

# AT A GLANCE | Crude Oil

August 12, 2022

## U.S. SPR Release Ending at End of October

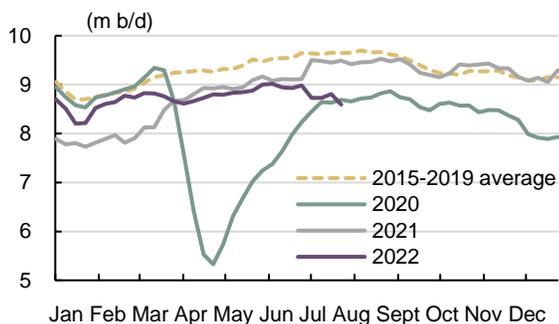
Senior Economist: Kaori Seki

### Trend of Current Oil Price

The driving season is well into its second half, but U.S. gasoline consumption remains weak.<sup>1</sup> As Figure 1 shows, U.S. gasoline consumption (the four-week moving average) in the most recent period fell to levels not seen since February 2022. To begin with, February is a seasonally low month for gasoline consumption. A fall to that level would be a testament to the strong restraint on gasoline consumption due to (1) higher gasoline prices and (2) growing concerns about the future of the economy due to aggressive monetary tightening of the Federal Reserve Board (the “Fed”).

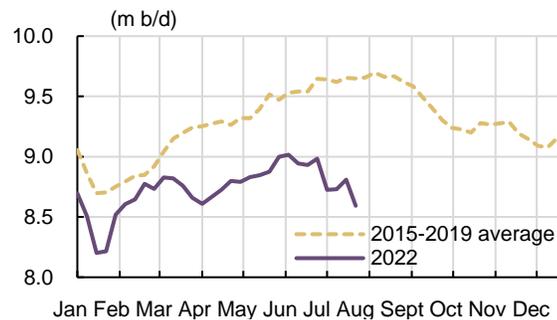
**Figure 1: U.S. Gasoline Consumption (weekly, 4-week moving average)**

(2015-2019 average, 2020, 2021 and 2022)



Source: EIA

(2015-2019 average and 2022)



Source: EIA

Because of this drop in demand, the declining U.S. gasoline inventory finally bottomed out in mid-June, and although it has not returned to traditional levels, it is gradually increasing (Figure 2).

On the other hand, if we look at the evolution of U.S. crude oil inventories (Figure 3), we note that the upward trend since mid-June is the same as for gasoline, but the movement before that is different. This is attributable to the shortage of oil refineries. Although crude oil inventories gradually increased after April, the supply of gasoline, a petroleum product, could not easily be increased due to a shortage of oil refineries, and gasoline inventories eventually continued to decline until a drop in demand became apparent in June.

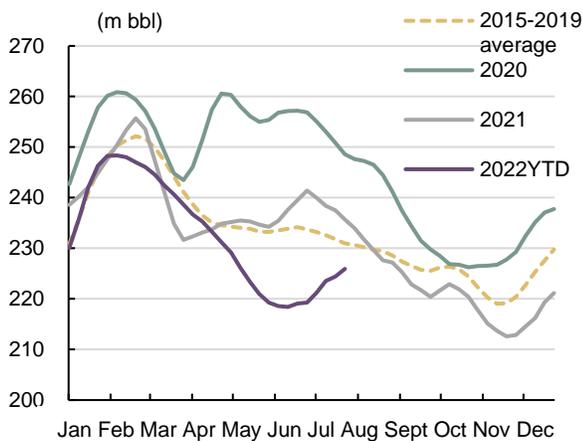
U.S. crude inventories bottomed out in April and have generally risen slightly since May, partly because of the massive release of the Strategic Petroleum Reserve (SPR) by U.S. officials. On March 31, 2022, the United States decided to release 1 million barrels per day (total: 180 million barrels) of the SPR from May to October of the same year. On the following day, April 1, International Energy Agency (IEA) member states

<sup>1</sup> For information on U.S. gasoline consumption during the first half of the driving season, please refer to the report, “U.S. Gasoline Consumption Slumps in Early Driving Season”, published by SMBC Economic Weekly on July 22.

agreed to release a total of 120 million barrels of oil reserves in a coordinated manner during the same period as the release of the U.S. SPR. (However, since the U.S. share of 60 million barrels will be included in the SPR release determined the previous day, the net additional release will be 60 million barrels.)

