Special Bulletin

A Japanese Perspective on the International Energy Landscape (454) November 15, 2019

Crude Oil Prices Rising Moderately since October

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Crude oil prices have followed a moderate uptrend while seesawing in the first half of this year's fourth quarter. The benchmark West Texas Intermediate crude futures price crept up from $52.45 per barrel on October 3 to more than $55/bbl in late October and has remained around $56-57/bbl. The Brent futures price, another benchmark, rose from $57/bbl in early October to more than $60 in late October before staying around $61-62/bbl. These prices, though keeping up a gradual uptrend, have thus remained relatively stable without any major fluctuations
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The relative stability came after steep fluctuations in September. Particularly, crude oil prices shot up by more than $10/bbl in a manner to attract global attention soon after attacks on Saudi Arabia's core oil facilities in Abqaiq and Khurais forced the oil kingdom to cut oil production by 5.7 million barrels per day. Although growing tensions in the Middle East and the large-scale oil supply disruption were feared to push up crude oil prices steeply, Saudi Arabia put an end to the supply disruption promptly through full restoration efforts and recovered normal supply in early October, allowing the oil market to regain stability. As concern about any long supply disruption was cleared up, crude oil prices at the start of the fourth quarter on October slipped below levels seen before the attack.

Over one and a half months after the market restored stability by overcoming concern about geopolitical risks, crude oil prices have moderately increased. The largest factor behind the moderate uptrend may be that market participants expect global economy risks to recede slightly. As I have reiterated, two major factors have exerted conflicting pressures on the oil market in the past one to two years. Geopolitical risks have imposed an upward pressure against a downward pressure exerted by global economy risks. Amid a tug of war between the two factors, oil prices have risen on the former's dominance, declined on the latter's and remained stable during an antagonism between the two factors. This basic trend remains unchanged. In a new development, however, global economy risks that work to push down crude oil prices have slightly weakened, leading these prices to moderately rise.

As a matter of course, global economy risks have not been cleared up. As noted later, the future course of the U.S.-China trade war is still uncertain, though with moves seen toward some agreement. Uncertainties still exist over the United Kingdom's exit from the European Union, known as Brexit. No optimism can be warranted over the two issues. In its World Economic Outlook released in October, the International Monetary Fund revised its 2019 global economic growth projection by 0.2 percentage points downward from 3.0% in the previous outlook (released in July). From the October 2018 outlook, the projection has been lowered by 0.7 points to the lowest level since the 2008 global financial crisis. In this sense, concern about the future of the world economy is still lingering among market participants.

Regarding the U.S.-China trade war, the largest factor among global economic risks, however, the United States refrained from implementing a plan to impose additional tariffs on Chinese imports on October 15 as bilateral ministerial talks on October 10-11 resulted in China's offer to substantially expand farm imports from the United States and made progress in negotiations over China's alleged theft of intellectual property, financial services and foreign exchange policy. The development represented a "Phase 1 deal" on a partial framework toward a trade war ceasefire. In response, U.S. President Donald Trump said that the trade war was approaching its end. These developments led market participants to reverse their concern about the intensification of the trade war and expect the resolution of the war.

Reflecting such market sentiment change, stock prices as a harbinger of future economic trends turned upward. The Dow Jones industrial average on the New York Stock Exchange rallied from 26,079 on October 2 to more than 27,000 on October 15 in response to the "Phase 1 deal" and hopes of an easing trade war and crept up while seesawing. On November 4, it rose to 27,462 hitting a record high for the first time since last July. The stock average continued to rewrite its record high, reaching 27,784 on November 13. As a matter of course, the robust U.S. economy, brisk corporate earnings and hopes of accommodative monetary policy have also contributed to the stock market upsurge. However, the development regarding the U.S.-China trade war as the greatest factor behind the economic slowdown risk might have been the largest contributor to the stock market upsurge. Stock price hikes might have pushed up crude oil prices by easing concern about the global economic slowdown risk. At the same time, the hikes might have induced buying of crude oil futures by helping to expand money inflow into risk assets.

The Brexit issue, another factor behind global economy risks, has also entered a new stage in October. British Prime Minister Boris Johnson, who had vowed to exit from the European Union on October 31 even without agreement with the EU, agreed with the union on the modification of conditions for the exit on October 17. The last-minute agreement tentatively avoided the chaos of a Brexit without agreement and led the world to watch the results of a general election on December 12 for which a measure was passed by the British Parliament. In consideration of the planned British general election, the EU has extended the Brexit deadline until the end of January 2020. In this sense, any chaos regarding Brexit has been avoided for the immediate future, despite uncertainties lingering about the election results, contributing to easing global economy risks.

At present, however, we must pay attention to the fact that global economic risks, though having been eased for the immediate future, still exist. Uncertainties are left not only about the abovementioned Brexit but also about the U.S.-China trade war. This is the reason the market was shaken by President Trump's remark denying any agreement with China in response to China's announcement that the two countries agreed to lower tariffs in phases. Depending on U.S.-China bargaining and developments in a run-up to the final agreement, as well as the fate of Brexit, market players' expectations and speculations regarding the future course of the world economy could change. Global economy risks remain the most important factor in anticipating future crude oil price changes.

Undoubtedly, future developments regarding the Middle East and geopolitical risks, another major factor, would also exert influence on the crude oil price trend. Naturally, we must also watch the overall oil supply-demand balance and relevant factors such as future growth in U.S. shale oil production, supply problems in other major oil producing countries like Venezuela, Libya and Nigeria, and the future oil production policy of the Organization of the Petroleum Exporting Countries and some non-OPEC oil producing countries. While crude oil prices follow a moderate uptrend in the absence of major developments for the immediate future, we must carefully watch market conditions without any prejudgment.

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