

The situation surrounding oil prices (September)

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1. Oil Prices

Economic restrictions were eased in many countries and regions after the first wave of COVID-19 infections and business sentiment related to the global economy improved. This, along with expectations of a tightening of the gap between supply and demand for oil due to the agreement by OPEC+ to reduce oil production in April, led to a mostly continuous rise in oil prices (WTI front month, price per barrel) since May. Prices then flattened out in summer and remained fixed around the USD 40 mark. However, since the start of September, downward pressure has been building on the demand side as the pace of global economic recovery slowed, there was a drop in US stock prices and a second wave of COVID-19 infections, particularly in Europe. As such, prices softened and fell to just below USD 37 for a short while. During the latter half of September, inventory statistics in the EIA's Weekly Petroleum Status Report confirmed an improvement in the supply-demand balance and oil prices slowly rose. Currently, oil is trading at just under USD 40 (Chart 1 upper).

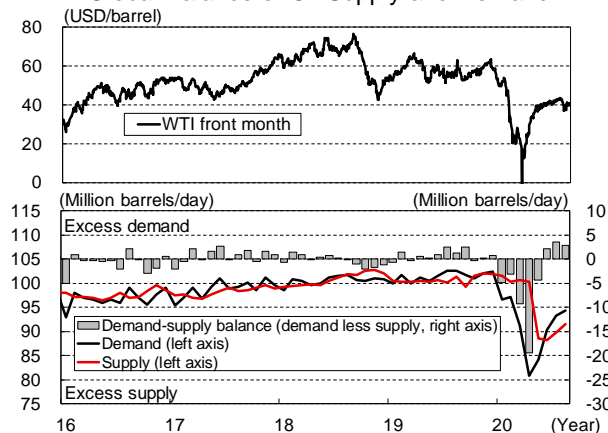
2. Oil Supply and Demand

According to the EIA's Short-Term Energy Outlook published in September, global oil demand was 94.31 million barrels per day and supply was 91.55 million barrels per day, resulting in excess demand of 2.76 million barrels per day: the third consecutive month of excess demand. This is due to the fact that demand has yet to fully recover, despite supply being squeezed by the cooperative oil production cuts carried out by OPEC+ (Chart 1 lower).

Looking ahead, it appears this trend of excess demand will be a focal point; however, looking first at supply, there is a clear uptick which is reflected in the plans by OPEC+ to reduce the scale of the production cuts in stages and signs of a recovery in US shale oil production. Meanwhile, demand for oil seems to be recovering in line with the pace of recovery of the global economy, and it is highly likely that the rise in demand will start to slow after the rebound that occurred in the July-September quarter. Nevertheless, it is unlikely there will be another downturn in demand, provided there is not another marked deterioration in the COVID-19 situation (Chart 2). Therefore, oil prices are expected to maintain their gradual upward trend, trading between USD 40 and USD 45 for the time being. However, it is important to continue to

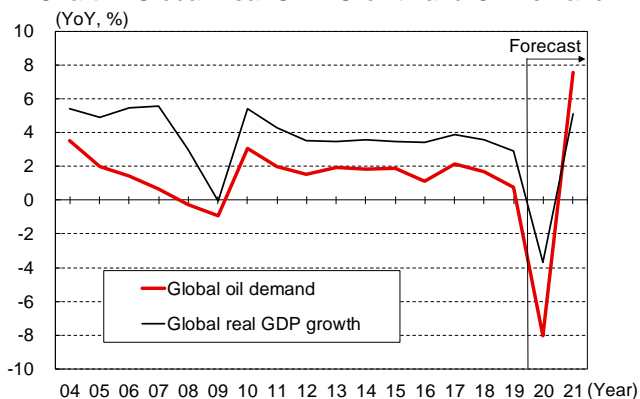
keep a close eye on factors that will invite a fall in prices, such as downside risks to demand from another rise in COVID-19 cases.

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: Global Real GDP Growth and Oil Demand



Note: Forecast for oil demand by EIA, forecast for GDP by MUFG Bank

Economic Research Office
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