

## The situation surrounding oil prices (October)

KENGO NAKAYAMA, RINA TAKASU  
ECONOMIC RESEARCH OFFICE

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

25 FEBRUARY 2021

(ORIGINAL JAPANESE VERSION RELEASED ON 30 OCTOBER 2020)

### 1. Oil Prices

Oil prices (WTI front month, price per barrel) fell to just over USD 37 on 2<sup>nd</sup> October on the back of news that US President Trump had tested positive for COVID-19. Until around the middle of the month, strikes at off-shore oil fields in Norway and a hurricane in the Gulf of Mexico led to worries about disruptions to oil supply, which in turn resulted in a rise in oil prices. Subsequently, oil prices hovered around the same mark due to trends in US oil stocks and agreed production cuts. Currently, there are concerns over the downside risks to demand brought about by a re-tightening of restrictions on movement in parts of Europe. This, along with oil production trends in Libya and the US stock market led to a fall in oil prices. Oil is now trading at around USD 35 (Chart 1 upper).

### 2. Oil Supply and Demand

According to the EIA's Short-Term Energy Outlook published in October, global oil demand in September was 95.26 million barrels per day and supply was 91.7 million barrels per day resulting in excess demand for the fourth consecutive month. While demand continues to recover, it appears downward pressures on supply will remain. (Chart 1 lower). Major oil producing countries' compliance with OPEC+ cooperative oil production cuts was high and the UAE, which had a compliance rate of 10% in August, increased this by a large margin to 102% in September (Table 1). The current target is a reduction in output of 7.7 million barrels per day which is scheduled to be lowered to 5.8 million barrels per day from January next year (in other words a rise in production); however, an assumption emerged around early October that this schedule would be postponed. In the end, contrary to assumptions, no decision was made to postpone the plan at the OPEC+ Meeting of the Joint Ministerial Monitoring Committee on 19<sup>th</sup> October (in other words, the lowering of the production cut target will go ahead as scheduled). However, taking into account the statement made by Russia's President Putin on 22<sup>nd</sup> that they are not ruling out continuing to reduce oil production at 7.7 million barrels per day if it is necessary for market stability, as well as the forecast that Libya will increase its oil output, it is possible that the plan to reduce the scale of production cuts will be posted at the 180<sup>th</sup> Meeting of the OPEC Conference on 30<sup>th</sup> November and the OPEC and non-OPEC Ministerial Meeting on 1<sup>th</sup> December and that supply will continue to be squeezed. Nevertheless, COVID-19

infections are rising again in the US and Europe and as countries in Europe lock down again, it is important to keep an eye on the risk of a fall in oil prices due to a slump in crucial demand.

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

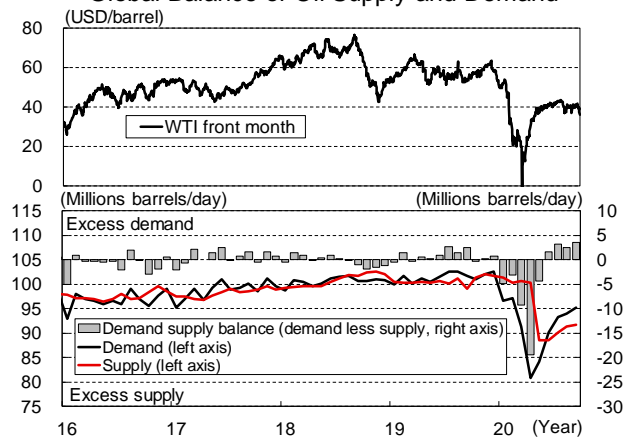


Table 1: Actual and Target Output of OPEC Members

(Million barrels per day)

	Output in Oct 2018	Output target for Aug-Dec 2020	Output in Sep 2020	Rate of compliance (%)
Saudi Arabia	11.00	8.99	8.98	101
Iraq	4.65	3.80	3.65	118
UAE	3.17	2.59	2.58	102
Other	7.86	6.44	6.32	108
<b>OPEC10</b>	<b>26.68</b>	<b>21.82</b>	<b>21.53</b>	<b>106</b>
Russia	11.00	8.99	9.08	96
Kazakhstan	1.71	1.40	1.37	110
Other	2.71	2.21	2.20	102
<b>Non-OPEC</b>	<b>15.42</b>	<b>12.60</b>	<b>12.65</b>	<b>99</b>
<b>Total</b>	<b>42.10</b>	<b>34.42</b>	<b>34.18</b>	<b>103</b>

Source: IEA, 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>

Rina Takasu <rina\_takasu@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.