The situation surrounding oil prices (March)

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21 APRIL 2021
(ORIGINAL JAPANESE VERSION RELEASED ON 31 MARCH 2021)

1. Oil Prices

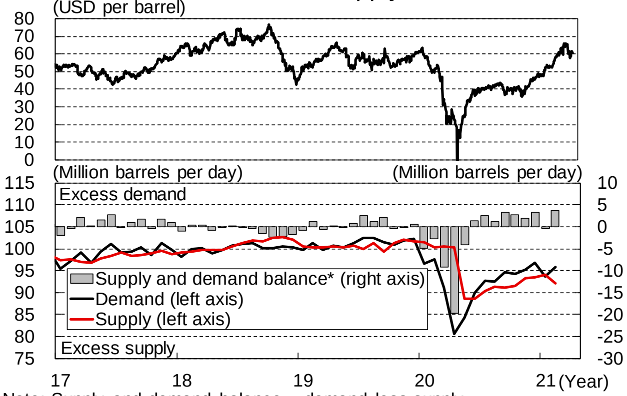
Oil prices (WTI front month, price per barrel) rose to around USD 63 towards the end of February due to factors on both the supply and demand sides: oil refinery operations were suspended and demand for heating rose in the US state of Texas owing to a cold snap that hit the state. After a correction, oil prices pulled back to around USD 59, but they then rose again to around USD 66 for a short while owing to an announcement by OPEC+ that major members would maintain their oil production cuts and Saudi Arabia would continue with its additional voluntary cuts following a ministerial meeting on 4th March. However, it was felt that oil prices had overshot, which started a sell-off and oil is now trading at close to USD 60 (Chart 1 upper).

2. Oil Supply and Demand

According to the Short-Term Energy Outlook published by the EIA in March, the volume of oil demand in February was 95.89 million barrels per day and the volume of supply was 92.17 million barrels per day, resulting in the largest amount of excess demand since the start of the COVID-19 pandemic and a record amount in recent years (Chart 1 lower). The factors behind this appear to be mainly on the supply side, with the most significant of these being the change in supply and demand in the US due to the cold weather as well as the cooperative oil production cuts by OPEC+ and the voluntary cuts by Saudi Arabia.

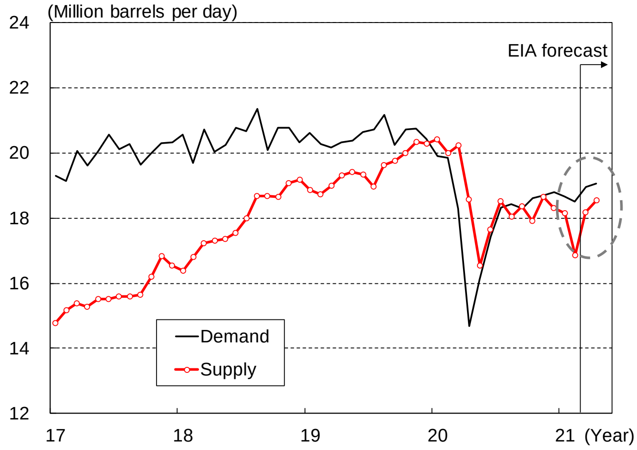
In the US, the volume of oil supply in February dropped by 1.29 million barrels per day from the previous month owing to the cold weather. Meanwhile, demand was firm – particularly demand for heating – resulting in a large amount of excess demand. The tightening of the demand and supply balance brought about by the cold snap was the main reason for the rise in prices that occurred from mid-February until around the beginning of March. With temperatures returning to normal and oil production and refineries recovering, US oil demand and supply is returning to the levels it was at before the cold weather for the most part (Chart 2). In addition, the production cuts carried out by OPEC+ is another point to keep an eye on. Compliance with output cuts was 112% in February – higher than planned. That being said, this figure includes the voluntary additional production cuts by Saudi Arabia (accounting for 13% points of the total 112%). Although Saudi Arabia's energy minister is reported to have said they are in no rush to end their voluntary cuts, it is unlikely that they will continue the cuts indefinitely. Currently, the number of COVID-19 cases is rising again in Europe and there is a feeling oil prices have peaked. Looking ahead, it is likely there will be more corrections to prices.

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



Note: Supply and demand balance = demand less supply
Source: EIA (US Energy Information Administration), Bloomberg, MUFG Bank Economic Research Office

Chart 2: Volume of US Oil Demand and Supply



Source: EIA, MUFG Bank Economic Research Office

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