Economic Monthly
[Oil prices]

The situation surrounding oil prices (April)

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1. Oil Prices

Oil prices (WTI front month) plummeted from the end of February into March amid increased expectations of a decline in demand for oil due to the global economic slowdown caused by COVID-19. On 3rd April, however, oil prices rose to around USD28 per barrel on the back of reports that OPEC+ will decrease its oil output by a large amount. Later, on 12th April, OPEC+ agreed to its deepest production cut on record in May and June: 9.7 million barrels per day. Nevertheless, oil prices fell again, despite the production cuts and a deceleration of US shale oil production. This was because of the pervasive view in markets that excess supply would continue and the severe slump in demand for oil that occurred against a backdrop of unprecedented restrictions on the movement of people globally due to public health measures. As oil stocks rose further, concerns about oil storage capacity led to oil prices dropping into negative territory for the first time in history on 20th April, falling to USD-37 per barrel. Currently, oil prices have recovered but are still fluctuating at low levels between USD15 and USD19 per barrel.

2. Oil Supply and Demand

According to the International Energy Agency (IEA), the supply of oil in the January-March quarter was 100,420,000 barrels – a slight increase of 0.3% YoY – as countries' production levels rose somewhat owing to the breakdown of the cooperative production cuts between OPEC+ in early March. Meanwhile, demand for oil in the January-March quarter fell by 5.6% YoY to 93,330,000 barrels due mainly to COVID-19. As a result, the balance between oil demand and supply loosened significantly during this quarter and there was an excess supply of 7,090,000 barrels. The IEA forecasts oil demand will be 76,060,000 barrels (-23.3% YoY) in the April-June quarter. This low level means it will be difficult to absorb the supply of oil, even if there is a new agreement between OPEC+ to reduce oil production.

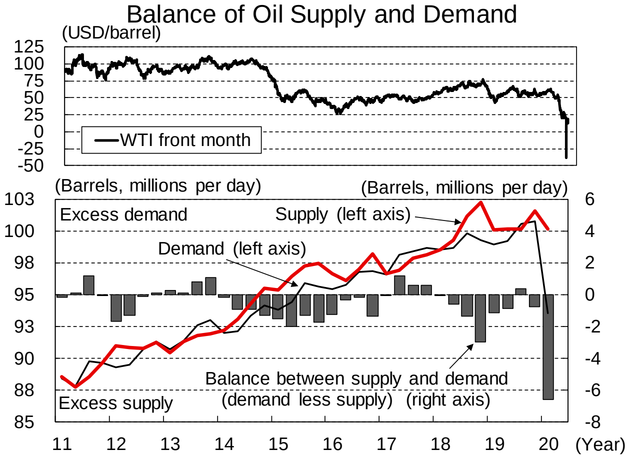
3. Main Points from April

Oil markets entered an unprecedented situation where sellers who wanted to avoid storage costs were selling oil, even if this meant they were paying buyers, and the price of oil futures

(May) unexpectedly entered negative territory just before the expiry date for that month. Based on the fact that current oil prices (June) and the oil price future curves from July are positive, it appears that the fall into negative prices which occurred ahead of the end of the contract was an anomaly. However, the reasons for this – oil oversupply and limited global storage – amount to a serious issue. According to the IEA, the global capacity for oil storage (as of January 2020) is approximately a median of 1.2 billion barrels onshore and 70 million in tankers. If there is a prolonged slump in demand, it is highly likely that oil stocks will reach their supply capacity, even given the oil production cut of 9.7 million barrels per day by OPEC+ and the decrease in US shale oil production brought about by the decline in business conditions.

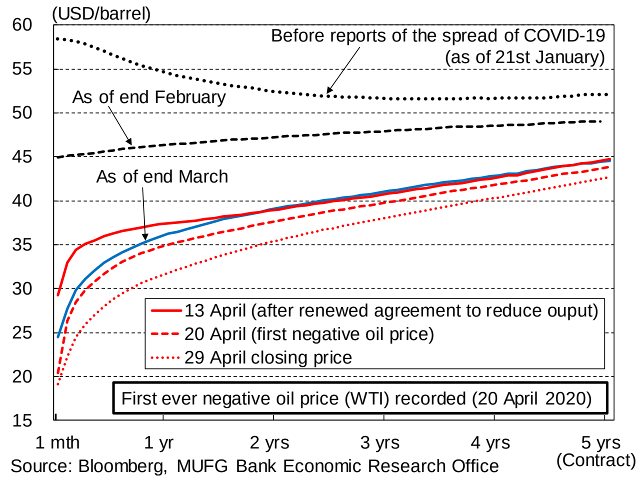
If it looks like a quick recovery in oil demand is unlikely, the oil supply-demand balance is expected to undergo some sort of adjustment, such as a deeper production cut by OPEC+ before the storage capacity limit is reached, or a large decrease in US shale oil output. However, the downward pressure on prices will continue and there is an undeniable possibility that prices will fall into negative territory again depending on the circumstances. It will be important to keep an eye on oil supply and demand going forwards.

