Economic Monthly [Oil prices]

The situation surrounding oil prices

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1. Oil Prices

Oil prices (WTI front month) started July at just above USD 59 per barrel and subsequently rose to around USD 60.5 per barrel in the second week of the month owing to an extension of the agreement by OPEC+ to reduce their oil production and the increasing tension between the US and Iran. However, fears about a fall in demand grew again as demand for oil from the US slowed and China's real GDP growth rate for the April-June quarter was the lowest since the country started to announce its growth in 1992. As a result, oil prices continued to fluctuate between USD 55 and USD 59 per barrel.

2. Oil Supply and Demand

Demand

The downward pressure on demand for oil from the cyclical deceleration of the global economy and the conflict between the US and China continues. Looking back over the last year or so, demand remains mostly unchanged.

Supply

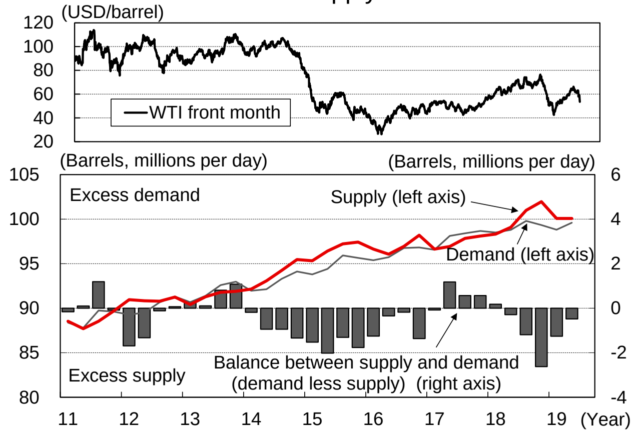
At a meeting on the 1st and 2nd July, OPEC+ agreed to extend oil supply cuts at the new level set in January this year until the end of March next year. OPEC+ also approved the draft text of their Charter of Cooperation, which sets forth an aim of permanent collaboration, and once again suggests the Organization will continue to pursue oil demand-supply equilibrium in the future.

The number of working US shale oil rigs continues to decrease as oil prices drop below USD 60 per barrel – the break-even price for US shale oil – resulting in a deceleration of US shale oil production. There is a strong possibility that production will continue to slow in the future as oil prices fluctuate around USD 60 per barrel.

3. Geopolitical Risks

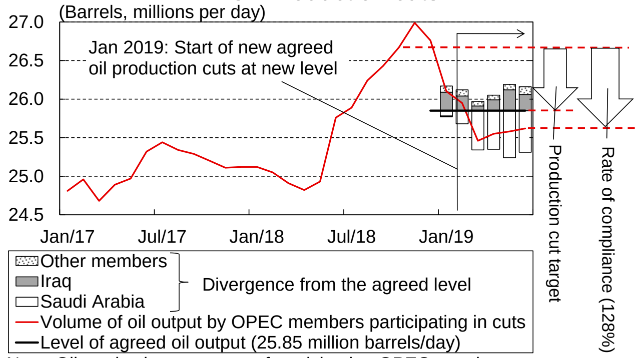
On 8th July, the Atomic Energy Organization of Iran announced it would reduce its commitment to the Joint Comprehensive Plan of Action (JCPOA) if no progress was made in talks over the next 60 days (by 6 September) with the remaining parties to the deal, such as the UK, France and Germany. (Iran currently exceeds the upper limit for uranium stockpiling and enrichment set forth in the agreement). With only a month remaining until the deadline, participants of the deal (excluding the US) held an emergency meeting with Iran on 28th July. While discussions are expected to continue, it is unclear whether progress will be made as the conflict between Iran and Europe intensifies. Meanwhile, International Energy Agency (IEA) Executive Director Dr. Fatih Birol said that it will “ensure that global markets remain adequately supplied” in response to the tension in the Strait of Hormuz. In the event of an emergency, the IEA stated it will release oil stocks that members are obliged to hold as required.

