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January-September 2022 Average Oil Prices at about $100/bbl up 51%

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Daily closing prices of the front-month contract for the benchmark Brent crude in the first nine months of 2022 averaged $102.46 per barrel, up $34.50/bbl or 51% from $67.96/bbl a year earlier. The average futures price for West Texas Intermediate, another benchmark crude, came to $98.25/bbl, up $33.20/bbl or 51% from $65.04/bbl. The average prices for the first nine months of the year stood at about $100/bbl for the first time in eight years since 2014.

The highest closing price in the first nine months of this year was $127.98/bbl for Brent and $123.70/bbl for WTI on March 8. Temporarily, both Brent and WTI prices rose above $130/bbl on March 7, hitting the highest levels since the global financial crisis. Brent topped $139/bbl then. The lowest price in the nine months was $78.98/bbl for Brent and $76.08/bbl for WTI on January 3. The WTI price sank to the second lowest level at $76.71/bbl on September 26. The gap between the highest and lowest levels in the nine months came to some $50/bbl, indicating wild fluctuations.

As a matter of course, the serious impacts of the Ukraine crisis have led to the high average crude oil prices at some $100/bbl and the highest prices since the global financial crisis. Crude oil prices followed an uptrend in the second half of 2021 and retained the trend in early 2022. Prices in the beginning of the year thus came to the lowest levels for the nine months. Later, prices rose further. In response to Russia's invasion into Ukraine on February 24, crude oil prices topped $100/bbl. As Western countries imposed tough economic sanctions on Russia, the United States in early March vowed to ban Russian energy imports. Canada and the United Kingdom followed suit. The news on their energy embargo on Russia hit the crude oil market. Geopolitical risks and supply insecurity pushed crude oil prices up to the abovementioned highs.

A week later, however, crude oil prices fell back below $100/bbl. This was because market players realized that the United States and Canada had imported little energy from Russia, meaning that their energy embargo on Russia would have no major impact on Russian crude oil supply. Leading to the highs above $130/bbl were initial shocks of the reported U.S. energy embargo on Russia. Later, the focus of attention shifted to how Europe, a key consumer of Russian crude oil, would react to the Russian invasion.

European and other Western countries initially adopted a Russian coal embargo to enhance Russia sanctions. Later, they began to consider an oil embargo that had been viewed as difficult initially. In May, the Group of Seven Western democracies decided on a Russian oil embargo. At the end of the month, the European Union announced an agreement to phase out Russian oil imports within 2022, with some exceptions. In response, crude oil prices hovered around $120/bbl in the first half of June, indicating serious impacts.

Later, however, crude oil prices declined gradually. The biggest factor behind the downturn was the deceleration of the global economy. As inflation accelerated in the United States and Europe due to spikes in crude oil and other energy prices as well as food prices, their monetary authorities continuously raised interest rates to counter inflation. The shift to monetary tightening exposed the global economy to downside risks, leading the International Monetary Fund to lower global economic growth projections every time when its "World Economic Outlook" was revised. The crude oil price weakness amid concern about the economic slowdown became clearer in July. Crude oil prices sank below $100/bbl in July and fell further below $90/bbl in August. After seesawing later, the WTI price slipped below $80/bbl in September. It hit the abovementioned second lowest closing level on September 26.

The global economic slowdown has been a basic factor behind the downtrend in crude oil prices. Regarding oil demand, growing concern about the economic trend of China as the world's largest oil importer has greatly contributed to the oil price downtrend. As oil-consuming countries increasingly called for more oil production in response to the oil price spikes until June, the OPEC-plus group of oil-producing countries at last decided on an additional production increase for July and August, exerting some influence on the market. After U.S. President Joe Biden visited Saudi Arabia in July to urge the oil kingdom to increase production, the OPEC-plus group decided to increase oil production by 0.1 million barrels per day from September. These developments exerted downside pressure on crude oil prices.

At the same time, however, crude oil price falls brought about a new development. The OPEC-plus group turned around its policy to cut production to support prices. After adopting a 0.1 million bpd production increase at its meeting in August, the group at the next meeting in September decided on a 0.1 million bpd cut to offset the increase. Although the size of the production cut was limited, the decision meant that the group reversed its policy of gradual production expansion after a sharp cut from May 2020. The focus of attention has shifted to whether crude oil prices would cease to weaken or turn up in response to the OPEC-plus policy shift.

In this way, speculative reports have emerged on the next OPEC-plus meeting on October 5, attracting attention from oil market players. Oil price moves may depend on the size of another production cut. While willing to support oil prices with an additional production cut, the group may be concerned that its excessive production cut would produce upward pressure on crude oil prices and meet strong opposition from major oil-consuming countries including the United States, European countries and Japan. Given that the U.S. Biden administration hopes to see stable crude oil (and gasoline) prices at low levels towards the midterm congressional election in November, oil-producing countries that must give consideration to relations with the United States may have to make a difficult decision.

However, we must take note of the fact that the global economic slowdown still exerts great influence on the oil market trend. In its next "World Economic Outlook" coming in October, the IMF may lower global economic growth projections again. Then, global oil demand projections may be revised downward. If the Chinese economy weakens further under the so-called "zero-corona" policy, downside pressure on oil prices may grow. The OPEC-plus group may prudently adjust production while watching the global oil demand trend.

Another turbulent factor for the oil market is related to Russia. A price cap on Russian crude oil, proposed by the United States at a G7 summit in June, is set to be introduced on December 5. While how the price cap would work is still uncertain, Russia has vowed to ban oil exports to countries adopting the price cap. As December approaches, we must pay attention to how the price cap would affect Russian oil supply. If gas prices shoot up in the European gas market where the supply-demand balance may tighten further in the coming winter after a sharp cut in Russian pipeline gas supply, demand for oil as an alternative to gas may increase in a manner to push up oil prices. Uncertainties regarding Russia may exert influence on crude oil prices. We will have to closely watch future developments regarding Russia.

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