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OPEC-plus Group Required to Make Difficult Micro-Adjustment amid Uncertainties

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While crude oil prices hover around $70 per barrel, the OPEC-plus group that comprises the Organization of the Petroleum Exporting Countries and some non-OPEC oil-producing countries like Russia remains required to make difficult maneuvering to adjust oil production amid uncertainties about the future international oil market. The current prices are not at the excessively low levels seen under the grave impacts of the COVID-19 pandemic or high enough to gravely affect global economic growth. Even though falling short of balancing budgets in major oil-producing countries dependent on oil revenue, the current prices may be tolerable or acceptable for them in a sense. Their key challenge for the immediate future is to stabilize oil prices at the current levels while avoiding excessively low or high levels.

On September 1, the OPEC-plus group held an online ministerial conference and reaffirmed its plan as agreed at the previous ministerial meetings to increase oil production by 400,000 barrels per day each month. Before the conference, the United States, reluctant to see oil price hikes, called for expanding production further, leading market participants to pay attention to how the OPEC-plus group and its leader Saudi Arabia would respond. The OPEC-plus decision apparently indicates the group's attempt to stabilize the oil market by proceeding with a gradual production increase, while being cautious of accelerating the increase. In response, the benchmark West Texas Intermediate crude futures price rose by $0.09/bbl from the previous day to $68.59/bbl on September 1 and posted another hike of $1.4/bbl to $69.99/bbl on September 2. The key Brent futures price also rose by $1.44/bbl to $73.03/bbl on September 2.

Over the past several months, however, crude oil prices have fluctuated on various factors. They basically kept an uptrend from the beginning of this year before surpassing $70/bbl in June. Brent peaked at $77.16/bbl on July 5 and WTI at $75.25/bbl on July 13. Then, there emerged a view that a planned production cut reduction (production increase) could fail to work well due to a difference between Saudi Arabia and the United Arab Emirates over the coordinated OPEC-plus production cut, leading market players to speculate that crude oil prices would rise far beyond $80/bbl on a tightening supply-demand balance in the second half of this year and increase further close to $100/bbl in the event of some supply interruption. In fact, however, crude oil prices turned weak. The biggest factor behind the downturn was a compromise between Saudi Arabia and the UAE that indicated that the gradual OPEC-plus production increase would continue. The market then saw a temporary reactionary decline. As the market has restored its coolness, WTI has stabilized around $70/bbl since July 21.

Crude oil prices have basically stayed around $70/bbl since June. Since August, however, a new factor has been exerting influence on oil prices. That is a renewed global spread of COVID-19 infections, which has made an end to the pandemic uncertain and led to insecurity about global economic growth. A prevailing market sentiment since early 2021 had been that vaccination would make progress mainly in major industrial economies in a manner to decelerate the COVID-19 spread and indicate an end to the pandemic. Since August, however, new COVID-19 infections have substantially and remarkably increased in the United States, Europe, Japan and other Asian countries, dashing hopes that the pandemic would end. The renewed infection spread is attributed mainly to the emergence of Delta and other more infectious COVID-19 variants. Even people vaccinated twice have been infected in breakthrough cases, while vaccination progress has led people to feel secure and ignore basic infection prevention measures. These developments have begun to attract attention amid the renewed COVID-19 spread. Even at present, the promotion of vaccination and basic infection prevention measures is basically important. As vaccination decelerates after reaching a certain extent, COVID-19 infections are spreading again, making it difficult to foresee any end to the fight against the pandemic.

Amid the renewed global COVID-19 spread, destabilizing factors have arisen for the global economy. Some economies have reintroduced lockdowns and other strict regulations in the face of the renewed spread, making the balance uncertain between infection prevention measures and the resumption or enhancement of economic activities. The United States has so far seen robust economic developments including the Dow Jones industrial average's surge to new highs above 35,000. Given rising inflation fears' adverse impact on consumer confidence, however, it is pointed out that bearish views about the U.S. economy could emerge depending on future jobs data. Even in China that has driven demand growth in the global economy and international energy markets since 2020, concerns have emerged about economic growth. China overcame the impacts of the COVID-19 pandemic ahead of other countries and drove global economic growth until the first half of this year. Since July, however, Chinese economic data have indicated some unfavorable signs. Domestic consumption and investment growth have decelerated along with export growth, one of China's growth engines. The renewed COVID-19 spread has been cited as one of the factors behind these signs. August's purchasing managers' index for manufacturers fell to 50.1, close to the dividing line of 50 between economic expansion and contraction.

In such a situation, concerns have grown about the future course of the global economy and global oil demand. As a result, crude oil prices came under downward pressure in August, with WTI sinking to $62.32/bbl on August 20. Thanks to a later stock market upsurge behind growing hopes on economic expansion, however, crude oil prices rallied. These developments indicate that the crude oil market is rather fragile to shocks.

The OPEC-plus group considered the fragile market environment when making the latest decision. The market environment is not necessarily difficult for supply and demand adjustment by the OPEC-plus group as Iran's potential comeback to the international oil market and a potential U.S. shale oil production increase, which have attracted market participants as supply-boosting factors since early this year, have not been realized. However, demand has become difficult to predict. In the future, the two supply-boosting factors could be realized. Geopolitical insecurity could increase as the chaotic Afghan situation affects the Middle East situation. Although the U.S. Biden administration, which hopes to prevent crude oil and gasoline price hikes from affecting the U.S. economy and politics, has asked the OPEC-plus group and its leader Saudi Arabia to raise production, the current market situation requires the group to sensitively adjust supply and demand. This may be the reason the OPEC-plus group decided to retain the scheduled gradual oil production cut reduction and a wait-and-see attitude.

The OPEC-plus group launched a record coordinated oil production cut in May 2020 and has retained the coordinated cut while gradually reducing the cut over the past 16 months. However, it is significant for the group to keep crude oil prices around $70/bbl. Therefore, the group now has no option but to continue sensitive supply and demand adjustment. While watching the fragile market environment, the OPEC-plus group will have to continue the difficult, sensitive supply and demand adjustment from which the timing for exit is not foreseen.

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