deepening supply deficit if a deal cannot be reached," the IEA said in its latest monthly report.

The main international oil contracts have been trading around $75 per barrel, and some analysts see a spike to $100 as possible. But there is another possibility: the overall OPEC+ deal breaks down and producers open the taps and try to gain market shares, which would likely lead to prices crashing.

"At the same time, the possibility of a market share battle, even if remote, is hanging over markets, as is the potential for high fuel prices to stoke inflation and damage a fragile economic recovery," said the IEA. Investors have been worried that a surge in inflation could force central banks to raise their ultra-low interest rates, thus removing one of the main supports for the economic recovery.

The IEA said that absent increased production by OPEC+ nations the market for crude is set to tighten, with additional stocks built up during the pandemic already gone and reserves running below the long-term average in industrialized nations. Furthermore, it forecasts the biggest draw upon stocks in at least a decade will happen this quarter as OPEC+ pumps nearly 2 mbd less than market demand. The gap will rise to 3.2 mbd in the final three months of the year.

"Oil markets are likely to remain volatile until there is clarity on OPEC+ production policy," the IEA warned. It also noted that a spike in prices would not be in the long-term interest of oil producers.

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"While prices at these levels could increase the pace of electrification of the transport sector and help accelerate energy transitions, they could also put a drag on the economic recovery, particularly in emerging and developing countries," the IEA report said. While the agency, which advises oil-consuming nations, foresees oil demand recovering along with the global economy, it doesn't discount the pandemic continuing to weigh upon the market.

"COVID-19 remains a significant threat to oil demand growth in the near- to medium-term, in particular in the non-OECD." Emerging nations not in the OECD group of advanced nations-such as China and India-were responsible for much of the growth in the global economy before the pandemic. —AFP

Lhasa building boom heightens divisions in Tibet

LHASA: Under towering mountains, cranes and newly-built blocks of flats stretch up to blue skies around the Tibetan capital of Lhasa, as a construction boom creates a two-tier system of property wealth between state workers and everyone else. A huge infrastructure and building drive in Tibet has brought airports, roads, railways and new flats, which Beijing says are improving life across the remote mountainous plateau.

But the boom is also changing the historic Buddhist city and pushing property prices out of reach of many residents, Tibetans say, sharpening divisions in a region well-known for discontent under Chinese control. A short distance from the Potala Palace, the former home of the exiled Dalai Lama, construction workers crawl over high-end condo towers being built by Chinese developer Country Garden.

They are priced similarly to many major Chinese cities, despite average Tibetan incomes still being among the country's lowest. The development sits opposite billboards advertising other projects and near a modern new shopping center. AFP recently joined a rare and tightly controlled government-led tour of Tibet, which has heavily restricted entry for foreign journalists since deadly anti-China protests exploded across the region in 2008.

Haves and have-nots

China's government says development is the antidote to discontent in Tibet, where many people still revere the Dalai Lama-the region's spiritual leader-and resent an influx of Chinese tourists and settlers. Since 2008 it has poured investment into the region, making Tibet one of China's fastest-growing regions economically and fuelling rising average incomes.

Many residents agree such modernizations are welcome, but experts have warned Lhasa's 860,000 people are also increasingly polarized between haves and have-nots. The building binge is perhaps the most visible evidence, seen as largely benefitting educated government workers while Tibetan rural migrants struggle to keep up. Nearly one million square meters of newly-built housing was sold in 2020, up 28 percent from the previous year.

Real estate listings show around three dozen new developments currently selling homes in Lhasa. With prices rising, entering the market relies on public-sector jobs "because there are very few options outside of that to make the big bucks," said Andrew Fischer, a professor at Erasmus University Rotterdam. "The property market opens up only once you've passed that gateway. That gateway is what controls people."

This photo taken on June 3, 2021 shows a general view of new building sites under construction in the regional capital Lhasa in China's Tibet Autonomous Region. —AFP

Rural migrants are moving from other parts of Tibet to Lhasa to seek better economic and educational opportunities but usually end up on society's lower rungs, said Emily Yeh, professor at the University of Colorado Boulder. Many have low Mandarin language abilities, a prerequisite for many urban jobs.

Job competition

Even at the higher end, competition for top jobs is fierce as employment growth lags the numbers of new graduates. Interviewing locals was difficult under the watchful eyes of government minders, but overseas Tibetans who are in close touch with those on the ground say a toxic social brew is developing.

