Special Bulletin

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# Crude Oil Prices Average about $80/bbl in January-September 2023, Off $20/bbl

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Daily closing prices of the front-month futures contract for the benchmark Brent crude in the first three quarters of 2023 averaged $81.92 per barrel, down $20.55/bbl or 20% from a year earlier. The average futures price for West Texas Intermediate, another benchmark crude, also fell by $20.97/bbl or 21% to $77.28/bbl. The averages around $80/bbl are not so low. Compared with the averages around $100/bbl in the same period last year including a high-price period following the beginning of the Ukraine crisis, however, the averages around $80/bbl indicate that the market has regained some calm.

The highest price in the first nine months of 2023 was $96.55/bbl for Brent and $93.68/bbl for WTI on September 27. The lowest was $71.84/bbl for Brent on June 12 and $66.74/bbl for WTI on March 17. The difference between the highest and lowest prices was $25-27/bbl, indicating considerably wild price fluctuations.

Crude oil prices started 2023 at around $80/bbl close to the January-September averages. They remained in a $70-90/bbl range as a global economic slowdown exerted downside pressure on them. Occasionally, they dropped close to $70/bbl. WTI slipped below $70/bbl frequently.

In this seemingly weak market, the OPEC-plus group of oil-producing countries supported prices through their coordinated production cuts. The Organization of the Petroleum Exporting Countries led by Saudi Arabia and non-OPEC major oil producers such as Russia formed the OPEC-plus group in response to crude oil price plunges in 2016 and have continuously implemented coordinated production cuts to counter crude oil price falls amid twists and turns. Since embarking on one of the largest-ever coordinated production cuts in response to the unprecedentedly large-scale oversupply and price crash under the COVID-19 crisis in 2020, the group has continued to play an important role in supporting crude oil prices.

Throughout the first half of 2023, the OPEC-plus group supported crude oil prices by enhancing and extending coordinated production cuts. If this OPEC-plus function had not existed, in my view, crude oil prices could have fallen to considerably lower levels during this period. Through the recent OPEC-plus initiatives, market participants have recognized that the OPEC-plus group led by Saudi Arabia would continue to take timely actions flexibly to support crude oil prices and that the oil-producing countries have been increasing their preference for price-defending measures and high prices, instead of accepting low prices. It is important that the recognition has been spreading and deepening.

As OPEC-plus production cuts continued, global oil demand kept increasing steadily, leading oil market players to believe that oversupply in the international oil market would turn into overdemand in the second quarter of 2023 before overdemand increases further in the second half of the year. Then, the OPEC-plus group decided to extend the coordinated production cuts until the end of 2024 and announced that Saudi Arabia would voluntarily implement additional production cuts totaling 1 million barrels per day from July, joined by other producers to implement voluntary cut. Furthermore, Saudi Arabia and Russia in early September made surprise announcements that they would extend their voluntary additional production cuts until the end of the year, prompting market players to become more interested in OPEC-plus and Saudi Arabian actions.

Crude oil prices reacted sharply to these developments. From July, crude oil prices entered an uptrend. After hovering around $70/bbl, they rose above $80/bb in the second half of July and crept up. In September, crude oil prices soared above $90/bbl as Saudi Arabia and Russia announced to extend their voluntary production cuts. As noted above, market players' awareness of potential overdemand in the international oil market regarding demand and supply fundamentals in the second half of 2023 was combined with the "surprise" Saudi Arabian and Russian announcements on the extension of voluntary production cuts to push crude oil prices up above $90/bbl.

Then, some market players predicted that crude oil prices in response to these developments would rise above $95/bbl and approach the $100/bbl level. Once the short-term market response has accelerated, prices often move in an overreaction. In this context, further price increases were considered quite possible. Actually, however, the market showed no such simple movement. There was no doubt that the extension of voluntary production cuts by Saudi Arabia and Russia was the main factor behind crude oil prices' rise above $90/bbl, but I thought that the market would need additional factors for prices to rise further after the effect of the voluntary production cuts on the market was consumed when oil prices exceeded $90/bbl. Potential additional factors may include severe winter temperatures and unexpected oil supply disruptions. I thought that if market players saw no such developments and became aware of potential oil demand deceleration on a global economic slowdown including the possible deterioration of the Chinese economy, crude oil prices would come under downside pressure again.

Since the beginning of October, crude oil prices have come under strong downside pressure. After remaining above $90/bbl until late September, WTI fell below $90/bbl on October 2. On October 4, Brent plunged by $5/bbl from the previous day, slipping below $90/bbl. On October 5, Brent and WTI closed at $84.07/bbl and $82.31/bbl, respectively, losing more than $8/bbl from the end of September. The rapid fall in early October followed the steep rally above $90/bbl in September, indicating great volatility in crude oil prices.

Behind the volatile price movement is a major perception change regarding the anticipation of oil supply and demand fundamentals. While a significant overdemand in the international oil market is expected in the second half of 2023 as noted above, many market players expect that the overdemand may turn into an oversupply in the first half of 2024. This is because non-OPEC oil production is expected to increase steadily even amid slowing growth in global oil demand. Since the supply-demand balance is expected to change significantly from the second half of 2023 to the first half of 2024, it is possible to have wild fluctuation in crude oil prices. In this sense, crude oil prices in October indicate a strong awareness of factors for selling, such as the slowdown in the global economy and the sluggish Chinese economy.

Under these circumstances, the market's attention may once again turn to the OPEC-plus group and Saudi Arabia. At the current price levels, there seem to be no particular developments regarding the production cut. If downside pressure factors grow even stronger, however, market players may be interested in what actions oil-producing countries would take. There may even be market developments that test the moves of the OPEC-plus group and Saudi Arabia, which have been supporting oil prices. In that sense, it is still too early to judge whether the decline in the market since the beginning of October will be rooted. In the crude oil market, which is considered to have established price levels for support by oil-producing countries' production cuts, I believe that crude prices may stay mainly in a $80-90/bbl range and rise or fall by up to $10/bbl from the range depending on global economic changes, winter temperatures, and unexpected oil supply interruptions. Given the significant impact of crude oil price changes on the global economy and on social conditions and livelihoods in major countries, including Japan, future developments in crude oil prices will continue to be closely watched.

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