

The situation surrounding oil prices (December)

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1. Oil Prices

Oil prices (WTI front month, price per barrel) did not move from around the USD45 mark much following the decision by OPEC+ to reduce the scale of oil production cuts from their current level of 7.7 million barrels a day to 7.2 million barrels per day in January 2021 and to discuss further production adjustments from February onwards at the OPEC and non-OPEC Ministerial Meeting on 3rd December. Oil prices were not greatly affected by the news as it appears that the plan to reduce the scale of production in January and from February by 0.5 million barrels per day is within market expectations. Subsequently, COVID-19 vaccinations started to be administered in Europe and the US and oil prices rose to around USD 48 on the back of increased expectations of a recovery in demand (Chart 1 upper).

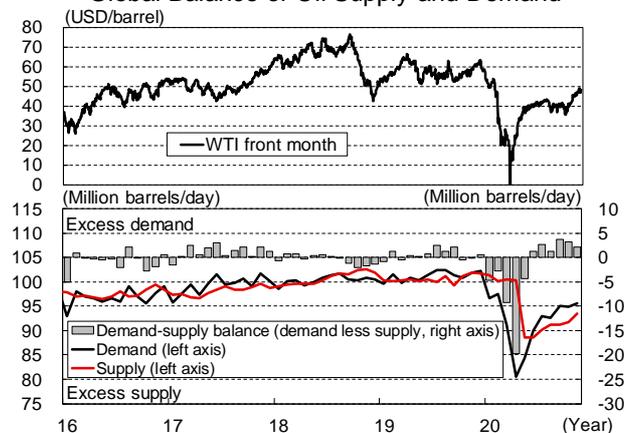
2. Oil Supply and Demand

According to the EIA's Short-Term Energy Outlook published in December 2020, global oil demand in November was 95.59 million barrels per day and supply was 93.45 million barrels per day, resulting in excess demand for the sixth consecutive month (Chart 1 lower). Demand is gradually recovering, led by Asia and, in particular, China. On the other hand, supply is still being tightened in accordance with OPEC+ plans and the compliance rate with production cuts is 101%, causing the excess in demand.

Looking ahead, it appears demand will continue to exceed supply and prices will continue to rise gradually. However, since the start of December 2020, a risk on the supply side has been the abrupt rise in awareness of an increase in oil output from Iran. The volume of oil production by Iran plummeted after sanctions were re-imposed by the US in August 2018 and exports slumped to around 300,000 barrels per day for the past year and a half (Chart 2). There is now a gradual rise in expectations in Iran that sanctions against the country will be eased once the Biden administration takes power. For example, the minister of petroleum said it was possible to increase exports to 2.3 million barrels a day, which would be equivalent to the current excess in global demand. Nevertheless, it will also be important to bear in mind that the US Congress is able to restrict the authority of the US president based on various laws and regulations and, given the large fluctuations in US policy in recent years, importing countries

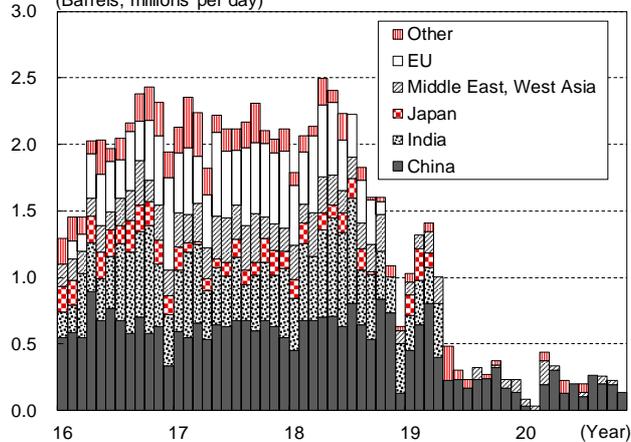
will also need to be cautious. Taking into account the majority of the US Congress favour a hard-line stance against Iran, it is still difficult to foresee the extent to which the US will ease sanctions and Iran will increase its oil supply.

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: Volume of Iran's Exports of Oil by Country



Source: Bloomberg, MUFG Bank Economic Research Office

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