

The situation surrounding oil prices (July)

KENGO NAKAYAMA
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

26 AUGUST 2020

(ORIGINAL JAPANESE VERSION RELEASED ON 31 JULY 2020)

1. Oil Prices

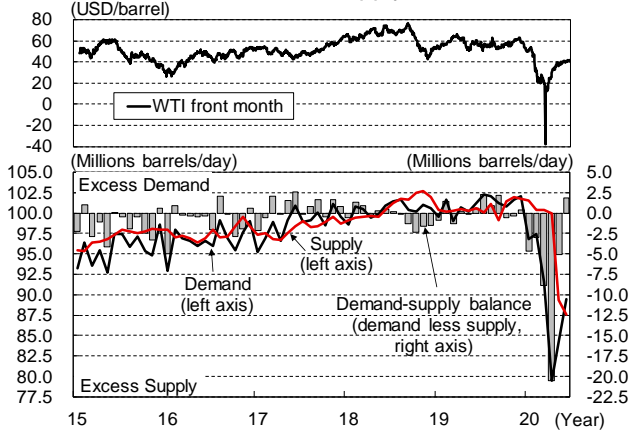
Oil prices (WTI front month, per barrel) remained firm at around USD 40 in July as a report by the US Energy Information Administration (EIA) published on 7th July confirmed that the global demand for oil had surpassed supply for the first time this year in June and expectations of a recovery of demand grew as economic activities started up again (Chart 1). At its Joint Ministerial Monitoring Committee (JMMC) meeting on 14th and 15th July, OPEC+ announced it would reduce the scale of its cooperative oil production cuts from 9.7 million barrels per day to 7.7 million barrels per day from August; however, markets were not moved as the reduction was generally in line with expectations. Meanwhile, concerns about a second wave of infection are rising as the number of daily new cases of COVID-19 is increasing in the US, which is limiting upper prices.

2. Oil Supply and Demand

On the supply side, OPEC+ announced that their volume of output for June was reduced further than planned at the aforementioned JMMC meeting. A contributing factor was the additional cuts to production made voluntarily by Saudi Arabia, the UAE, Kuwait and others (Chart 2). According to the plan agreed in April, OPEC+ stated that the scale of their cooperative oil production cuts, which totalled 9.7 million barrels per day up until the end of July (extended from the end of June until the end of July at the JMMC meeting in June), will be reduced to 7.7 million barrels per day from August. That being said, OPEC+ issued a statement suggesting the increase in supply of 2 million barrels of oil per day due to the production cuts will be consumed by the re-starting of economic activities.

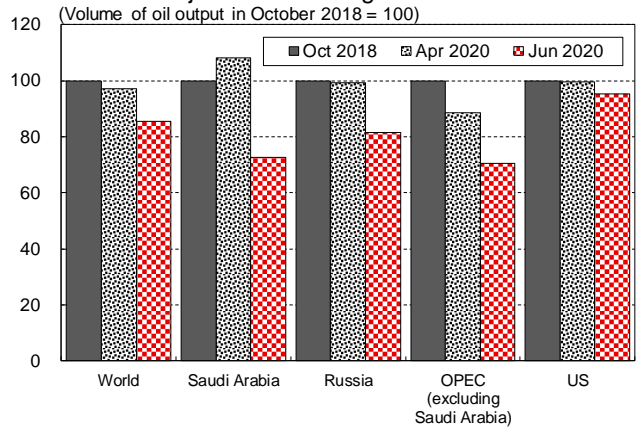
Among oil producers, there are expectations of a further recovery in demand, as mentioned above, owing to the sharp improvement at present which is the result of more economic activities being re-started globally. Looking ahead, demand will continue to grow, provided the re-starting of economic activities continues, and oil prices are forecast to remain firm. Nevertheless, it is necessary to remain cautious about concerns of another rise in COVID-19 cases in the US and across emerging countries.

Chart 1: Oil Prices (Front Month) and the Global Balance of Oil Supply and Demand



Source: EIA, Bloomberg, MUFG Bank Economic Research Office

Chart 2: Relative Oil Output of Major Oil Producing Countries



Source: EIA, MUFG Bank Economic Research Office

Translation by Elizabeth Foster

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Kengo Nakayama <kengo_nakayama@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.