

The current situation surrounding oil prices

YURI ISE
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

23 OCTOBER 2019

(ORIGINAL JAPANESE VERSION RELEASED ON 30 SEPTEMBER 2019)

1. Oil Prices

Oil prices (WTI front month) hovered at around USD 55 per barrel until mid-September in reaction to news about countries' economic indicators and relations between the US and China and the US and Iran. However, oil prices rose sharply on 14th September and momentarily hit USD 63 per barrel due to an attack on Saudi Arabia's oil facilities which caused problems in terms of oil supply. Oil prices then fell after Saudi Arabia's Energy Minister, Abdulaziz bin Salman, announced the volume of oil production would be restored by the end of September. Currently, oil prices are just below USD 56 per barrel.

2. Oil Supply and Demand

Demand

The downward pressure on demand for oil from the global economic slowdown continues. Over the past year, demand has remained relatively unchanged.

Supply

The number of working US shale oil rigs continues to decrease as oil prices sit below USD 60 per barrel: the break-even price for US shale oil. Although the volume of US shale oil output increased slightly in August compared with the previous month, it is likely that growth will slow in the future due to the fall in the number of working rigs.

OPEC carries out oil supply cuts as it pursues oil demand-supply equilibrium. In August, the rate of compliance with oil production cuts was 120%, exceeding the target mostly due to Saudi Arabia's proactive attitude towards reducing output. The volume of oil output in September will probably be lower than that of August due to the impact of supply disruptions resulting from the attacks on Saudi Arabia's oil facilities.

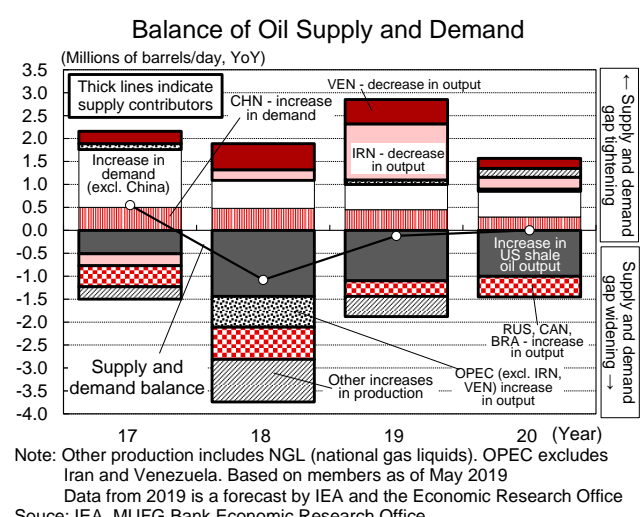
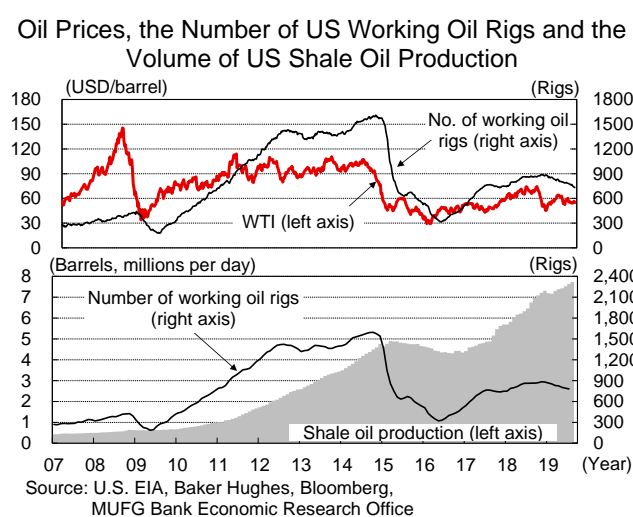
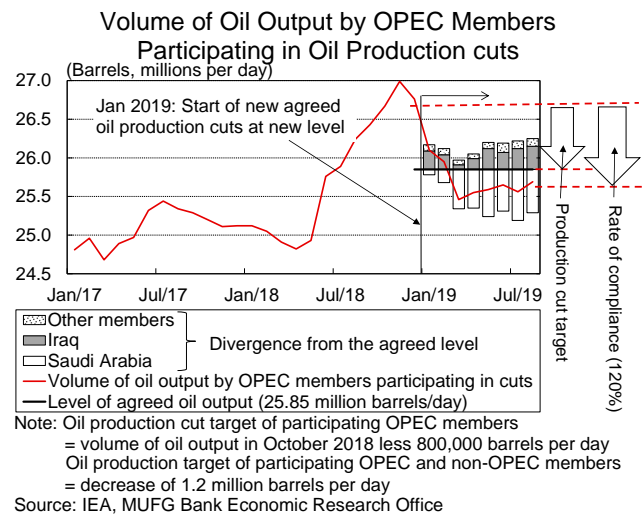
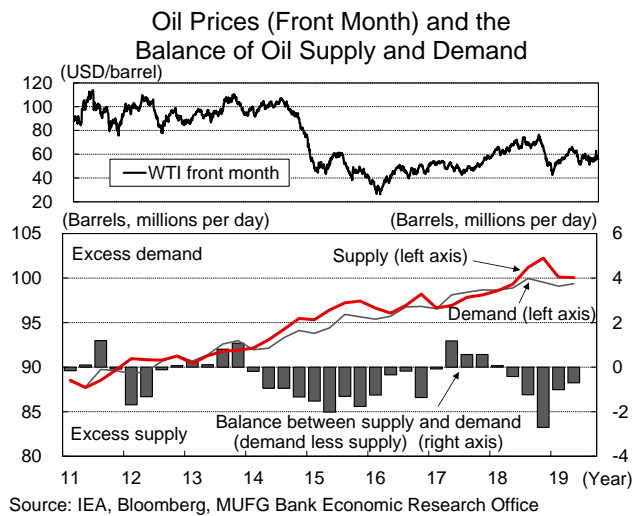
3. Issues in September

