Economic Monthly
[Oil prices]

The current situation surrounding oil prices

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1. Oil Prices

Oil prices (WTI front month) rose sharply to USD 63 per barrel temporarily during mid-September owing to concerns about supply following the attacks on oil-related facilities in Saudi Arabia. However, prices fell on the back of bearish forecasts for oil demand due to weak economic indicators across various countries and uncertainty about the future of the conflict between the US and China. In mid-October, oil prices remained within a small range: USD52~54 per barrel. Subsequently, there were reports that a larger reduction in oil production will be discussed at the Meeting of the OPEC Conference and the OPEC+ Ministerial Meeting in December, which led to another rise in oil prices to USD56 per barrel. However, oil prices then fell and are currently around USD 54 per barrel following a rise in concerns that the deceleration of the Chinese economy will cause a decrease in oil demand, which were brought about by China's economic indicators published at the end of the month.

2. Oil Supply and Demand

Demand
Demand for oil in the July-September quarter was 101.29 million barrels per day, increasing by 1.3% YoY and maintaining an upward trend. Demand was underpinned by the gradual expansion of the global economy and the fall in oil prices.

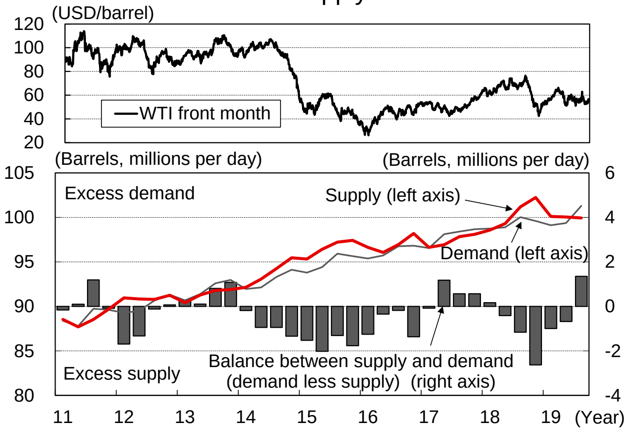
Supply
The supply of oil fell by 1.2% YoY to 99.94 million barrels per day during the July-September quarter due to OPEC+'s agreement to reduce oil production. Data for the OPEC members participating in the agreed cuts reveals Saudi Arabia's oil production fell significantly to 24.88 million barrels per day (235% rate of compliance with oil cuts) in the month of September alone, mainly due to impediments to its supply. Nevertheless, the overall trend of oil production is determined by the decision to continue with the oil cuts and the total volume of oil production by all OPEC members is still on a downward trend YoY, despite Saudi Arabia's oil output recovering to the same level as before the attacks at the end of October.

On the other hand, the volume of US shale oil production maintained its upward trajectory and rose by 15.9% YoY to 7.81 million barrels per day (Jul-Sep quarter). However, oil is trading below USD 60 per barrel – the break-even price for shale oil production – and the number of working oil rigs continues to fall. As expected, the growth which occurred up until the start of this year has not continued. Looking ahead, it is likely the increase in US shale oil production will continue to slow.

3. Main Points from October

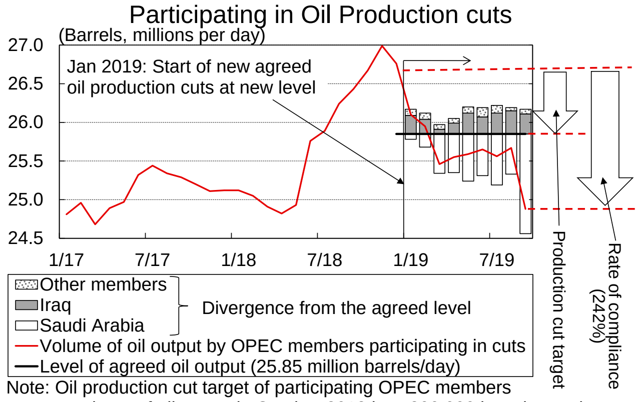
Due to the factors mentioned above, the balance between the supply and demand of oil shifted to excess demand for the first time in six quarters in the July-September quarter. However, this is probably the result of the temporary effect from the disruption to Saudi Arabia's oil supply, and so oil supply and demand is expected to generally maintain equilibrium going forwards. Growth of demand is forecast to continue to slow due to the deceleration of the global economy. The International Energy Agency revised its forecast for demand in 2020 downwards by 100,000 barrels in its monthly report released in October. On the supply side, Saudi Arabia and Russia have said they will comply with OPEC and OPEC+'s ongoing production increases and cuts, and it appears they are carrying out adjustments to their volume of oil production in line with demand as they continue to aim for equilibrium between oil supply and demand.