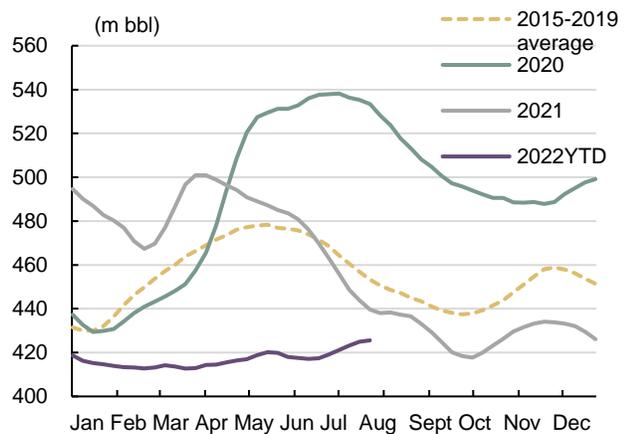
For this reason, in May-October of this year, 1 million barrels per day of U.S. SPR releases and 300,000 barrels per day of coordinated IEA releases (excluding U.S. releases), totaling 1.3 million barrels per day of oil supply, have been added. In the next section, we examine the status and future prospects of SPR releases in the United States, because the scale of SPR releases in the United States, as well as coordinated IEA releases, is large.

**Figure 2: U.S. Gasoline Inventory (weekly, 4-week moving average)**



Source: Energy Information Administration

**Figure 3: U.S. Crude Oil Inventory (weekly, 4-week moving average)**



Source: Energy Information Administration

### SPR Release in the United States and Future Prospects

Monthly Energy Information Administration (EIA) data shows a sharp increase in withdrawals from the SPR since May 2022 (Figure 4). Even before the aforementioned SPR release on March 31, 2022, the U.S. authorities arranged the release of oil reserves by major oil-consuming nations in November 2021 in response to soaring oil prices, and also made significant contributions to the agreement on the coordinated release of oil reserves by IEA member nations on March 1, 2022, shortly after the Russian invasion of Ukraine began.

Therefore, withdrawals from the SPR have been made continuously since November 2021, but withdrawals since May 2022 have been significantly higher than the previous level. This large SPR withdrawal, coupled with poor gasoline consumption during the driving season this year, is presumed to have played a certain role in easing the balance between oil supply and demand.

However, this SPR release will end by the end of October. It is at this juncture that the European Union’s (EU) moratorium on imports of Russian oil will come to an end. The grace periods for Russian oil imports (limited to shipping by sea) and Russian oil products expire in early December 2022 and February 2023, respectively. According to the EU, these import suspensions mean that Russian oil (crude oil + petroleum products) imports will fall by 90%. This is expected to substantially reduce the oil supply of just over 3 million barrels per day.

That timing is preceded by the end of U.S. SPR releases. Depending on the state of oil demand, such a decline in supply at a time when the world has limited room to increase oil production risks intensifying concerns about shortages.

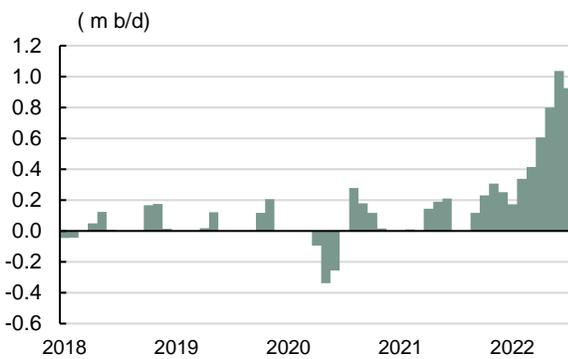
Therefore, it is expected that SPR releases will continue, but the previous massive releases have caused the SPR balance to plummet to levels not seen since May 1985 (Figure 5). Since the United States is a net oil exporter most of the time, it meets the IEA’s oil reserve requirement (to stockpile 90 days of net oil imports), which is fine.