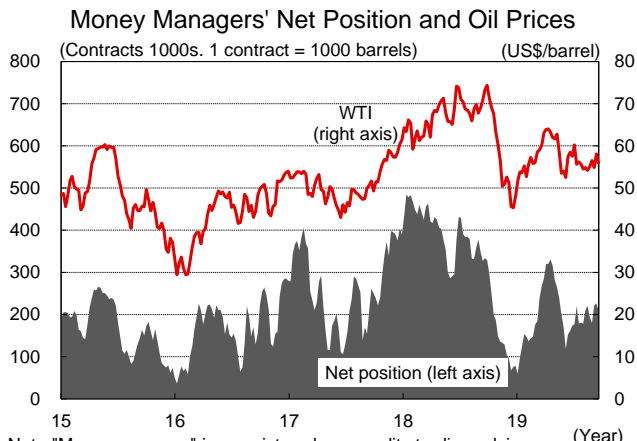
On 14th September, 58% of Saudi Arabia's oil output was knocked out by the attacks on its oil facilities, which equates to around 5.7% of global oil production: 5.7 million barrels per day. This disruption to oil production in Saudi Arabia, which accounts for around 70% of the global

oil spare supply capacity (3.21 million barrels per day), shows that the spare supply capacity falls when production is disrupted. As a result, oil prices rose significantly on 16th. On the following day, Energy Minister Abdulaziz bin Salman announced Saudi Arabia's volume of oil production would be restored by the end of September¹, but the futures curve was still around USD 1~2 higher than before the attacks, even after the announcement. It appears the market's awareness of the risks surrounding Saudi Arabia's oil-related facilities changed, suggesting such risks are irreversibly woven into the oil market.

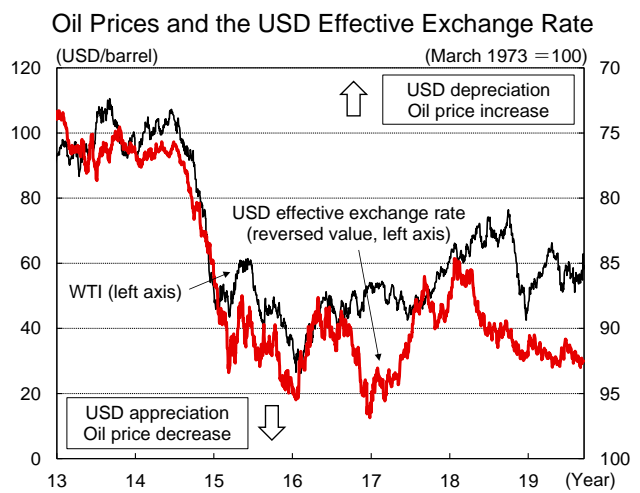
¹As of 23rd, the volume of Saudi Arabia's total oil production has reportedly recovered to around 85%.

Meanwhile, the US declared it would increase the number of US troops in Saudi Arabia and imposed sanctions on the Bank of Iran; tension within the Middle East is building.

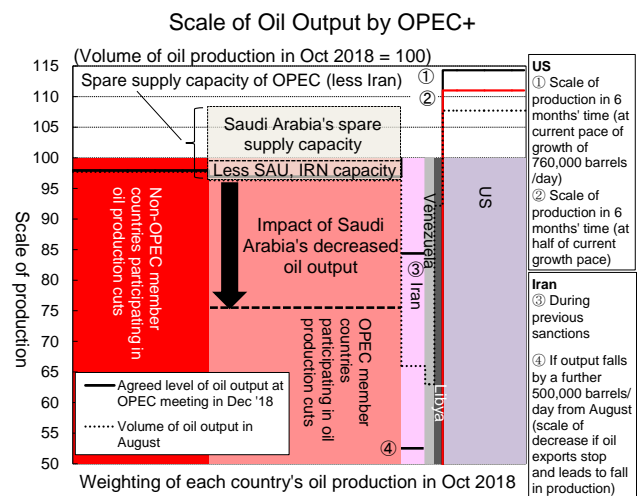




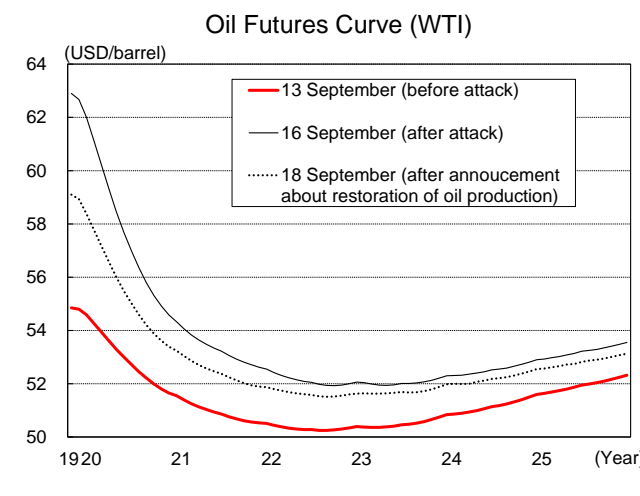
Note "Money manager" is a registered commodity trading advisor, a registered commodity pool operator or an unregistered fund identified by the CFTC.
 Source: US CFTC, Bloomberg, MUFG Bank Economic Research Office



Source: Bloomberg, MUFG Bank Economic Research



Source: OPEC, IEA, EIA, MUFG Bank Economic Research Office



Source: Bloomberg, MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Yuri Ise <yuri_ise@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.