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Crude Oil Prices in 2023 Higher Than in 7 Years before 2022

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Daily closing prices of the front-month futures contract in 2023 averaged \$82.15 per barrel for the benchmark Brent crude and \$77.60/bbl for West Texas Intermediate, another benchmark crude. In 2022 when crude oil prices rose far above \$100/bbl in response to the international energy market's sudden destabilization caused by the outbreak of the Ukraine crisis, the average soared to \$99.04/bbl for the Brent and \$94.33/bbl for WTI. From the 2022 levels, the Brent and WTI average prices dropped by some \$17/bbl.

The highest price in 2023 was \$96.55/bbl for the Brent and \$93.68/bbl for WTI on September 27. The lowest was \$71.64/bbl for the Brent on June 12 and \$66.74/bbl for WTI on March 17. The highs and lows deviated by a little more than \$10/bbl from the respective averages. Crude oil prices were thus becoming calm again in 2023 after soaring steeply amid the Ukraine crisis. In the first half of the year, in particular, downward pressure continued on crude oil prices as a global economic slowdown became remarkable. In response, the OPEC-plus group of oil-producing countries enhanced production cuts to support crude oil prices. Due to additional voluntary production cuts by Saudi Arabia and some others, crude oil prices entered an upward phase from June to September and hit the year's highs in late September, as mentioned above. After a temporary surge upon the outbreak of the Gaza crisis in October, crude prices declined again, prompting the OPEC-plus group to enhance production cuts again in late November.

As indicated by the average decline of \$17/bbl in crude oil prices and the OPEC-plus group's repeated efforts to resist downward pressure on prices, the year 2023 seemed to feature a downward phase for crude oil prices. Despite the downward phase, however, the 2023 average prices of around \$80/bbl cannot be viewed as low.

Rather, the 2030 average prices were higher than in seven years before 2022 when oil prices shot up amid the Ukraine crisis. From 2011 to 2014, crude oil prices basically remained at levels above \$100/bbl. Stimulated by the high prices, U.S. shale oil production expanded tremendously. In the four years to 2014, U.S. oil production increased by more than 4 million barrels per day. The drastic increase in supply led the supply-demand balance to ease, pushing down crude oil prices since 2015.

The annual average Brent price came to about \$54/bbl in 2015, about \$45/bbl in 2016, about \$55/bbl in 2017, about \$72/bbl in 2018, and about \$64/bbl in 2019. In 2020, however, it fell back to about \$43/bbl due to the enormous impact of the COVID-19 crisis. The average Brent price soared later, hitting a high close to \$100/bbl in 2022 and retaining its strength in 2023.

Incidentally, it should be recalled that the OPEC-plus group was created as a new framework in the international oil market to counter occasional but very strong downward pressure on oil prices amid their weakening from 2015. As crude oil prices slipped below \$30/bbl temporarily in 2016 under downward pressure of the shale oil production expansion, the Organization of the Petroleum Exporting Countries and some of the non-OPEC oil-producing countries issued their Declaration of Cooperation to form the OPEC-plus group in December 2016. After WTI futures prices abnormally plunged to the negative territory amid the COVID-19 crisis, the OPEC-plus group launched the largest ever coordinated production cuts, which successfully formed the basis for price hikes in 2021 and beyond.

In the three weeks from the start of 2024, the Brent has remained in a narrow range above $75/bbl, continuing the trend seen since the OPEC-plus group's announcement of additional production cuts at the end of November 2023. Although there are various price-moving factors in the international oil market, they might have reached a strange kind of equilibrium.

According to the International Energy Agency's latest monthly Oil Market Report (January 2024), global oil demand in 2024 is expected to increase by 1.24 million bpd or 1.2% from the previous year to 102.96 million bpd under moderate economic growth. On the other hand, the expansion of oil supply will continue steadily in 2024. Non-OPEC production is expected to increase by 1.3 million bpd (including 0.62 million bpd in U.S. production) to 70.37 million bpd. Since the increase in non-OPEC production is slightly larger than the rise in oil demand, the call on OPEC (demand for OPEC crude oil or oil demand minus non-OPEC production) will decline slightly in 2024 from the previous year. Over the course of the year, OPEC will need to keep production unchanged or slightly reduce it. In this sense, the overall supply-demand situation in 2024 may be close to equilibrium.

Under these circumstances, various factors are expected to exert influence on the market and crude oil prices. First of all, a representative potential factor to push up oil prices is the impact of geopolitical risks or oil supply disruptions. In this regard, the Gaza crisis and the destabilization of the Middle East, which have continued to escalate, expand and spread conflicts and tensions since the outbreak of the crisis in October last year, are the largest matters of concern at present. As the Gaza crisis itself has continued to worsen in terms of human casualties and humanitarian crises, geopolitical risks in the Middle East have remained extremely high amid conflicts between Hezbollah and Israel, Houthi attacks on tankers, U.S. and other attacks on Houthis, and rising tensions over Iran. So far, the issue of the Houthis has raised concerns about the safety of tanker traffic, forcing tankers to be detoured at the cost of freight fare hikes. However, the oil supply itself from the Middle East has not been particularly affected. If some unforeseen events cause turmoil or destabilization in the Middle East to directly affect oil supply, strong upward pressure may be placed on crude oil prices.

With regard to geopolitical risks, we should pay close attention to the situation in East Asia as well. The energy market may be affected depending on how China-Taiwan relations will unfold in response to the recent Taiwanese presidential election or whether tensions in the Taiwan Strait will rise. For Japan and South Korea, the stability of the Taiwan Strait is important for maritime energy transportation routes. In this regard, attention should be paid to the existence and impact of geopolitical risks on the international oil and energy market in 2024.

On the other hand, China's economic and energy demand/import trends also need to be closely watched in the future in the wake of the recent announcement that China achieved an economic growth rate of 5.2% in 2023. Given concerns over growing uncertainties about the current state and outlook of the Chinese economy, China's economic slowdown and subsequent demand slump may have a significant impact on the global energy market as a whole. Amid rising stock prices in Japan and the United States, there are hopes for global economic growth. However, some observers are still concerned about an economic downturn. Furthermore, oil supply has the potential to increase. Downward pressure thus remains on the market. When downward pressure materializes, the OPEC-plus group may be prompted to enhance production cuts to support oil prices. Then, the group’s unity and implementation of further production cuts may be tested. Depending on the success or failure of OPEC-group actions, crude oil prices may move significantly. We should pay close attention to when and how the market will change from the relatively quiet equilibrium that has continued so far.

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