

The situation surrounding oil prices (January)

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1. Oil Prices

Oil prices (WTI front month) increased sharply due to an escalation of the conflict between the US and Iran at the start of January, momentarily hitting just above USD65 per barrel. Oil prices then fell to around USD59 per barrel following an easing of tension in the Middle East as a full-scale armed conflict was avoided due to both countries exercising restraint. Currently, oil prices are trading at around USD53 per barrel after falling further due to a rise in concerns about the spread of Covid 19 in China and its impact on economic activities.

2. Oil Supply and Demand

Demand

Demand for oil was 101.45 million barrels per day in the October-December quarter last year, increasing 1.9% YoY. Most of this rise in demand came from China and India: the second and third largest global oil consumers respectively.

Supply

The supply of oil for the October-December 2019 quarter was 101.19 million barrels per day, falling 1.0% YoY. The main reasons for this were a significant decrease in the volume of oil output from Iran owing to US sanctions, as well as the decrease in production by OPEC+, who aim to underpin oil prices by co-operating to reduce the oil supply. OPEC exceeded their target production cuts by a considerable margin; the rate of compliance with cuts was 181% in December.

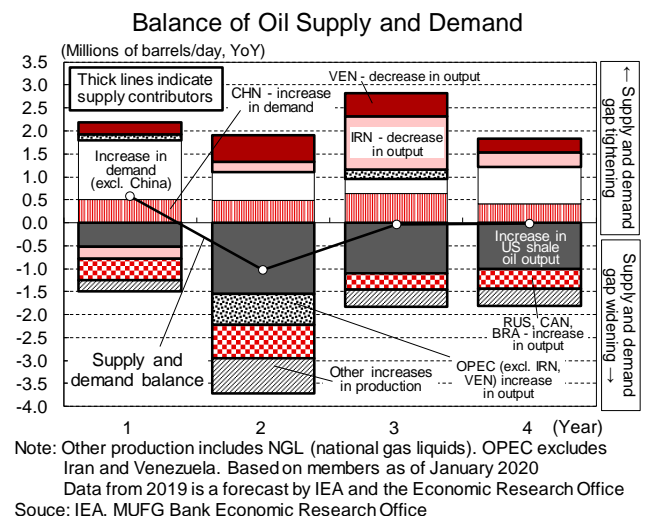
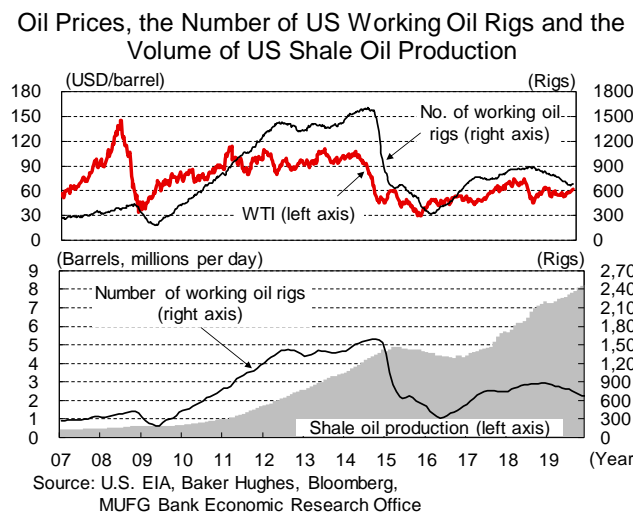
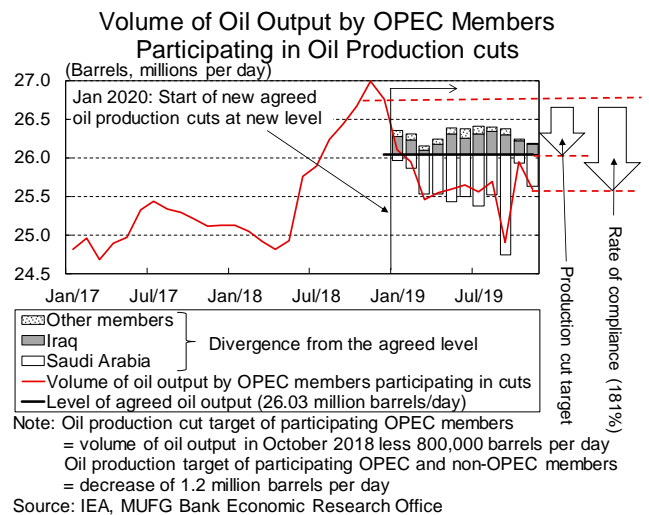
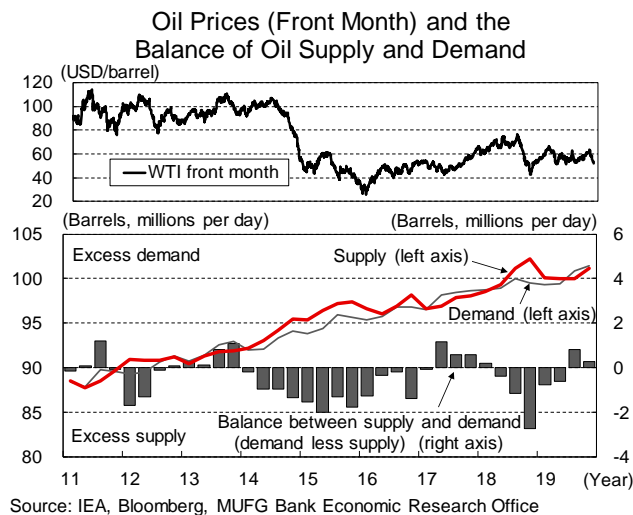
Supply-Demand Balance

