Economic Monthly
[Oil prices]

The situation surrounding oil prices (December)

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1. Oil Prices

Oil prices (WTI front month) rose to USD 59 per barrel following the decision to increase oil production cuts at the OPEC+[1] Ministerial Meeting at the start of December 2019. Subsequently, the US and China announced that they had reached a phase one agreement in their trade negotiations and there was a decrease in concerns about the future of the global economy, which governs demand for oil. Risk appetite then rose across global markets with a streak of record-high prices set by the US Dow, and the effect spread to the oil market. As a result, oil prices rose further and are currently around USD 61 per barrel.

[1]The Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC, oil-producing countries who are co-operating in reducing oil production, such as Russia

2. Oil Supply and Demand

Demand

The gradual expansion of the global economy is underpinning demand for oil. In the July-September 2019 quarter, demand for oil grew 0.9% YoY and is forecast to reach 1.9% in the October-December quarter (MUFG estimate), maintaining an upward trend.

Supply

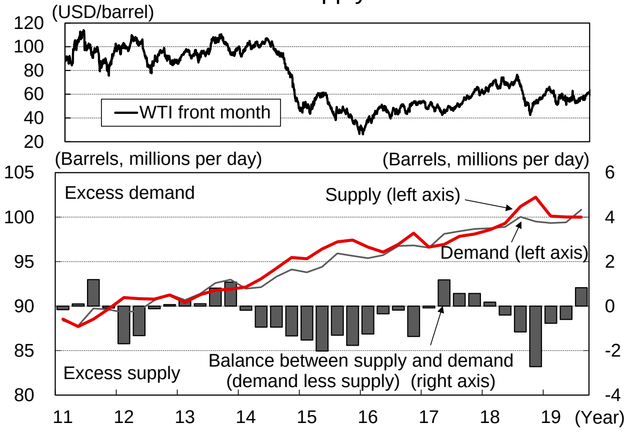
The fall in the supply of oil is slowing as the rise in US shale oil production mostly exceeds the decrease in oil supply from OPEC+, who aim to underpin oil prices by achieving supply-demand equilibrium. In the July-September 2019 quarter, oil supply fell by 1.2% YoY. In the October-December quarter, this is forecast to slow to -0.5% YoY (MUFG estimate).

US shale oil output continues to rise as the number of working rigs, which had fallen for seven consecutive weeks, started to rise and drilled-but-uncompleted wells (DUC) reach completion. On the other hand, OPEC members' rate of compliance with oil production cuts was 154% in November, mainly due to a reduction in output that exceeded the target led by Saudi Arabia. OPEC continues to restrict production.

3. Main Points from December

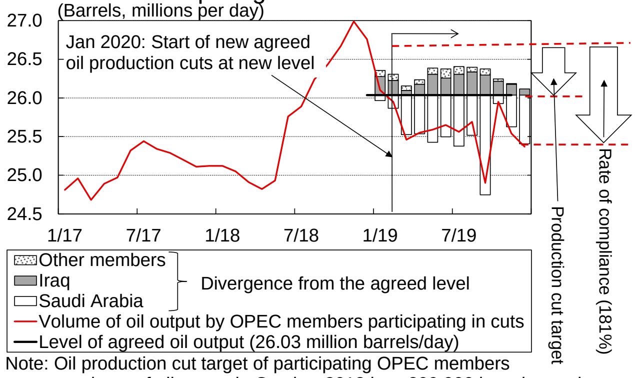
At the OPEC meeting on 5th and 6th December 2019 and the OPEC+ Ministerial Meeting, the decision was made to increase the target output from its current level of 1.2 million barrels per day lower than October 2018 levels to 1.7 million barrels per day lower commencing January 2020. At the same time, Saudi Arabia stated that it is independently cutting an additional 400,000 barrels per day, thereby bringing the volume of total OPEC+ output cuts to 2.1 million barrels per day. Compared with the actual volume of oil cuts in November by OPEC+ (1.5 million barrels), Saudi Arabia will have to cut an additional 200,000 million barrels a day more than it did in November, OPEC members excluding Saudi Arabia will have to cut 150,000 million barrels more and non-OPEC members will have to cut 250,000 million barrels more. At the Ministerial Meeting on 5th and 6th March, OPEC+ will decide whether or not to extend their agreement to cut oil output. For now, however, they will likely focus on compliance with the current agreement for additional production cuts.

