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Crude oil may be oversupplied for a while

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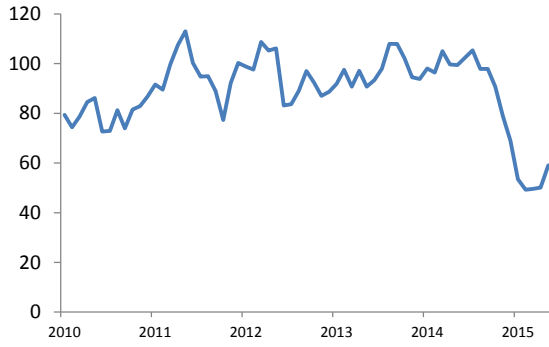
In March of 2015 the price of crude oil dropped below US\$50 a barrel, but has rebounded and currently is around US\$60 a barrel (See Chart 1). On the other hand, it seems that there is high possibility of crude oil oversupply to last for a while.

After autumn 2014 when crude oil prices began to fall the number of operating oil rigs in the U.S. dropped and currently has become half of what it was. But still the country's crude oil production remains at its highest (See Chart 2). Primary factors are concentration to high efficiency drilling rigs and progress in drilling technology, leading to increased production; expert agencies such as the U.S. Energy Information Administration (EIA) predict that despite decrease in the number of operating rigs production for this year will decline only slightly.

Ministers in charge of crude oil of the major oil producing countries of OPEC, such as Saudi Arabia and UAE, during the latest drop in crude oil prices, announced repeatedly that they have no intention to adjust the production to raise crude oil prices. With the current rebound in oil prices and with the fact that, as mentioned above, the amount of production of the U.S., a strong competitor, being stable, the major OPEC countries' intention to produce oil seems to have become one step stronger. Also, if a final agreement is reached on Iran's nuclear program and sanctions against the export of crude oil from Iran are lifted, oil supplies from the country will eventually increase.

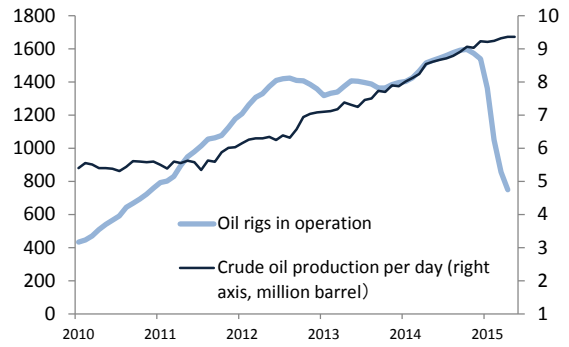
Crude oil prices may suddenly increase due to geopolitical risks, especially due to the continuing turmoil in the Middle East, but in terms of supply and demand in the short run there is the possibility that prices may not become too high. In an interview with the Financial Times, the CEO of the British oil major BP at the OPEC International Seminar held on June 3rd and 4th, by first pointing out the oversupply of the market, mentioned that "we need to be able to operate at US\$60 to US\$65 a barrel", showing that they are preparing for the low and stable prices of crude oil.

Chart 1 Crude oil price (WTI)



Source: DataStream

Chart 2 U.S. : oil rigs in operation/
crude oil production



Source: DataStream

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