Special Bulletin

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Brent Down 34% to $42.52/bbl in January-September 2020

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The average front-month futures contract price for the benchmark Brent crude oil stood at $42.52 per barrel in the first nine months of this year on a daily closing price basis, down $22/bbl or 34% from $64.73/bbl in the same period of 2019. The average key futures price for the other benchmark crude oil of West Texas Intermediate in the period came to $38.21/bbl, down $19/bbl or 33% from $57.10/bbl. January-September oil prices thus plunged year on year.

The key Brent futures price peaked at $68.91/bbl on January 6 and bottomed at $19.33/bbl on April 21. WTI peaked at $63.27/bbl on January 6 and bottomed at a negative $37.63/bbl on April 20. The fluctuation range came to about $50/bbl for Brent and as much as $100/bbl for WTI that plunged into negative territory for the first time ever due to special futures trading conditions.

As a matter of course, the impacts of the COVID-19 pandemic were the biggest factor behind the substantial drops in average oil prices and the wide fluctuation ranges caused by extremely low bottom prices including the first-ever negative price. As the pandemic's impacts grew clearer in the second half of January, crude oil prices entered a downtrend. When the impacts dramatically expanded, these prices crashed. The international oil market in 2020 thus saw a great turbulence as oil prices opened the year at high levels above $60/bbl amid growing concerns on a U.S.-Iran military clash and crashed to the lows in April under the impacts of the pandemic.

The extremely low oil prices including the negative one triggered various reactions from the international oil market. They include oil-producing countries' strategic oil supply cuts to respond to the low prices, a decline in high-cost oil supply under the function of economic fundamentals, and the demand side's exploitation of low oil prices. While oil prices were falling under the impacts of the pandemic, an oil production reduction regime of the Organization of the Petroleum Exporting Countries and some non-OPEC oil-producing countries collapsed due to Saudi Arabia's differences with Russia in strategies and speculations and triggered a price war including a free fall. However, the extremely low oil prices prompted the OPEC-plus group to acknowledge that it had no choice but to rebuild the oil production reduction regime. From May, the group implemented a record oil production cut of 9.7 million barrels per day. U.S. shale oil production, which represents high-cost oil, declined rapidly as oil prices plunged below break-even points for many U.S. shale oil producers. A U.S. oil production projection has been revised down by 1.7 million bpd from the pre-pandemic level. On the demand side, business reopening and the relaxation or removal of lockdowns from May helped global oil demand to moderately rebound after a sharp drop. China's oil demand expanded robustly as it successfully and quickly contained the pandemic. Particularly, China took advantage of low oil prices to accumulate strategic oil reserves under development, bringing about additional demand contributing to absorbing oversupply.

Crude oil prices entered an uptrend in May after lows in April. Brent rose back above $40/bbl in June, followed by WTI. Market reactions to the extremely low prices played a key role in allowing prices to recover. This development is symbolized by the oil market adage of “The best cure for low prices is low prices themselves” (low prices can be replaced with high prices).

Since their rebound above $40/bbl in June, however, oil prices have been boxed in a narrow range. After the six months in which they spiked, crashed, and rose back, the oil market has remained calm. The quarterly average price of wildly fluctuating WTI came to $45.78/bbl in the first quarter, $28.00/bbl in the second, and $40.92/bbl in the third. WTI thus rose to a high, sank to a low, and recovered. After fluctuating wildly in the first and second quarters, WTI seesawed around $40/bbl in the third quarter.

As a matter of course, various factors pushed oil prices up or down in the third quarter. Attracting attention in the quarter were growing hopes on a global economic pickup and a subsequent stock market hike, which exerted a certain impact on crude oil prices. The global economy, though seen as in the worst situation since the Great Depression, has been recovering from the most ever dramatic contraction in the second quarter. The problem is the uncertainty over how strong or rapid the recovery will be. In such situation, crude oil prices are rising or falling in response to stock market changes mirroring economic conditions. Stock price hikes lead to an oil demand increase through hopes on a real economic recovery and to a “risk-on” situation where buying hits crude oil futures as risky assets. (Stock price falls bring about a reverse effect.)

As the fate of the pandemic exerts great influence on future global economic conditions, latest information and concerns regarding pandemic conditions including the second or third waves of infections are having effects on crude oil prices. As COVID-19 infections began to increase again in Europe in September, concerns are growing about serious effects of the second wave. As daily numbers of new infections reached record-high levels in Spain, France, and the United Kingdom, they were moving to reintroduce travel restrictions or lockdowns. These moves have been working to push down oil prices. Pandemic conditions and latest relevant news will continue to move the economy, society, stock prices, and crude oil prices. In a symbolic development in early October, U.S. President Donald Trump was infected with COVID-19 and hospitalized, leading stock and crude oil prices to decline. After President Trump was discharged, stock and crude oil prices rose back. The fate of the pandemic will continue to exert great influence on the global economy and people’s lives and on oil demand and prices.

In such situation, the OPEC-plus group will maintain its oil production adjustment while watching U.S. shale oil production that seems to have seemingly stopped a downtrend in response to oil prices’ rebound above $40/bbl. At present, the OPEC-plus group has no choice but to retain the production cut while making small adjustments to market changes. The group apparently hopes that the pandemic would end as early as possible to put global oil demand on a path of steady recovery. However, the impacts of the pandemic are expected to be prolonged. The pandemic has led oil-producing countries to become concerned that economic and lifestyle transformations could suppress oil demand growth and that oil demand could be affected by the acceleration of decarbonization initiatives for an economic recovery from the COVID-19 disaster. The situation will remain difficult and severe for the OPEC-plus group.

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