Special Bulletin

A Japanese Perspective on the International Energy Landscape (303) December 22, 2016

Crude Oil Price Trend after OPEC Conference and Key Points for Future Outlook

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Crude oil futures prices have been seesawing in a narrow range since topping $50 per barrel after a ministerial conference of the Organization of the Petroleum Exporting Countries in late November. The front-month West Texas Intermediate futures contract rose from $45.23/bbl on November 29 to $51.79/bbl on December 5 in response to the OPEC production cut agreement at the conference. During the four-day winning streak, the key WTI futures contract posted an 18% increase. It fell back slightly later and rose back to $52.98/bbl on the announcement of non-OPEC oil producing countries' agreement on their coordinated production cut (about 560,000 barrels per day). Since then, the WTI futures contract has remained around $51-52/bbl, closing at $52.49/bbl on December 21.

Since the beginning of December, the WTI futures price remained in a range between a low of $49.77/bbl and a high of $52.98/bbl. Its rise has come to a temporary lull in a narrow range just above $50/bbl. Basically, OPEC and non-OPEC production cut agreements have supported the bottom of the range, while skepticism about oil producing countries' future compliance with the agreements and a forecast increase in U.S. shale oil production after the price hike have capped the hike.

The market has seen OPEC and non-OPEC coordinated production cuts as of significance. Although caution must be exercised with regard to whether the production cut agreements could be complied with as described later, the total production cut of 1.8 million bpd -- 1.2 million bpd for the OPEC agreement and 560,000 bpd for the non-OPEC agreement -- amounts to about 2% of global supply and is significant if compared with the average global supply surplus of about 600,000 bpd in the first three quarters of 2016. Moreover, OPEC achieved "surprise" agreements at its extraordinary meeting in Algeria in September and its regular ministerial conference in November, exerting a great impact on the market.

Behind the unexpected production cut agreements might have been oil producing countries' severe economic conditions under prolonged crude oil price weakness. Oil market participants apparently believe that oil producing countries were thirsty for a production cut agreement and tried to achieve such agreement with strong determination. More important is the fact that Saudi Arabia has served as effective coordinator of the agreements. It is noteworthy that the OPEC leader that has played the most important role as supply and demand coordinator in the international oil market switched from its policy of maintaining its market share to a new policy of orchestrating a coordinated production cut agreement. The most important point in the future will be how Saudi Arabia would respond when the coordinated production cut agreements are tested by the market.

Meanwhile, skepticism about compliance with the coordinated production cut is a realistic downward pressure factor for crude oil prices. As pointed out by many experts, Nigeria and Libya, excepted from country-by-country quota of the OPEC coordinated production cut, have potential to recover and expand crude oil production depending on security improvements. Attention must be paid to future production by Iraq and Iran on which production quotas have been imposed after their substantial expansion of oil production. Given the past records, it is very uncertain whether Russia would comply with the production cut agreement after pledging a 300,000 bpd production cut, the largest among non-OPEC oil producing countries.

OPEC's production target as from January is given at 32.5 million bpd. Given the above skepticism, however, there is no guarantee that actual production would remain at or below the target. If actual production exceeds the target and remains around 33 million bpd, the elimination of a supply excess will make little progress in the first half of 2017. Depending on a U.S. shale oil production increase or the emergence of world economic or political risks, oversupply could be prolonged. In this sense, whether oil producing countries will actually comply with the coordinated production cut will attract market attention.

As another downward pressure factor for oil prices, the presence of U.S. shale oil is also important. The number of operating U.S. oil-drilling rigs has already turned upward, indicating that U.S. oil production is hitting bottom. Amid the weakness of oil prices since the second half of 2014, the U.S. shale oil industry has streamlined itself and grown leaner by concentrating production at wells or regions with high productivity and cutting costs for the whole of supply chains. If crude oil prices rise further after topping $50/bbl, U.S. shale oil production may be revitalized. Also supporting U.S. shales oil production will be deregulation of shale oil and gas production and development, the promotion of supply infrastructure investment and the opening of federal oil concessions under new President Donald Trump to be inaugurated in early 2017. Given a time lag, these policies may have no immediate effect on oil production. However, they may influence market sentiment earlier.

In predicting the future market, we must also pay attention to how long the U.S. economy will continue to be robust after the present Trump Rally, how negotiations will be made on the United Kingdom's exit from the European Union, known as Brexit (whether Brexit would make a hard landing), and how China and other emerging economies would perform. Attention-attracting political factors include the Trump administration's foreign policy and its impacts, national elections in major European countries and others that could affect world stability. These macro factors are very important for predicting future crude oil prices.

Undoubtedly, the international oil market will slowly go in the direction of rebalancing (the elimination of oversupply), although views are divided over the speed and degree of the rebalancing. The abovementioned factors will greatly influence the speed and degree of the rebalancing. For the immediate future, crude oil prices are likely to remain in a narrow range between $50/bbl and $55/bbl. If OPEC and non-OPEC coordinated production cuts succeed in buying time, crude oil prices may follow an upward trend in the market going in the direction of rebalancing. In such case, crude oil prices may rise to a $55-60/bbl range in the second half or at the end of 2017. However, various factors are working to influence crude oil prices. Given that it will remain difficult to forecast the future market, I would like to remain alert to future developments.

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