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January-September 2017 Prices Average $53/bbl for Brent, $49/bbl for WTI

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

Crude oil futures prices (front-month contracts' daily closing prices) in the first nine months of 2017 averaged $52.5 per barrel for Brent and $49.4/bbl for West Texas Intermediate. Crude oil prices remained above $100 for about three and a half years from 2011 to the first half of 2014 and have stayed around half the level since 2015. In the January-September 2017 period, prices peaked at $59.02/bbl for Brent on September 25 and at $54.45/bbl for WTI on February 23 and bottomed out at $44.82/bbl for Brent and $42.50/bbl for WTI on June 21. They fluctuated roughly within a narrow range of the averages plus or minus $10/bbl.

In the first quarter of 2017, crude oil prices stayed mainly in a $50-55/bbl range, supported by a coordinated production cut by the Organization of the Petroleum Exporting Countries and some non-OPEC oil producing countries including Russia. As crude oil prices remained above $50/bbl, however, U.S. shale oil production expanded, leading concerns about oversupply to linger despite these oil producing countries' stricter-than-expected compliance with the coordinated production cut. As a result, downward pressure on crude oil prices grew in the second quarter. In the face of the pressure, OPEC and other oil producing countries decided in May to extend the coordinated production cut for nine months until March 2018. However, the downward trend continued, with prices hitting this year's lows in June.

As crude oil prices slipped below $45/bbl, however, market players speculated that U.S. shale oil production growth could decelerate. Actually, the number of U.S. operating oil-drilling rigs and production began to be affected, supporting oil prices. In the third quarter, the WTI futures rose gradually from levels below $45/bbl close to $50/bbl and topped $50/bbl in September. Then, global crude oil inventories began to slowly decrease, leading to expectations of rebalancing (the elimination of oversupply). As a result, crude oil prices rose toward the second half of September. Brent topped $59/bbl on September 25, testing the $60/bbl for the first time since July 2015. Given that price hikes could encourage U.S. shale oil production, however, oil prices became top-heavy. Later, crude oil prices seesawed in a narrow range above $50/bbl.

In this way, the crude oil price trend in 2017 has been closely linked to U.S. shale oil production. This means that the shale oil production trend and market players' interpretation of the trend have become a major factor to set the ceiling and bottom of a crude oil price range. At present, the WTI price can be interpreted as staying in a boxed range of $50/bbl plus or minus $5/bbl. I suspect that this trend would be rather structurally robust and will continue until the end of this year. Eventually, WTI prices could average about $50/bbl this year. Behind the current international oil

market, however, various moves and changes have been emerging.

First, oil inventories in the member countries of the Organization for Economic Cooperation and Development have been decreasing, though at a very slow speed, indicating that rebalancing has made gradual progress. This week, I had an opportunity to exchange opinions with oil market analysts in major oil producing countries. One of the major topics was the pace of rebalancing. Current crude oil price levels are exerting steady influences on oil supply and demand at a pace that is slower than expected due to U.S. shale oil's enhanced resistance to low oil prices. While global oil demand continues growing firmly, oversupply is gradually shrinking due to falling oil production by non-OPEC oil producing countries other than the United States and the coordinated production cut continued by OPEC and some other oil producing countries, despite the U.S. oil production expansion. The international oil market is expected by some people to go in the direction of a supply-demand equilibrium in the first half of 2018. Depending on the direction, crude oil prices may show new moves.

Then, we may have to pay much attention to the future U.S. shale oil production trend as a factor exerting the largest impact on future oil supply and demand trends and prices. While shale oil has enhanced resistance to low oil prices through remarkable growth in productivity under the weak oil market, some people point to decelerating improvement in productivity and financing problems for shale oil production companies. In this respect, we will have to closely watch future trends. There are many other attention-attracting points including the world economy trend, oil demand in emerging countries, geopolitical risks in major oil producing countries and their effects on oil supply, and the trends of financial markets and market players and their effects on crude oil prices.

However, the second biggest attention-attracting point after U.S. shale oil will be what the next action by OPEC or its leader Saudi Arabia would be. Through discussions with the abovementioned analysts from oil producing countries, I felt anew that the significance of the current coordinated production cut implemented since the beginning of this year by oil producing countries is not small. The coordinated production cut by oil producing countries (and their stricter-than-expected compliance with production quotas) led crude oil prices to rise back above $50/bbl. The production cut has had a visible effect on oil prices. In the absence of such coordinated oil production cut, the international oil market in 2017 could have been plagued with unprecedented oversupply, with oil inventories increasing substantially instead of decreasing. Crude oil prices could have declined to the lowest levels since the January-February 2016 period.

The coordinated production cut by OPEC and other oil producing countries has so far produced some effects. However, uncertainties about its future effects have begun to linger. As low prices are prolonged, incentives may easily work for some oil producing countries to expand oil production to secure and increase oil revenues. The rate of their compliance with the production cut may decline. As countries exempted from production quotas expand production to affect the market, the economic burden on a swing producer that tries to absorb such expansion may increase more and more.

Options that OPEC or its leader Saudi Arabia could adopt in such circumstances may

include (1) maintaining and enhancing the present coordinated production cut and urging all participants in the coordinated cut to comply with their respective production quotas and (2) serving effectively as a swing producer to cover most of the overall production cut. Another possible option may be (3) repealing the coordinated production cut and restoring a market share-maintaining strategy if some participants go ahead of others in expanding production or take free ride on others' production cuts amid expectations that some may fail to comply with their production quotas. All these options would be painful for OPEC and its leader Saudi Arabia and difficult for them to adopt. Whether the market will go in the direction of rebalancing as expected will attract much attention along with policy decisions at the next OPEC meeting.

Contact: report@tky.ieej.or.jp
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