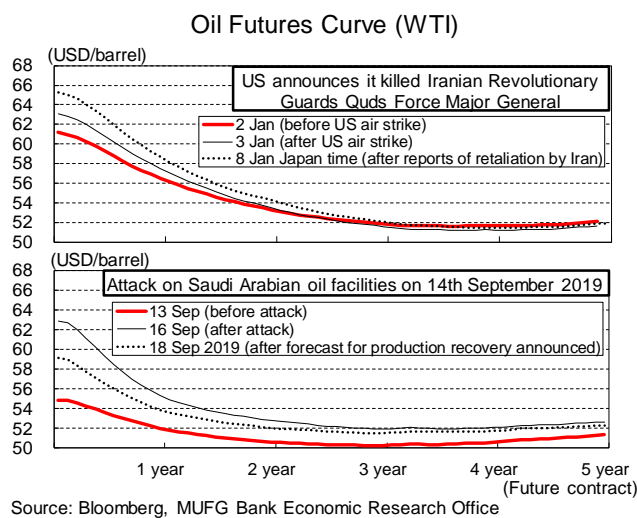
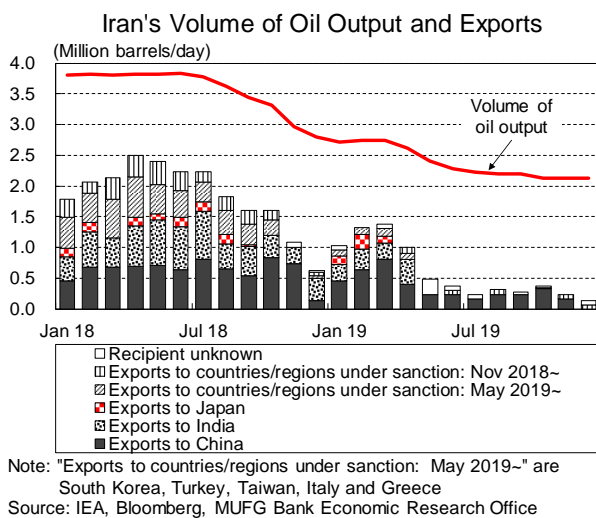
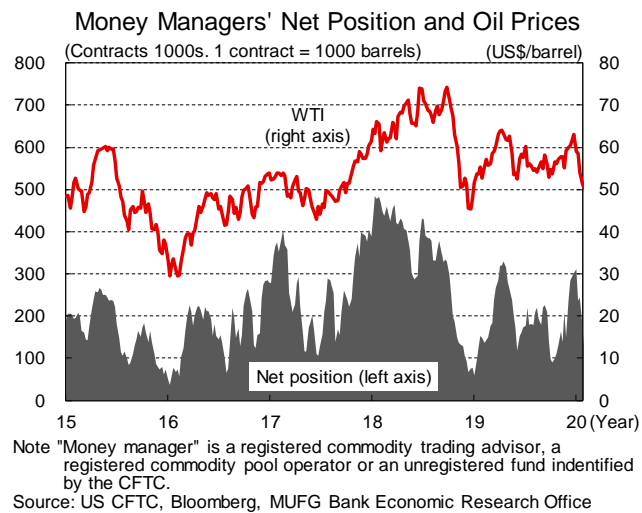
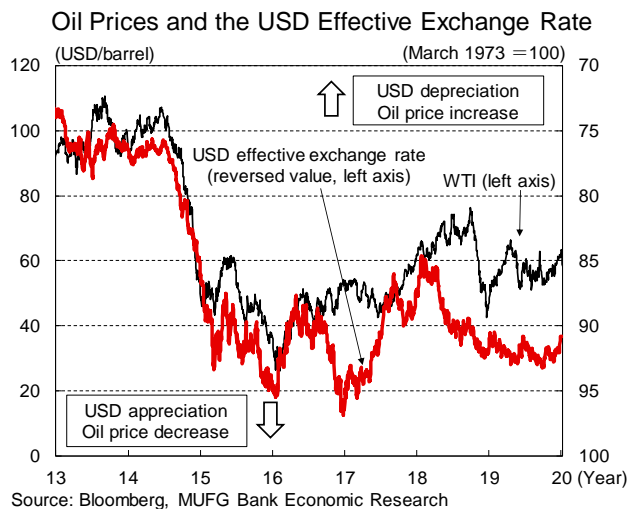
As a result of the factors above, demand for oil exceeded supply for the second consecutive quarter in the October-December 2019 quarter. In the previous quarter, the disruption to Saudi Arabia's oil supply had a large impact on the supply-demand balance, resulting in excess demand of 830,000 barrels per day. However, oil supply and demand are moving closer to equilibrium as demand exceeded supply by 260,000 barrels per day in the October-December quarter.

3. Main Points from December

On 2nd January (local time), the US announced it had killed a senior Iranian official, sparking a rise in tension in the Middle East. On 8th, Iran carried out retaliatory attacks on bases in Iraq that were hosting US troops, resulting in a further escalation of tension between the US and Iran. However, both countries expressed that they did not want the conflict to grow more serious and oil prices settled lower.

The impact on oil prices from the escalation in tensions appears to have had a different effect on the oil futures curve compared to the period of attacks on Saudi Arabia's oil-related facilities in September last year. This time, the rise in oil prices around the time of the escalated tension was comparatively small at around USD 2, and there was no rise in 3-year and longer contracts. This contrasts with the concerns among market participants last year that Saudi Arabia would take a defensive stance following the attacks on its oil supply and this risk was factored into oil prices in the medium and long term. Oil markets appear to have concluded that the situation in January would not lead to a large-scale, prolonged decrease in the oil supply due to the marked decrease in oil production by Iran owing to the impact of US sanctions and reports of a blockade at the Strait of Hormuz.





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