

The situation surrounding oil prices (June)

NAOKI FUSE, RINA TAKASU
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
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1. Oil Prices

Oil prices (WTI front month, price per barrel) have been on an upward trend as progress with vaccine rollouts has led to expectations of a full-scale economic recovery. During the latter half of June, US stock prices fell due to the rate hike forecast published during the FOMC meeting, which put downward pressure on oil prices. However, market participants then reacted positively to news of robust demand published by the US Energy Information Agency (EIA), who reported oil stocks had fallen for five consecutive weeks. Oil prices are currently trading between around USD 70 and USD 75 (Chart 1 upper).

2. Oil Supply and Demand

According to the Short-Term Energy Outlook published by the EIA, the volume of oil demand in May was 96.22 million barrels per day and the volume of supply was 95.02 million barrels per day. As a result, the balance of supply and demand remains tipped in favour of demand, but the amount of excess demand has decreased (Chart 1, lower).

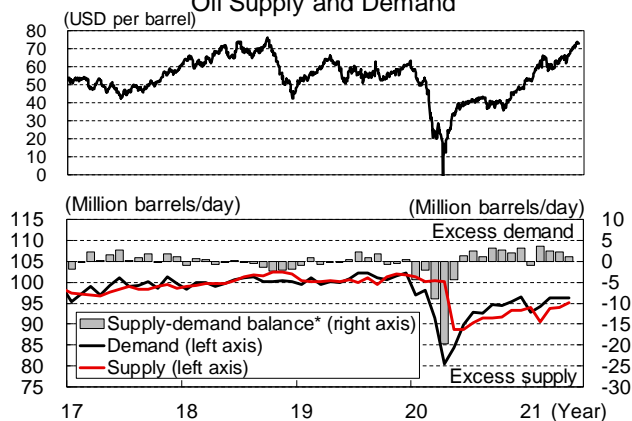
Meanwhile, Iran has garnered mounting attention from oil markets with regards to the supply of oil. In June, the conservative Ebrahim Raisi won the Iran's presidential election as expected. The current administration under Hassan Rouhani is deeply concerned that talks with the US over a nuclear agreement will break down under a new, conservative administration and has pushed forward with negotiations from before the election to revive the Joint Comprehensive Plan of Action and has reached the final stages. The US is cautious about lifting sanctions related to terrorism and human rights and has still not reached an agreement; however, Supreme Leader Khamenei and the Biden administration's foreign relations team were key figures in establishing the previous nuclear deal so it is thought that they are very particular about the agreement this time. Even under a conservative Raisi administration, it is unlikely that negotiations will easily break down.

That being said, even if negotiations are settled, sanctions are lifted and Iran returns to the oil market, it is unclear whether or not this will put large downward pressure on oil prices. Key people in Iran* have said that the possibility that the volume of oil production will reach past

levels is low, and they do not think the increase in the oil supply will be enough to have a large impact on the oil market (Chart 2). Furthermore, it appears that a conclusion of negotiations has already been factored into the price of oil to some extent, according to recent reports about the negotiations. It is possible that talks about the Iran nuclear agreement will affect the geopolitical situation in the Middle East, yet rather than a likely completion of negotiations, it is said that the markets should be cautious about a breakdown of negotiations.

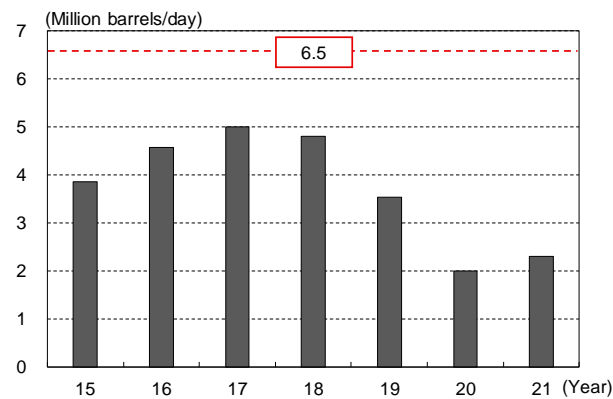
*For example, Iranian Oil Minister Bijan Zanganeh said it possible Iran will increase its volume of oil supply to 6.5 million barrels per day.

Chart 1: Oil Prices and the Global Balance of Oil Supply and Demand



Note: *Demand less supply
Source: EIA, Bloomberg, MUFG Bank Economic Research Office

Chart 2: Iran's Volume of Oil Supply



Note: Figure for 2021 uses average of 2021 data up to and including May
Source: BP Statistical Review of World Energy 2020, IEA (International Energy Agency), 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 Naoki Fuse <naoki_fuse@mufg.jp>

Rina Takasu <rina_takasu@mufg.jp>

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