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



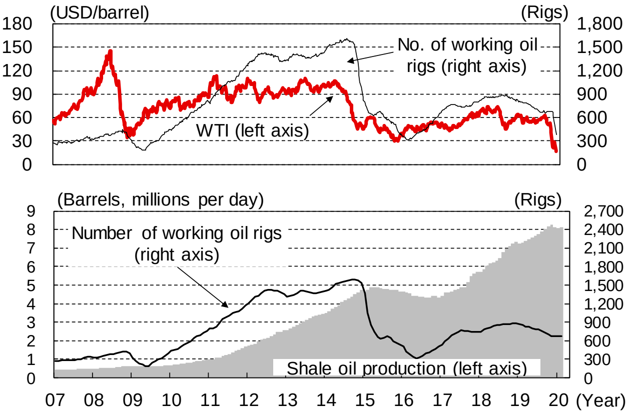
Source: IEA, Bloomberg, MUFG Bank Economic Research Office

Oil Futures Curve (WTI)



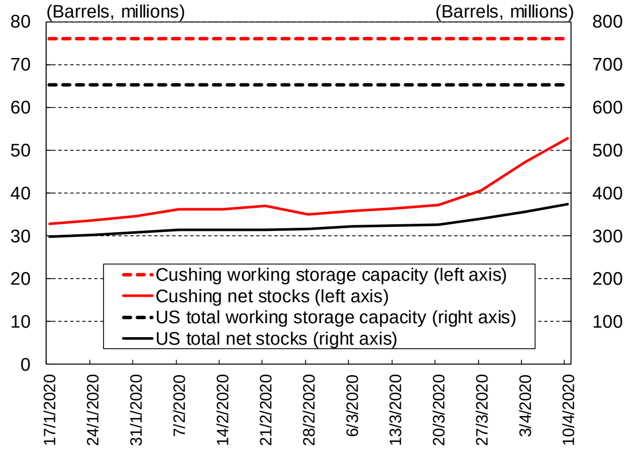
Source: Bloomberg, MUFG Bank Economic Research Office

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

Cushing Oil Field and Total US Oil Stocks



Source: EIA, MUFG Bank Economic Research Office

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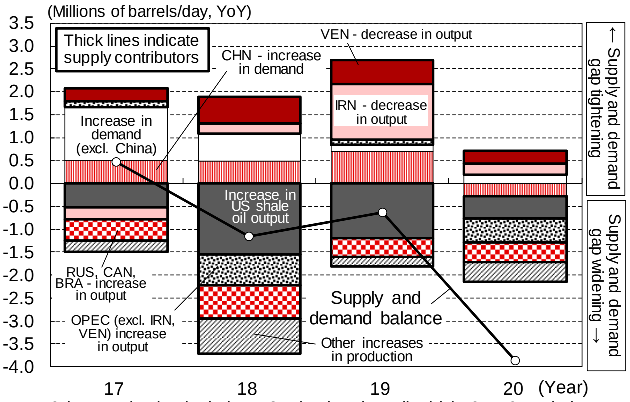
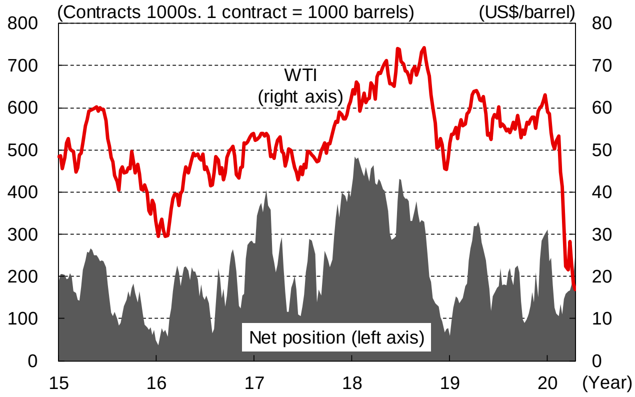
Balance of Oil Supply and Demand



Note: Other production includes NGL (national gas liquids). OPEC excludes Iran and Venezuela. Based on members as of April 2020
Data from 2020 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

Translation by Elizabeth Foster

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