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WTI Back above $20/bbl on Plans to Reopen Business and Ease Restrictions

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The world is still exposed to the rampant COVID-19 pandemic, with infections and deaths continuing to increase. The pandemic remains serious, with no optimism warranted about its future course. Even in such situation, major Western and Asian countries plagued with expanding COVID-19 infections are planning to reopen business and ease outing and movement restrictions under lockdowns, concluding that COVID-19 infections might have peaked while falling short of ending.

In Italy that became the first European country to experience a new coronavirus infection explosion and suffer heavy damage, for example, nationwide outing restrictions from March 10 were partially eased on May 4, with some business operations reopened. On May 6, Germany announced a plan to phase out lockdowns, concluding that the infection expansion has decelerated. All shops were allowed to reopen. The Bundesliga professional soccer league decided to resume games behind closed doors. France offered to phase out lockdowns other than those in Paris from March 11. In the United States plagued with the most COVID-19 infections and deaths and the greatest damage in the world, President Donald Trump indicated his ambition to reopen business, asserting that citizens should return to business as usual. By May 6, plans to reopen business were seen in more than 30 states. In New York State that has been hardest hit by the pandemic, a four-stage plan by industry category to phase out restrictions was announced. Though deciding to extend its emergency declaration until May 31, Japan indicated that some restrictions would be eased in regions with fewer infections and that the declaration could be lifted in some regions ahead of schedule depending on experts' decisions. In Asia, Vietnam, Malaysia, Thailand and others are planning to lift COVID-19 restrictions.

Behind these plans, there has been a conclusion that COVID-19 infections, though falling short of ending, have peaked with new infections declining. This may mean that the world has transitioned to a new phase from the first phase where the infection expansion should be prevented even at the cost of business or people's livelihoods. Another factor behind these plans may be a sense of crisis that a business freeze or lockdown may no longer be economically sustainable. After lockdowns, countries have no choice but to give priority to economic survival as well as to infection expansion prevention. In each country, businesspersons and consumers have increasingly called for reopening business while balancing business with infection expansion prevention.

These plans have exerted some influence on crude oil prices. The front-month futures contract on West Texas Intermediate crude oil unusually went negative under special conditions on April 20, rebounded to $10.01 per barrel on the next day and remained above $10/bbl. From $12.34/bbl on April 24, however, it crept up and reached $20.39 on May 4, rising back above $20/bbl at last. The key WTI futures price later remained roughly in a 23-24/bbl range. This range is still low enough to cause a severe business environment for oil-producing economies and the international oil and gas industry. Behind the rally amid concerns about the price's slip below $10/bbl might have been the abovementioned plans to reopen business and relax or lift outing and movement restrictions.

Another potential factor may be record joint oil production cuts exceeding 10 million barrels per day by the Organization of the Petroleum Exporting Countries and non-OPEC oil-producing countries, which might have exerted some impact on the market. If without the joint production cuts, the international oil market might have plunged into a devastating crisis. In this sense, market players can never ignore the massive production cuts that can lead the international oil market to go in the direction of rebalancing. Nevertheless, the plans to reopen business and lift outing and movement restrictions might have exerted a greater impact on the market. However, the plans to reopen business and lift restrictions have just begun to be made, falling short of being implemented in a full-blown manner. The plans have thus exerted some influence only on hopes of market participants.

The impact of such hopes is also great. The biggest factor behind the crude oil price crash induced by unprecedented oil oversupply has been an oil demand plunge under the pandemic. Particularly, the oil demand loss on a dramatic decline in demand for fuel for transportation under lockdowns has exerted a huge impact. The pandemic is estimated to lead global oil demand to decline by 20 million bpd or more. Most of the demand loss is attributable to lockdowns (and a subsequent decline in business operations) (see the previous issue of A Japanese Perspective on the International Energy Landscape). The problem is that the present and future scale, strength and duration of lockdowns having a big impact are very uncertain. Depending on the scale, strength and duration, the oil demand decline would change dramatically.

This is the reason the plans made in late April and early May to reopen business and ease or lift outing and movement restrictions became a key factor triggering the upturn in crude oil prices. The plans have induced hopes that oil demand would rebound. In the future, it would be important to pay attention to the impact of such hopes. However, the impact the hopes would continue to have is uncertain.

First, the plans to reopen business and lift restrictions have just begun to be made, as noted above. The oil price rebound reflects hopes placed on the impact of actual business reopening and the real lifting of restrictions. As far as it is difficult to know how much oil demand has plunged due to lockdowns, we have difficulties in estimating how much oil demand would rise back on the business reopening and the lifting of the restrictions. In this sense, most market participants rely heavily on uncertain hopes or forecasts.

Second, many people call for being cautious about reopening business or lifting restrictions, leaving the future path uncertain. Each country is exploring business reopening while acknowledging that it should be balanced with prevention of COVID-19 infection expansion. If there is a sign that coronavirus infections are expanding again, plans to reopen business and lift restrictions would have to be decelerated. If a second wave of the pandemic comes, severe lockdowns would have to be reintroduced. If all things go well to allow business reopening and restriction lifting plans to be implemented steadily, however, oil demand would be expected to rebound steadily. Future developments depend on the future of the pandemic. No optimism can be warranted.

Third, we cannot ignore the impact of continuing oversupply and inventory accumulation while the plans to reopen business and lift restrictions have so far had a decisive impact on the market. If oil inventories grow further close to a global storage capacity limit, it may exert a great impact on market sentiment again.

In the future, we should closely watch pandemic developments and subsequent fluctuations in crude oil prices.

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