However, it is true that the SPR has declined to historic levels. Cold weather and hurricanes in the United States sometimes force unplanned shutdowns of oil-related facilities. In February 2021, a cold wave caused a production halt of just over 1 million barrels per day. In addition, oil installations could be shut down due to breakdowns or cyberattacks. Therefore, a certain amount of SPR is necessary for a stable oil supply.

Based on statements from the Biden administration and U.S. energy officials, the basic stance seems to be to do what we can to keep oil prices in check. Therefore, it may be possible to make one more decision to release additional amounts from the SPR. But given the balance of the SPR, that’s probably the limit.

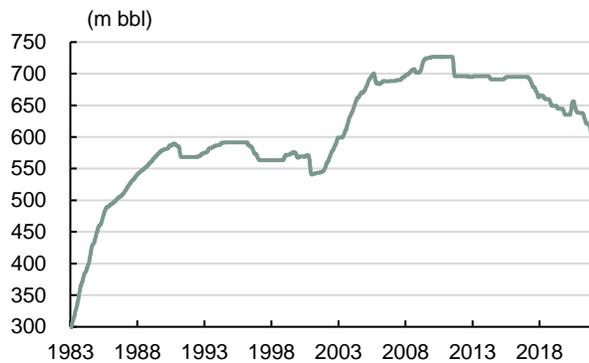
Oil prices have been weak since mid-June 2022. However, given the U.S. SPR release deadline at the end of October and the end of the EU moratorium on Russian oil imports in early December 2022 and early February 2023, it does not appear likely that this soft trend in oil prices will continue until the end of 2022.

**Figure 4: U.S. SPR Drawer (net, monthly)**



Sources: EIA, SMBC

**Figure 5: U.S. SPR Balance (weekly)**



Sources: EIA, SMBC

## Economic Outlook: 2022-2023 Forecast

**Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates**

		2021			2022				2023				2020	2021	2022	2023
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	6.7	2.3	6.9	-1.6	-0.9	2.1	1.6	1.3	1.5	1.4	1.5	-3.4	5.7	2.1	1.6
	Inflation	3.4	3.6	4.6	5.1	4.9	4.8	4.5	4.2	3.9	3.5	3.0	1.4	3.3	4.8	3.7
	Unemployment	5.9	5.1	4.2	3.8	3.6	3.7	3.7	3.8	3.9	4.0	4.0	8.1	5.4	3.7	3.9
Euro Area	Real GDP	2.2	2.3	0.2	0.6	0.4	0.5	0.4	0.4	0.5	0.5	0.5	-6.5	5.3	3.0	1.8
	Inflation	1.8	2.9	4.7	6.2	7.5	6.3	5.2	3.0	2.5	2.0	2.0	0.3	2.6	6.3	2.4
	Unemployment	8.0	7.5	7.1	6.8	6.7	6.6	6.6	6.6	6.5	6.5	6.5	7.9	7.7	6.7	6.5
Japan	Real GDP	2.6	-3.2	4.0	-0.5	3.5	3.9	3.4	1.8	1.1	0.9	0.9	-4.5	1.6	1.7	2.2
	Inflation	-0.6	0.0	0.4	0.5	2.1	2.3	2.3	1.9	1.3	1.0	0.8	-0.2	-0.2	1.8	1.2
	Unemployment	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.8	2.8	2.6	2.4
China	Real GDP	7.9	4.9	3.5	4.8	0.4	4.8	5.3	5.9	10.2	5.8	5.2	2.2	8.1	3.9	6.7
	Inflation	1.1	0.8	1.8	1.1	2.2	2.8	2.8	2.3	1.6	1.5	1.5	2.7	0.8	2.2	1.7
	Unemployment	5.0	5.0	5.0	5.5	5.8	5.5	5.3	5.0	5.1	5.2	5.0	5.0	5.1	5.5	5.1

