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Brent Crude Price Averages $60.2/bbl Remaining Stable in January 2019

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In the first month of 2019, daily closing prices of front-month crude oil futures contracts averaged $60.24 per barrel for Brent and $51.55 for West Texas Intermediate. In the second and later weeks of January, particularly, Brent remained in a narrow range around $60/bbl, marking quiet, moderate fluctuations for the beginning of 2019.

In January 2018 one year ago, the average price came at $69.08/bbl for Brent and $63.66/bbl for WTI, some $10/bbl higher than in January 2019. As crude oil futures prices were rising from late 2017, Brent topped $70/bbl for the first time in more than three years in the middle of January 2018, attracting global attention. Crude oil prices thus started this year more quietly. Compared with the 2018 annual average prices of $71.68/bbl for Brent and $64.90/bbl for WTI, the January 2019 averages were over $10/bbl lower.

However, the January 2019 trend can be viewed from a different angle. In short, the month's trend can be characterized as a temporary lull following a downtrend. After peaking above $86/bbl last October, Brent plunged into a downtrend. As the downtrend accelerated in December, particularly, Brent sank to the year's low of $50.47/bbl on December 24, threatening to slip below the psychologically important barrier of $50/bbl.

Factors behind the plunge included (1) downward pressure of the loosening supply-demand balance symbolized by growing oil inventories and (2) global economic risks represented by uncertainties about the future course of the global economy. While oil demand was growing smoothly amid global economic growth, contributors to the first factor included a substantial increase in U.S. oil production centering on the rapid increase in shale oil output, OPEC-plus oil producing countries' effective switching to a production expansion in the second half of 2018 and the U.S. Trump administration's decision to provide a temporary waiver from the Iran oil embargo and allow Iranian oil exports to be sustained.

However, the second factor exerted greater influence on market participants' sentiment. In a manner to symbolize a sign of decline in the U.S. economy after a robust expansion, the U.S. stock market sporadically crashed, triggering global stock market declines. The 30-issue Dow Jones industrial average on the New York Stock Exchange dived from levels above 25,000 in early December to the year's low of 21,792 on December 24 when Brent also fell to the 2018 low. Factors behind growing concerns about the future course of the U.S. economy include not only interest rate hikes and a cyclical downturn after a long economic expansion but also the escalating U.S.-China trade war that is expected to greatly affect the U.S. economy.

In such situation, OPEC-plus oil producing countries led by Saudi Arabia had no choice but to come up with a decision to cut their coordinated production by 1.2 million barrels per day from January 2019 at their meeting on December 7. Under the continued downward pressure on crude oil prices, the production cut to adjust the supply-demand balance was indispensable. Even after the OPEC-plus decision, however, oil prices failed to be stabilized immediately. As noted above, crude oil prices even accelerated their downtrend toward late December. Therefore, it can be concluded that concerns about global economic risks had exerted greater influence on the crude oil futures market than the then ongoing supply-demand trend. In today's crude oil futures market, a downward or upward momentum frequently accelerates a decline or rise, leading to an overshoot. The December 2018 development might have represented such an overshoot.

In response to global economic risks symbolized by stock market crashes and concerns over the future course of the U.S. economy, the United States has sought to modify monetary policy. On January 4, the U.S. Federal Reserve Board indicated that it was ready to flexibly modify its policy of raising interest rates in consideration of current U.S. and global economic conditions. After a meeting of its Federal Open Market Committee on January 30, the Fed suggested that it would be patient when determining whether to raise interest rates, refrain from any hasty decision and suspend its policy of raising rates, making a monetary policy change clearer. The U.S. central bank thus demonstrated its attitude of giving priority to current economic conditions under pressure from the market.

In response, the stock market ended a downtrend and indicated some stabilization. After weakening in early January on the downward revision of earnings forecasts by Apple and other companies affected by sluggish business operations in China, the U.S. stock market restored stability. Encouraged by the abovementioned monetary policy change, the Dow Jones average rose gradually, exceeding 25,000 on January 30. As for the U.S.-China trade war, a major factor behind global economic risks, U.S. President Donald Trump in a Twitter message said Washington was getting along with China well at their bilateral structural talks launched early in January. Such relatively positive messages have contributed to stabilizing the stock market.

The abovementioned global economic conditions were reflected in the stable crude oil futures prices in January. After an overshoot late last year, the crude oil futures market restored stability and entered a lull amid a wait-and-see mood.

As indicated by the phrase "a temporary lull," however, there is no guarantee that the current stability would be retained long. Even in the oil market that has restored stability, players are looking for new clues to trading. Depending on the clues, the market could rise or fall rapidly. Regarding macroeconomic conditions that have brought about the present stability, the fate of the U.S.-China trade war is important. The Washington-Beijing structural talks are reaching a crucial stage in February. Depending on their achievements or results, global economic outlooks will change greatly. While the monetary policy change supports the economy over a short term, how to harmonize the current policy with the Fed's priority of maintaining sound economic growth over a long term will become a challenge. Attention must also be paid to how the U.S. government shutdown that lasted for more than one month would affect the U.S. economy.

In February, facts regarding the OPEC-plus oil producing countries' 1.2 million bpd production cut from January will become available. Market players will pay attention to whether the

production cut would be enough regarding the facts and the market supply-demand balance. In the run-up to the expiration of the 180-day waiver from the Iran oil embargo, the future course of Iranian crude oil exports will attract attention in the market. At the same time, the future course of U.S. shale oil production expansion in the current oil price environment will grow clearer. As a matter of course, we will have to keep close watch on sudden or unexpected disruptions to oil supply. I would like to pay much attention to whether the market would retain the current stability or move in a new direction.

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