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Brent Rose Back above $70/bbl for the 1st Time in 5 Months

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Crude oil prices have gradually risen back. On April 5, the front-month Brent crude oil futures contract closed at $70.34 per barrel, topping $70/bbl for the first time in five months, since last November 12. It remained above the level later and hit a year-to-date high of $71.73/bbl on April 10.

Crude oil prices entered a downtrend early last October and accelerated their fall in December. On December 24, Brent sank to last year's low of $50.47/bbl. Behind the rapid crude oil price fall were a large increase in U.S. shale oil production, a switch from a concerted production cut to an expansion by the Organization of the Petroleum Exporting Countries and some non-OPEC oil producing countries, and growing concern about global economic risks under the escalation of the U.S.-China trade war. Fearing that these factors could further loosen the oil supply-demand balance to trigger a further price fall, the OPEC-plus group at its meeting in December decided to cut production by 1.2 million barrels per day from the beginning of 2019. Rapid crude oil price falls and concern about further drops forced these oil producing countries to change their policy again.

As the OPEC-plus group implemented the production cut from the beginning of 2019, crude oil prices bottomed out and entered an uptrend. Brent rose back above $60/bbl as early as in January and went up from a $60-65/bbl range to a $65-70/bbl range. In a similar manner, the front-month West Texas Intermediate crude oil futures rose back above $50/bbl in January from the bottom of $42.53/bbl late last year, remained in a $55-60/bbl range from February and topped $60/bbl in late March. Both Brent and WTI soared by about $20/bbl in nearly fourth months from their respective bottoms late last year.

Factors behind the crude oil price hikes are not limited to the implementation and continuation of the OPEC-plus production cut. Important among the other factors is robust growth in global oil demand. The latest monthly oil market report by the International Energy Agency projects global oil demand in 2019 to post a robust increase of 1.4% or 1.39 million barrels per day to 100.6 million bpd. Oil demand growth centers on China, India and Southeast Asia. Non-OECD Asian countries account for 61% of global oil demand growth. Among major factors behind the rapid oil price fall late last year was concern about global economic risks. Oil demand growth was then feared to slow down on economic deceleration. Particularly, the escalation of the U.S.-China trade war led oil market players then to grow conscious that a serious economic slowdown in China would substantially decelerate global oil demand growth, contributing much to the oil price fall.

Global economic risks still exist, leading market players to remain concerned. The Chinese and U.S. economies are plagued with deceleration risks, with uncertainties lingering about British and other European economies due to Brexit being left in the balance. At present, however, the global economy is still growing at cruising speed. The United States and China are expected to reach some agreement over a short term to avoid economic deceleration or deterioration, although it is seen as difficult for them to fundamentally resolve their structural confrontation over technological supremacy. In this sense, global economic risks, though existing, remain short of shaking the market.

While oil demand continues robust growth, global oil supply follows a downtrend. Global oil supply in March 2019 decreased by 0.34 million bpd from the previous month to 99.16 million bpd, according to the IEA. The March supply represented a decline of nearly 1 million bpd from January's 100.1 million bpd. The drop from January included 0.12 million bpd for non-OPEC oil producing countries and 0.82 million bpd for OPEC. The OPEC supply fall was remarkable. Among non-OPEC oil producing countries, the United States is still expanding production, with its production growth forecast at as much as 1.59 million bpd for 2019. This means that non-OPEC oil producing countries other than the United States are reducing production.

However, the OPEC production cut has been attracting attention. Venezuela has played a central role in the OPEC production cut from January, reducing March production by 0.37 million bpd from January to 0.87 million bpd. Its production has thus slipped below 1 million bpd at last while its domestic politics has been bogged down, with the international situation confused over U.S. economic sanctions and support for or opposition to the current Venezuelan regime. A large-scale blackout in March has seriously affected citizens' daily lives and economic activities including oil industry operations. Political, economic and social confusion is accelerating an oil production decline in Venezuela.

Another central player in the OPEC production cut is Saudi Arabia, which reduced March production to 9.82 million bpd, the lowest in two years since early 2017. Its production cut from January to March came to 0.42 million bpd, the largest among OPEC members. As leader of the OPEC-plus production cut since the beginning of this year, Saudi Arabia has implemented its production reduction with a strategic determination to adjust supply and demand in the international oil market and support crude oil prices. While the total production cut by Saudi Arabia and Venezuela exceeded an overall OPEC production fall, factors behind the two countries' production drops differ as mentioned above. Particularly, Saudi Arabia's substantial production cut indicates that the maintenance and stabilization of crude oil prices is very important for the oil kingdom.

As far as the present market environment and supply and demand conditions remain unchanged, crude oil prices are likely to remain firm. Late last year, the Institute of Energy Economics, Japan, projected the Brent price to average \$65/bbl in the first half of this year and \$70/bbl in the second half in its international oil market and crude oil price outlook. The actual price has so far followed or slightly exceeded our forecast. However, no optimism can be warranted about future developments.

First, we must take note of global economic risks. As mentioned above, the risks are seen by market participants but have fallen short of shaking the market. Attention should be paid to future U.S. and Chinese economic trends. Particularly, the future course of the Chinese economy that greatly influences demand for oil and other commodities must be closely watched. Geopolitical developments in Venezuela, Libya and other oil producing countries and their influence on oil supply could rattle the market. Regarding geopolitics, we must also pay attention to how a waiver on Iran economic sanctions would be treated. The international oil market and crude oil prices could move depending on how U.S. President Donald Trump would try to balance his tough stance on Iran with his policy of holding down gasoline prices for America voters toward the next presidential election. The fate of the U.S.-China trade war, Western economic sanctions on Russia, the Middle Eastern situation including the Iran problem, U.S. President Trump's Twitter intervention in OPEC policies and other geopolitical and international developments regarding the international oil market may continue to exert great influence on crude oil prices.

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