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

**Figure 2: Forecast for Rates**

Interest rate		2021	2022				2023				2021	2022	2023
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	0.00	0.25	1.50	2.75	3.25	3.25	3.25	3.00	3.00	0.00	3.25	3.00
		0.25	0.50	1.75	3.00	3.50	3.50	3.50	3.25	3.25	0.25	3.50	3.50
	2yr	0.73	2.33	2.95	3.50	3.50	3.50	3.40	3.20	3.00	0.73	3.50	3.00
	10yr	1.51	2.34	3.01	3.20	3.20	3.00	2.90	2.80	2.70	1.51	3.20	2.70
Germany	Policy rate	0.00	0.00	0.00	1.00	1.50	1.50	1.50	1.50	1.50	0.00	1.50	1.50
	Deposit rate	-0.50	-0.50	-0.50	0.50	1.00	1.00	1.00	1.00	1.00	-0.50	1.00	1.00
	2yr	-0.64	-0.07	0.65	0.70	0.60	0.90	1.10	0.90	0.80	-0.64	0.60	0.80
	10yr	-0.18	0.55	1.34	0.90	0.80	1.00	1.20	1.10	1.00	-0.18	0.80	1.00
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
	2yr	-0.09	-0.03	-0.06	-0.10	-0.10	-0.10	-0.10	-0.10	-0.05	-0.09	-0.10	-0.05
	10yr	0.07	0.22	0.23	0.25	0.25	0.25	0.25	0.25	0.25	0.07	0.25	0.25
China	Policy rate	3.80	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.80	3.70	3.70
	2yr	2.39	2.31	2.32	2.35	2.50	2.65	2.68	2.70	2.75	2.39	2.50	2.75
	10yr	2.77	2.79	2.82	2.85	2.90	2.95	2.98	3.00	3.05	2.77	2.90	3.05

**Figure 3: Forecast for FX and Oil Price**

		2021	2022				2023				2021	2022	2023
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	110.82 ~ 115.52	113.47 ~ 125.09	121.67 ~ 137.00	125.00 ~ 143.00	120.00 ~ 138.00	120.00 ~ 135.00	120.00 ~ 133.00	117.00 ~ 130.00	117.00 ~ 130.00	102.59 ~ 115.52	113.47 ~ 143.00	117.00 ~ 135.00
	End of quarter	115.08	121.70	135.72	132.00	128.00	125.00	123.00	120.00	120.00	115.08	128.00	120.00
EUR/USD	Range	1.1186 ~ 1.1692	1.0806 ~ 1.1495	1.0350 ~ 1.1076	0.9600 ~ 1.0700	0.9500 ~ 1.0600	0.9800 ~ 1.0900	1.0200 ~ 1.1300	1.0300 ~ 1.1400	1.0400 ~ 1.1500	1.1186 ~ 1.2349	0.9500 ~ 1.1495	0.9800 ~ 1.1500
	End of quarter	1.1370	1.1067	1.0484	1.0300	1.0200	1.0500	1.0800	1.0900	1.1000	1.1370	1.0200	1.1000
EUR/JPY	Range	127.39 ~ 133.48	124.40 ~ 137.53	132.66 ~ 144.28	128.00 ~ 143.00	124.00 ~ 139.00	124.00 ~ 139.00	125.00 ~ 140.00	124.00 ~ 139.00	125.00 ~ 140.00	125.09 ~ 134.13	124.00 ~ 144.28	124.00 ~ 140.00
	End of quarter	130.90	134.67	142.29	135.96	130.56	131.25	132.84	130.80	132.00	130.90	130.56	132.00
Crude Oil Prices (WTI)		77.10	95.01	108.52	112.50	103.50	100.00	90.00	93.00	95.00	68.08	104.88	94.50

※ Crude oil prices are averages for each period. Source: SMBC.

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