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January-April Average at $62.31/bbl for Brent, $59.05/bbl for WTI

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The average daily closing price of the front-month futures contract from January through April 2021 came to $62.31 per barrel for Brent and $59.05/bbl for West Texas Intermediate. From the same period last year, Brent rose by $17.47/bbl or 39% and WTI by $20.63/bbl or 54%. The highest price in the four months stood at $69.63/bbl for Brent on March 11 and at $66.09/bbl for WTI on March 5. The lowest was $51.09/bbl for Brent and $47.62/bbl for WTI on January 4. The gap between the highest and lowest levels came to about $18/bbl for both Brent and WTI, indicating that their prices fluctuated within a fairly wide range.

Compared with the peak and bottom levels in the same period last year, however, WTI posted an extremely steep increase of about $100/bbl from the abnormal level of minus $37.63/bbl, the first ever negative price, on April 20 last year. Brent scored a rise of about $50/bbl. Price fluctuations in the first four months of this year were far more moderate than in the past one year. In the four months, oil futures prices continued a moderate uptrend from the lows on the first trading day of this year. Brent rose back above $60/bbl on February 8 and retained an uptrend for one month until hitting the high of $69.63/bbl on March 11. It fell back to $61.95/bbl on March 25 before rallying above $65/bbl in mid-April. Since February 8, Brent has stayed above $60/bbl, indicating an extremely stable price trend.

Various factors have been present behind the oil price trend. I think that the key phrase would be the delicate balance of various market-moving forces.

First, we must pay attention to forces regarding a global economic recovery. Undoubtedly, the global economy has been recovering from the grave damage inflicted by the COVID-19 catastrophe. While the damage and recovery have differed by country or region, the global economy is destined to post positive growth in 2021 in a recovery from a 3.3% contraction in the previous year. In a manner to reaffirm the recovery trend, global economic growth projections for 2021 have been revised upward. In an update in April to its World Economic Outlook published in January, the International Monetary Fund raised its global economic growth projection from 5.5% to 6.0% for 2021. The global economic recovery has undoubtedly contributed to pushing up and supporting oil prices since the beginning of the year.

The global economic recovery and the upward revision of economic growth projections have been closely linked to a departure from COVID-19. In a symbolic development, the spread of vaccination and hopes on its effects has brought about a bright outlook for the global economic recovery. In reality, however, the world still sees the serious impacts of the third or fourth COVID-19 infection waves. In Japan, Europe and India, the situation has remained serious. While vaccination has made progress, the serious spread of COVID-19 infections has continued with no sign of an end to the pandemic seen. This is one of the drags on the global economy and the crude oil market.

From a different perspective, the impacts of unprecedented fiscal expansion and monetary easing that have played a key role in the global economic recovery are important. In a bid to reconstruct their economies devastated by the COVID-19 pandemic, countries have continued unparalleled fiscal expansion and monetary easing, which have successfully allowed the global economy to get on a recovery path. At the same time, markets have been flooded with money, leading massive money to flow into risk asset markets. The economic recovery and massive money inflow have allowed stock markets to continue an uptrend. On the New York stock exchange, the Dow Jones industrial average has retained an uptrend, rising from around 30,000 at the beginning of the year to levels above 34,000 in the second half of April. It has continued to rewrite its record high. Massive money inflow has been seen not only in stock markets but also in other risk asset markets including crude oil futures markets. The crude oil price hike in the first four months of this year has been supported partially by such money inflow, analysts say.

If risk asset price hikes are excessive, however, market participants would have to become conscious of the risk of reactionary drops or steel price falls. On May 6, the U.S. Federal Reserve Board published a report warning against the risk of steep declines in stock and other asset prices. Amid unusually prolonged monetary easing, the report pointed to the significance of sensitive monetary policy management. We must pay much attention to future asset market trends. The growing risk consciousness as one of the financial market forces will exert influence on market trends.

Second, we must pay attention to the U.S. oil production trend as one of the forces exerting direct impacts on the oil market supply-demand balance. Over the past decade, shale and other U.S. oil production has served as balancer. When crude oil prices were high, U.S. oil production increased to ease the supply-demand balance. When oil prices were low, it declined to invite rebalancing and a tighter supply-demand balance. When crude oil prices stably stayed above \$50/bbl late last year, U.S. shale oil production was expected by some market participants to increase again to hold down further oil price hikes. In reality, however, U.S. oil production has failed to remarkably increase even as oil prices have surpassed \$60/bbl.

This may be because U.S. shale oil producers have changed their behavior or production patterns to give priority to quality (profitability) rather than quantity (production expansion) and refrain from desperately rushing to increase production, according to a dominant view in the oil industry. Behind such trend may be the emphasis on the profitability of financing for shale oil development. Unexpectedly slow growth in U.S. oil production might have contributed to oil prices' uptrend this year. However, no optimism can be warranted about future developments. If crude oil prices remain above \$60/bbl over a certain period of time, U.S. shale oil production will begin to increase. Such development would not be inconsistent with shale oil producers' new attitude of giving priority to profitability. We will have to closely watch the balance of various forces regarding shale oil production.

Third, I must point to production cuts by the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries, known as the OPEC-plus group that has served as the most important balancer. Among forces that led the oil market to rebalance from oversupply that brought about oil prices' steep declines including a plunge into negative territory in 2020, the record OPEC-plus production cuts have played the most important role. The group has continued the production cuts since May last year and recently begun to gradually narrow the cuts. As well as the OPEC-plus group, its leader Saudi Arabia has implemented an independent production cut of which the effect is important. The OPEC-plus group and Saudi Arabia will continue to adjust the oil supply-demand balance while watching the global economic recovery trend, the fate of the COVID-19 pandemic, the impacts of financial factors and the U.S. shale oil production trend, as cited above. The adjustment will remain the most important factor exerting influence on the market balance and oil prices.

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