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Brent Topped $90/bbl for the first time in 10 months since last November

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On September 5, the front-month futures contract on Brent, the European benchmark crude oil, rose by $1.04 per barrel from the previous day to close at $90.04/bbl. This was the first time in about 10 months since November 16 last year that the key Brent futures price closed above $90/bbl. Similarly, the front-month futures contract on West Texas Intermediate, the U.S. benchmark crude oil, increased by $1.14/bbl to $86.69/bbl on the same day. It rose back above $86/bbl for the first time since last November.

Triggering Brent's rise above $90/bbl were media reports on Saudi Arabian and Russian oil production cuts. Following the United States, which has become the world's largest oil producer thanks to the shale revolution, Saudi Arabia and Russia were the second and third largest oil producers as of 2022, leading the OPEC-plus group of oil-producing countries that adjust supply and demand in the international oil market. Apart from coordinated production cuts by the OPEC-plus group, Saudi Arabia and Russia are voluntarily implementing additional production cuts to support crude oil prices. Saudi Arabia, which launched an additional production cut of 1 million barrels per day in July, was reported as planning to continue the additional production cut until the end of this year. Russia reportedly intends to extend its additional production cut of 0.3 million bpd until the end of this year. The news of Saudi Arabian and Russian plans to extend their additional production cuts indicated that these major oil producers favor higher oil prices, prompting crude oil prices to hit 10-month highs.

Following a period of significant oil price surges in 2022, crude oil prices had been on a downward trend until around summer this year. Later, however, crude oil prices turned to a gradual uptrend in which Brent rose back above $90/bbl. In the first half of last year, crude oil prices basically remained high, above $100/bbl. Later, a global economic slowdown came on soaring energy prices and other factors, exerting downward pressure on crude oil prices.

Crude oil prices slipped below $90/bbl toward late last year before falling further below $80/bbl in 2023. WTI often dropped below $70 in early 2023. In June, WTI closed below $70/bbl on nine or about half of the trading days. After finishing below $70/bbl on July 3, the first trading day of July, however, WTI stayed above $70/bbl. In August, WTI traded mainly above the $80/bbl. During the first eight months of this year, of course, both Brent and WTI fluctuated up and down under the influence of various daily news and economic indicator changes. Nevertheless, it can be said that crude oil prices have shifted from a moderate downtrend to an uptrend while fluctuating up and down.

The global economic slowdown, cited above as the main factor that led to the decline in oil prices, included financial unrest in the United States and Europe that had a significant impact. As financial unrest, though having yet to be dispelled completely, has receded, the sluggish Chinese economy has become the main source of bearish sentiment. Although the Chinese economy was expected early this year to pick up in the second half of 2023 in a manner to tighten the supply-demand

balance for oil and other commodities, the real estate bubble problem in China has attracted attention from market participants and led them to anticipate a looser supply-demand balance for oil. In this way, the global economic slowdown, including the economic deceleration in China as the world's largest importer of oil, has continued to exert downside pressure on the oil market.

However, the coordinated oil production cuts by the OPEC-plus group and additional production cuts by Saudi Arabia and Russia have countered the downside pressure and supported the market. In a sense, the OPEC-plus group has enhanced production cuts in response to weakness in the international oil market since the second half of last year, sending a message that the group would not leave oil prices to decline. During the above-mentioned oil price decline in June, the OPEC-plus group decided to extend the coordinated production cuts until the end of 2024, with Suadi Arabia announcing that it would additionally cut its oil production by 1 million bpd from July. As oil-producing countries continue to clearly demonstrate their intention to prevent oil prices from falling, the news of the extension of additional production cuts by Saudi Arabia and Russia has exerted influence on the market outlook.

Regarding the impact on the market outlook, we cannot overlook the effects of changes in the supply-demand balance, in which the supply-demand balance in the international oil market is actually tightening gradually due to the production cuts by oil-producing countries. Based on global oil demand in the International Energy Agency’s monthly oil market report in August and various assumptions such as the current OPEC-plus production policy, some market analysts note that the international oil market saw a supply surplus until the first quarter of 2023 and began to see a demand surplus in the second quarter. An average demand surplus in the third and fourth quarters is estimated at around 1.5 million bpd. Naturally, a demand surplus will lead market participants to dip into inventories, tightening the supply-demand balance significantly.

Such potential market change might have produced upside pressure on crude oil prices. While the extension of additional production cuts by Saudi Arabia and Russia until October has been priced into the market, the longer extension until the end of the year might have been a surprise to market participants. By affecting the supply-demand balance, the enhancement of production cuts may have important implications for future crude oil prices.

Oil-producing countries might have intended to implement the reduction of production as a precautionary measure in view of uncertainties about global oil demand or the sluggish Chinese economy’s negative impact on oil demand. In the current market environment, however, it may be inevitable for many oil market participants to view oil-producing countries as increasingly oriented towards higher prices.

Crude oil price hikes will bring about various political, economic, and social problems and challenges for oil-consuming and -importing countries. Oil price hikes, depending on their extent, may trigger a sense of alarm over inflation, which has become calmer. Even in the United States, which has achieved self-sufficiency in oil, soaring gasoline prices have frequently become a politically important issue. In the run-up to the 2024 U.S. presidential election, the issue of crude oil and gasoline prices could be highlighted. For Europe, which has already been severely affected by the Ukraine crisis, a further rise in oil prices could lead to further economic and social difficulties. Even in Japan, gasoline prices, which happened to reach an all-time high, have become a matter of public concern, leading to major developments such as the government’s extension of gasoline subsidies that had been scheduled to expire at the end of September. Crude oil price hikes are feared to affect a wide range of energy prices including not only gasoline prices but also LNG import prices indexed to crude oil prices, and

electricity prices. The most vulnerable to rising energy prices are low-income oil-consuming and oil-importing countries in the Global South. Attention should be paid to developments in crude oil prices that will greatly influence the global economy, international politics, and energy geopolitics in the future.

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