"Most people who are educated work for the government. (But) you have increasing numbers of young Tibetans who are well-educated... and didn't get a government job," said an overseas Tibetan who spoke on condition of anonymity. He says this is creating a pool of educated youths unable to earn enough to buy homes. Tibetans also told AFP that government workers face extra controls and pressure to shun their Buddhist faith, which they fear endangers their religious and cultural heritage. —AFP

China growth slowed sharply to 7.7% in second quarter: Poll

BEIJING: China's economic growth slowed sharply in the second quarter as the country's army of consumers remained hesitant to splurge and exports were dented by disruptions, according to an AFP poll of analysts. The world's second largest economy has staged a rapid recovery from last year's pandemic-induced slump, but the investment and manufacturing rebound fuelling it now seems to be fading-and other drivers are not picking up fast enough.

It is forecast to have grown 7.7 percent on-year in April-June and 8.5 percent for the full year, according to a poll of 12 analysts conducted by AFP. While the quarterly figure would be much slower than the record 18.3 percent seen at the start of the year, that jump was largely driven by the low base of comparison owing to large parts of the country being locked down to prevent the spread of the virus.

Official figures will be released tomorrow. The virus first emerged in China in late 2019, but the strict containment measures meant the disease was brought under control fairly quickly, allowing the country to be the only major economy to expand last year. But analysts note that the economy has been expanding more slowly since the start of 2021 as the pandemic drags on globally. "The production side of the economy is... under pressure amid increasing supply challenges," Moody's Analytics economist Christina Zhu told AFP.

SHENZHEN, China: This file photo taken on June 22, 2021 shows cargo containers stacked at Yantian port in Shenzhen in China's southern Guangdong province. —AFP

"Input shortages, surging raw material costs, and shipping disruptions are weighing on the country's manufacturers, threatening to drag down the country's growth," she said. China's factory activity has been bogged down in recent months by supply shortages of key commodities and semiconductors, which are used to make a range of goods from electronics to vehicles.

Export challenges

The government has also "put the brakes on lending in order to stop the rise in private corporate and household debt", said Hao Zhou, senior emerging markets economist at Commerzbank. "The industrial sector has so far remained relatively unimpressed by this," he added, pointing to expectations of slowing industrial output.

Unlike most other countries, the government has so far refused to embark on a big-spending stimulus drive as it looks to prevent overheating. However, on Friday the central bank lowered the amount of cash lenders must keep in reserve, which it said would pump an extra $154 billion into the economy. — AFP

France fines Google 500m euros in news copyright row

PARIS: France's competition watchdog yesterday slapped Google with a 500-million-euro ($593-million) fine for failing to negotiate "in good faith" with media companies over the use of their content under EU copyright rules. It is "the biggest ever fine" imposed by the Competition Authority for a company's failure to adhere to one of its rulings, the agency's chief Isabelle De Silva told reporters, saying the decision was intended to "reflect the gravity" of Google's shortcomings.

The regulator also ordered Google to present media publishers with "an offer of remuneration for the current use of their copyrighted content", or risk paying additional damages of up to 900,000 euros a day. A Google spokesperson said in a statement to AFP that the company was "very disappointed" by the decision. "We have acted in good faith during the entire negotiation period. This fine does not reflect the efforts put in place, nor the reality of the use of news content on our platform," the company insisted.

"This decision is mainly about negotiations that took place between May and September 2020. Since then, we have continued to work with publishers and news agencies to find common ground."

The long-running legal battle has centered on claims that Google has been showing articles, pictures and videos produced by media outlets when displaying search results without adequate compensation, despite the seismic shift of global advertising revenues towards the search giant. In April 2020, the French competition authority ordered Google to negotiate "in good faith" with media groups after it refused to comply with a 2019 EU law governing digital copyright.

The so-called "neighboring rights" aim to ensure that news publishers are compensated when their work is shown on websites, search engines and social media platforms. But last September, French news publishers including Agence France-Presse (AFP) filed a complaint with regulators, saying Google was refusing to move forward on paying to display content in web searches. While Google insists it has made progress on the issue, the French regulator said the company's behavior "indicates a deliberate, elaborate and systematic lack of respect" for its order to negotiate in good faith. —AFP