

The situation surrounding oil prices (June)

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1. Oil Prices

Since around the beginning of February, oil prices were on a downward trend owing to concerns about the global economic slump brought about by the spread of COVID-19. Oil prices (WTI front month) dropped into negative territory and recorded approximately USD -37 per barrel for the first time in history for a short while just before the contract expiry date for that month owing to concerns about oil storage capacity. However, oil prices have been recovering since the end of April as economic activities in major countries slowly re-start and expectations of a recovery in demand for oil increase. At the start of June, oil prices then rose to between USD 40~49 on the back of US labour statistics for May, which were more positive than market predictions, and the decision by OPEC+ to extend their cooperative oil production cuts (9.7 million barrels per day), which were due to end on 30th June, to the end of July. That being said, a sense of caution about the spread of COVID-19 is still weighing on oil prices and they are currently fluctuating around USD 39 per barrel.

2. Oil Supply and Demand

According to the International Energy Agency (IEA), the demand for oil in the January-March quarter was 93,940,000 barrels per day – a 5% decrease YoY due to the impact of COVID-19. On the other hand, during the same period, there was a slight increase of 0.2% YoY in the supply of oil, bringing the total to 100,260,000 barrels per day owing to the increase in US oil production, despite the decrease in output by OPEC. As a result, the balance between supply and demand of oil was a large excess supply of 6,320,000 barrels per day.

Currently, it appears the oil demand and supply balance is on a path of gradual recovery as although the average global demand for oil over the April-June period fell further, economic activities are re-starting in many countries and restrictions on movement are being eased step-by-step, as indicated by the bottoming out of gasoline consumption in the US at the start of April. Meanwhile, OPEC+ significantly strengthened their cooperative oil production cuts from May, resulting in a supply of 88,810,000 barrels per day that month and a sharp decrease in supply to below the level of demand in the January-March quarter. There are some OPEC+ members and related people starting to say that it is unnecessary to continue with the

production cut of 9,700,000 barrels per day, which is scheduled to remain in place until the end of July, and it is likely there will be some discussion between members as to whether or not oil demand is definitely recovering at the OPEC+ meeting in July.

Chart 1: Oil Prices and US Gasoline Consumption

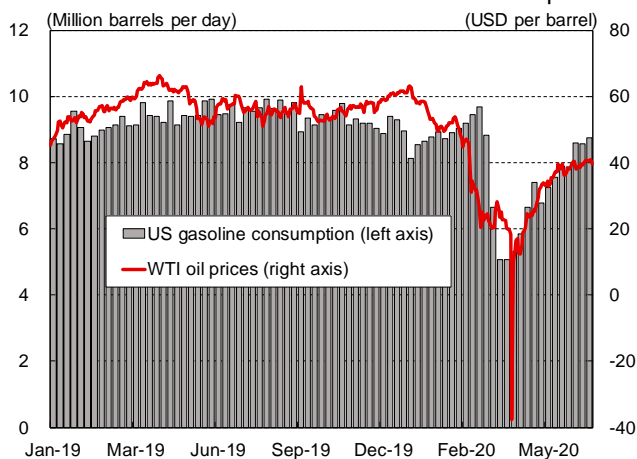
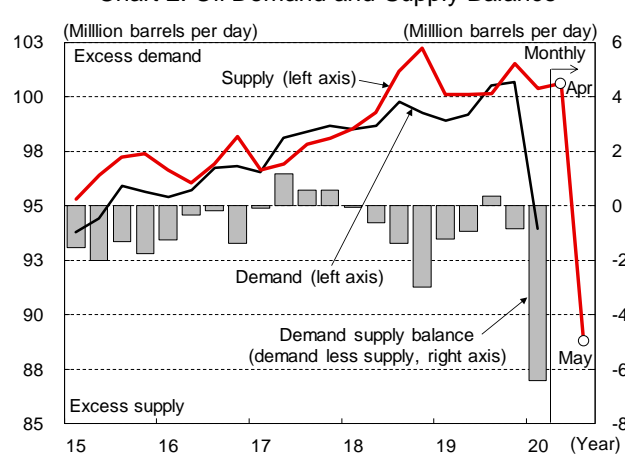


Chart 2: Oil Demand and Supply Balance



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