Economic Monthly [Oil prices]

The situation surrounding oil prices (September)

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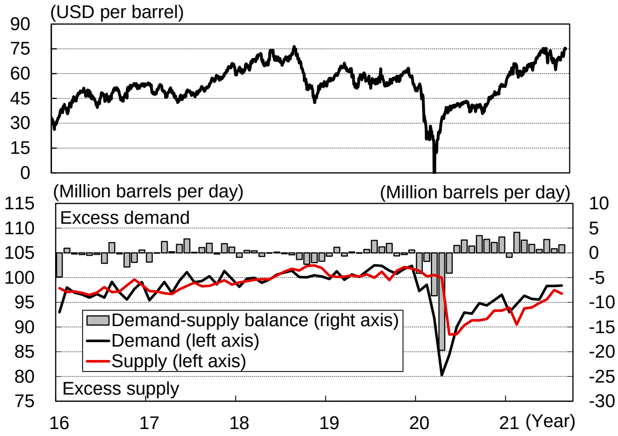
1. Oil Prices

Oil prices (WTI front month, price per barrel) fell a little to around USD 65~69 owing to weak US employment statistics in early September before rising to USD 72 on the back of disruptions to oil supply caused by hurricanes in the US. A fall in stock prices triggered by a management crisis at one of China's largest real estate developers – Evergrande – meant oil prices fell to just under USD 70. That cautiousness has now subsided somewhat and the US Energy Information Administration (EIA) reported US oil inventories have fallen to around a three-year low. As a result of such factors, oil is trading at around USD 75 (Chart 1, upper).

2. Oil Supply and Demand

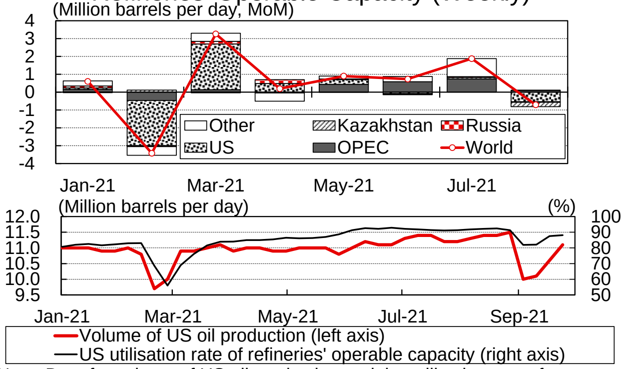
According to the Short-Term Energy Outlook published by the EIA, the volume of oil demand in August was 98.38 million barrels per day and the volume of supply was 96.76 million barrels per day (Chart 1, lower). With the exception of January 2021, there has been an excess of oil demand every month since June 2020 and demand rose by 1.62 million barrels per day in August. Demand increased by 790,000 barrels per day from July – roughly doubling the amount of excess demand. The reason for this increase in excess demand was a decrease in the oil supply of 700,000 barrels per day from the previous month due to oil facility closures in the US caused by hurricanes at the end of August and maintenance being carried out and operation issues arising at oil facilities in Kazakhstan and Nigeria – both OPEC+ members (Chart 2, upper). It appears the current upward pressure on oil prices from these factors will not fully dissipate and will continue to have an impact in September too. That being said, the volume of oil production in the US has already bottomed out according to weekly statistics (Chart 2 lower), and it seems maintenance on oil facilities in Kazakhstan will be completed in early September, which means supply constraints will probably start to be resolved for the most part. Given that OPEC+ is reducing the scale of its oil production cuts (i.e. increasing production) each month by 400,000 barrels per day (actual production was less than planned in August due to the factors above), and that there is a significant increase in the production capacity of major oil-producing countries such as Saudi Arabia, the supply of oil is forecast to return to a gradual upward trend as temporary factors dissipate, which will likely put downward pressure on oil prices.

Chart 1: Oil Price and Global Demand-Supply Balance



Note: "Demand-supply balance" is demand less supply
Source: EIA, Bloomberg, MUFG Bank Economic Research Office

Chart 2: Global Volume of Oil Supply (MoM) and US Volume of Oil Production and Utilisation Rate of Refineries' Operable Capacity (Weekly)



Note: Data for volume of US oil production and the utilisation rate of refineries' operable capacity as of 24th September
Source: EIA, MUFG Bank Economic Research Office

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