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



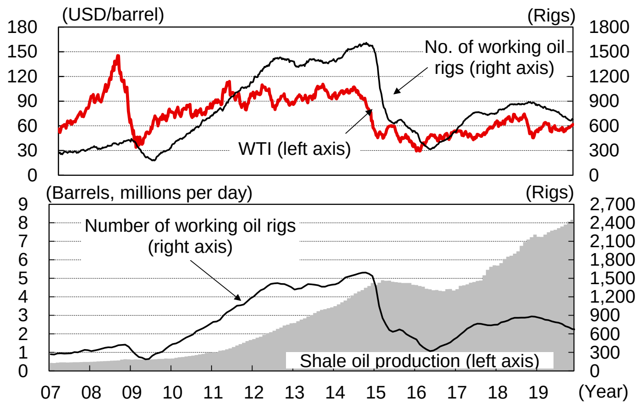
Source: IEA, Bloomberg, MUFG Bank Economic Research Office

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



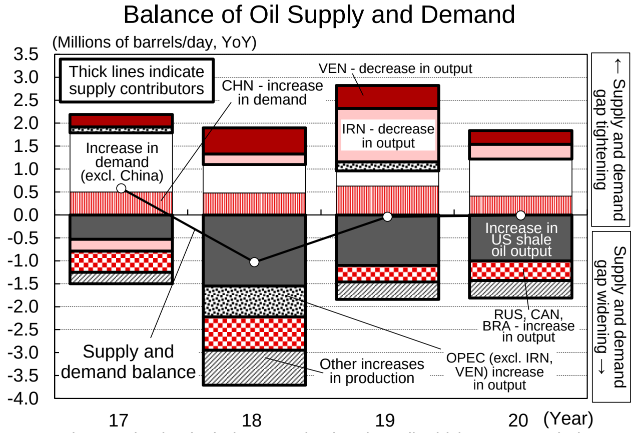
Note: Oil production cut target of participating OPEC members
= volume of oil output in October 2018 less 800,000 barrels per day
Oil production target of participating OPEC and non-OPEC members
= decrease of 1.2 million barrels per day
Source: IEA, MUFG Bank Economic Research Office

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



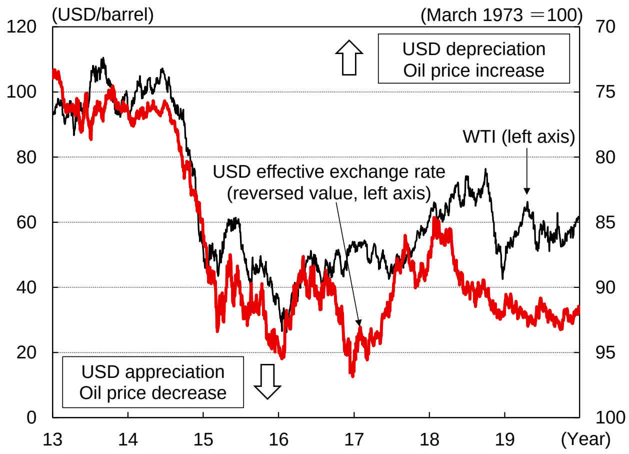
Source: U.S. EIA, Baker Hughes, Bloomberg, MUFG Bank Economic Research Office

Balance of Oil Supply and Demand



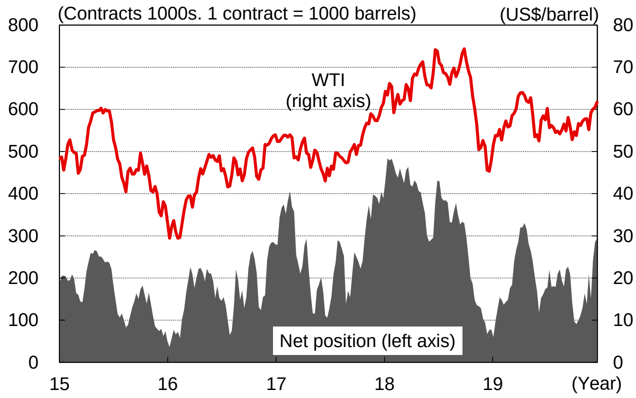
Note: Other production includes NGL (national gas liquids). OPEC excludes Iran and Venezuela. Based on members as of January 2020
Data from 2019 is a forecast by IEA and the Economic Research Office
Souce: IEA, MUFG Bank Economic Research Office

Oil Prices and the USD Effective Exchange Rate



Source: Bloomberg, MUFG Bank Economic Research

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

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