

A FINITE, WASTING ASSET?

Interview with Tobias Stöhr, Spectrum Markets



For some habits, and thus some industries, the Covid-19 pandemic has marked a turning point. For others it was just the beginning of a trend reversal that will swing back the other way again sooner or later. A striking paradox seems to be that, where the exceptional circumstances of 2020 have been the cause for a turn, this turn is mostly only temporary, while for epochal changes these circumstances were just a trigger or amplifier. Although current prices suggest that the above question can be answered quickly and conclusively for crude oil – are there signs that we could be witnessing the end of the era of oil? I asked our Sales Executive and long-standing market expert, Tobias Stöhr, for his thoughts.

Tobias, is oil a finite and wasting asset?

Well, whenever we thought the world was about to run out of oil, new fields or extraction methods were discovered – the last one I can remember is the controversial practice of fracking.

On the other hand, there is little doubt that, despite all endeavours in the context of renewable energies and an emerging change of mindset towards a more careful use of resources, oil is and will remain the most important energy source worldwide for the foreseeable future.

If we leave 2020 aside as a statistical outlier and look at 2019 as the latest year showing representative data provided by the IEA¹, world oil production was around 4.5 gigatons (Gt) while consumption was around 4.65 Gt or 98 Mb/d. With everything else remaining unchanged this would translate into a dry-up of supply within the next four decades given the reserves of 173 Gt of conventional oil, as estimated by the German institute for earth sciences and raw materials². However, estimating the volume of available reserves and the volume of undiscovered resources is not an exact science and there are deviations between sources.

Are these outlooks something that traders watch?

Unless there is a whole new field discovered, traders – both professional commodity futures as well as retail traders – rather monitor factors with shorter-term effects. Where in the past, these were predominantly geopolitical factors and how OPEC would react, today inventory capacities, transport or progress in drilling or refining technology have gained significance.

From what you've said, I take it that you don't think we're seeing the beginning of the end of the era of oil?

I'd be cautious with any such assessment. However, if we did, that wouldn't be so much due to the scarcity of the resource but rather to the environmental issues attached to the burning of fossil fuels.

Although recently there has been the impression that heavy industry, aviation or shipping are the largest consumers of oil, it is in fact road transport that, with a share of 49.3%³ of consumption, is lonely at the top. You may argue that cars and lorries are much cleaner today and that the burning of heavy fuel in shipping, albeit consuming just one seventh the volume of road transport, does much more harm to nature. However, if you look at the revenues, private individuals suddenly have a huge leverage in that they may decide to stop driving vehicles with combustion engines. Interestingly, the non-energy use of oil, as a processing product for synthetics for instance, is the second-largest consumer of oil.

A change in consumer habits could, if enduring, set in motion a downward spiral in the consumption of oil that wouldn't have been possible earlier due to the absence of alternatives. Then again, mankind turning away from oil at large scale will definitely be a long-term process.

That leads us to the question of what will supplant oil over the course of the coming years and decades?

As the single main source of energy and the motor of the global economy, I think oil won't have a single true successor. But, if you look at the technologies that have the biggest potential – such as battery technology – you'll quickly find what the raw materials of tomorrow will be. A 2020 World Bank report⁴ estimated that the production of minerals such as lithium, graphite and cobalt is likely to increase by close to 500% by 2050 and that more than three billion tons of minerals and metals will be needed to create the energy and storage capacity required for achieving the Paris climate goals.

Two follow-up questions on that: how is the industry hedging their price risks related to those raw materials and could investors benefit from price fluctuations?

Again, caution is the appropriate approach here for a variety of reasons. If I may start with the investor perspective, there are derivatives such as futures available which should be reserved to highly risk-oriented and experienced investors, as price fluctuations are immense and there is no liquid trading of derivative contracts at a futures exchange yet. With shares of lithium mining companies, for example, there is still the risk of high volatility. A more defensive approach can be investment in Lithium-ETFs. For the industry, the lack of liquid mining & minerals exchange trading is so-far the biggest downside, too.

The most relevant materials are mined in just a few, high-risk countries. Bribery, corruption and government intervention are just a few of the risks. Let alone the poor working conditions; and this is unlikely to change given the pace of growth in demand for lithium, cobalt etc.

Given the massive demand from car manufacturers and other industrial buyers or producers of batteries and against the background of the critical circumstances around these raw materials, the industry puts significant efforts into what it calls "Circular Economy". At the heart of this, there is the attempt to recycle as much of the materials used as possible, which is not just relevant in the context of recycling batteries at the end of the product's lifecycle but also during the value creation chain. So, rather than trying to be able to hedge their raw materials price risks, the industry is more and more focusing on technologies that increase the reusability of materials. Providers of such technologies, in turn, should also become a focus for retail investors. by trusted providers when wanting to participate in the market movement of cryptos as an asset class. In the long run, I would expect a handful of cryptocurrencies to co-exist alongside central bank money, those that were able to benefit from first mover advantages and that exhibit the most advanced technologies.

Thank you very much!

¹ <https://www.iea.org/reports/oil-information-overview/supply-and-demand> by the International Energy Agency, IEA

² "Bundesanstalt für Geowissenschaften und Rohstoffe, BGR"

³ cp. <https://www.iea.org/reports/key-world-energy-statistics-2020>

⁴ <https://pubdocs.worldbank.org/en/961711588875536384/Minerals-for-Climate-Action-The-Mineral-Intensity-of-the-Clean-Energy-Transition.pdf>

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