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



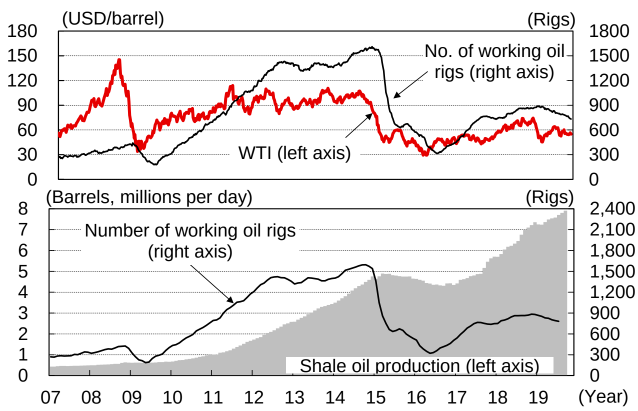
Source: IEA, Bloomberg, MUFG Bank Economic Research Office

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



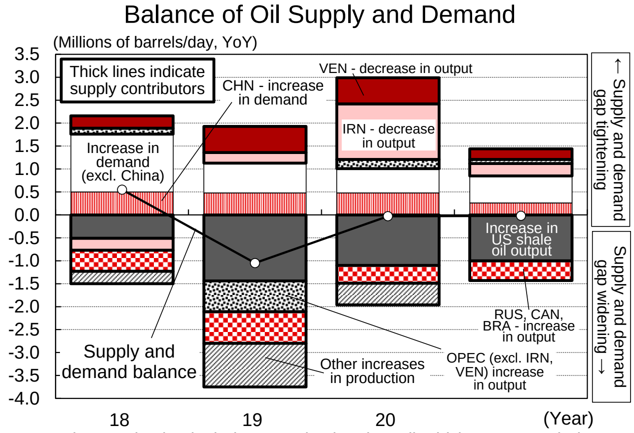
Note: Oil production cut target of participating OPEC members
= volume of oil output in October 2018 less 800,000 barrels per day
Oil production target of participating OPEC and non-OPEC members
= decrease of 1.2 million barrels per day
Source: IEA, MUFG Bank Economic Research Office

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



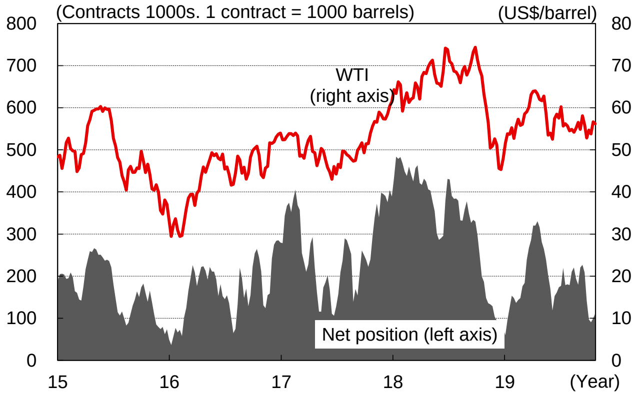
Source: U.S. EIA, Baker Hughes, Bloomberg, MUFG Bank Economic Research Office

Balance of Oil Supply and Demand



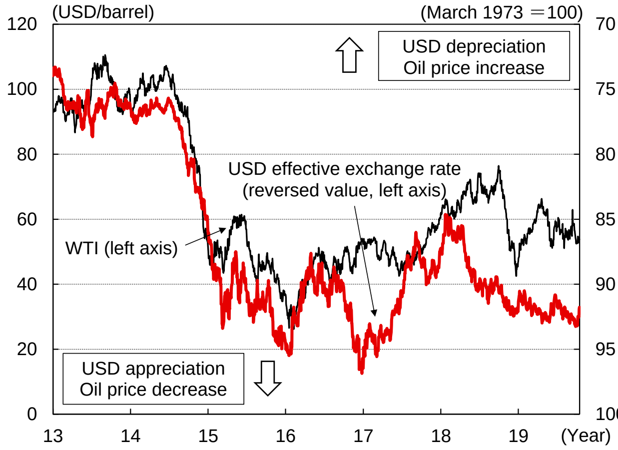
Note: Other production includes NGL (national gas liquids). OPEC excludes Iran and Venezuela. Based on members as of May 2019
Data from 2019 is a forecast by IEA and the Economic Research Office
Souce: IEA, MUFG Bank Economic Research Office

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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