Oil Prices (Front Month) and the Balance of Oil Supply and Demand



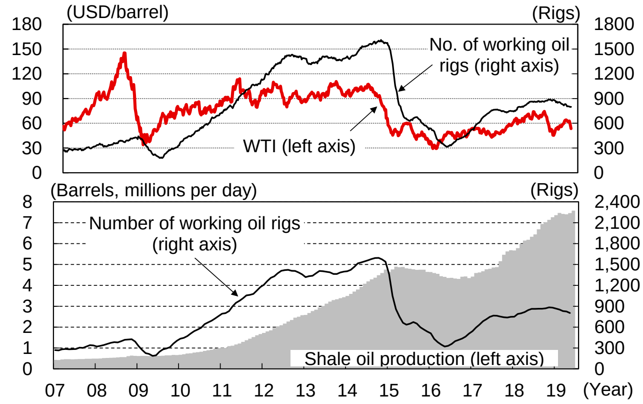
Source: IEA, Bloomberg, MUFG Bank Economic Research Office

Volume of Oil Output by OPEC Members Participating in Oil Production cuts



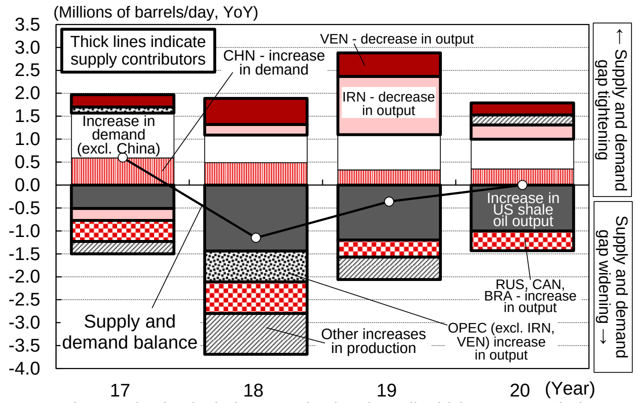
Note: Oil production cut target of participating OPEC members
= volume of oil output in October 2018 less 800,000 barrels per day
Oil production target of participating OPEC and non-OPEC members
= decrease of 1.2 million barrels per day
Source: IEA, MUFG Bank Economic Research Office

Oil Prices, the Number of US Working Oil Rigs and the Volume of US Shale Oil Production



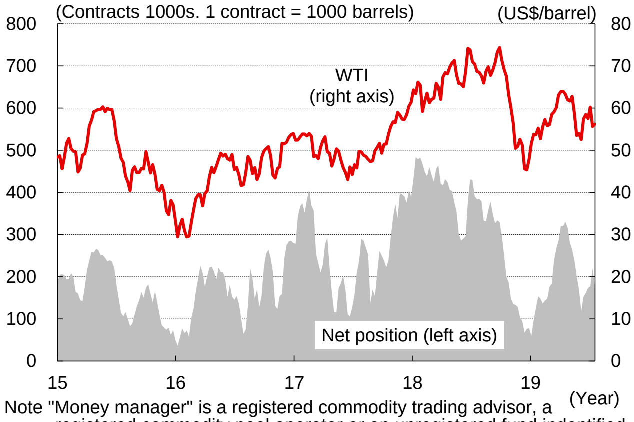
Source: U.S. EIA, Baker Hughes, Bloomberg,
MUFG Bank Economic Research Office

Balance of Oil Supply and Demand



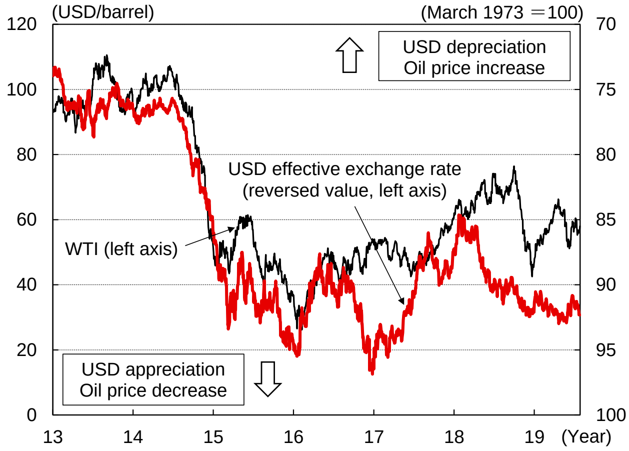
Note: Other production includes NGL (national gas liquids). OPEC excludes Iran and Venezuela. Based on members as of May 2019
Data from 2019 is a forecast by IEA and the Economic Research Office
Souce: IEA, MUFG Bank Economic Research Office

Money Managers' Net Position and Oil Prices



Note "Money manager" is a registered commodity trading advisor, a registered commodity pool operator or an unregistered fund indentified by the CFTC.
Source: US CFTC, Bloomberg, MUFG Bank Economic Research Office

Oil Prices and the USD Effective Exchange Rate



Source: Bloomberg, MUFG Bank Economic Research

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