Oil and commodities

In Q4 2020, the price of Brent stood at $44 per barrel on average, down 3% compared to Q3 2020.

As a result of the health crisis, oil demand fell sharply in Q2 and then rebounded without returning to its previous level. Supply also rebounded, but at a more moderate pace. According to the IEA (International Energy Agency), oil demand is therefore expected to exceed supply in Q1 2021. For this forecasting exercise, the conventional assumption is that the price of Brent will stabilise at around $60 per barrel until the end of the quarter.

This scenario is subject to several uncertainties. On the supply side, there is uncertainty about whether OPEC countries will comply with their new production quotas. The possible exacerbation of geopolitical tensions in the Middle East could also trigger a rise in prices; however, the return of the United States to the Iranian nuclear agreement could lead to a drop in prices. There are also demand-side uncertainties, particularly concerning the impacts of the coronavirus epidemic and the effects of the US stimulus plan in the medium term.

Commodity prices were very volatile throughout 2020. After falling by 3.6% in Q2 2020, prices stagnated in Q3 and rebounded by 5.4% in Q4, exceeding pre-crisis levels.

Brent prices were very volatile in 2020, fluctuating between $9 and $70

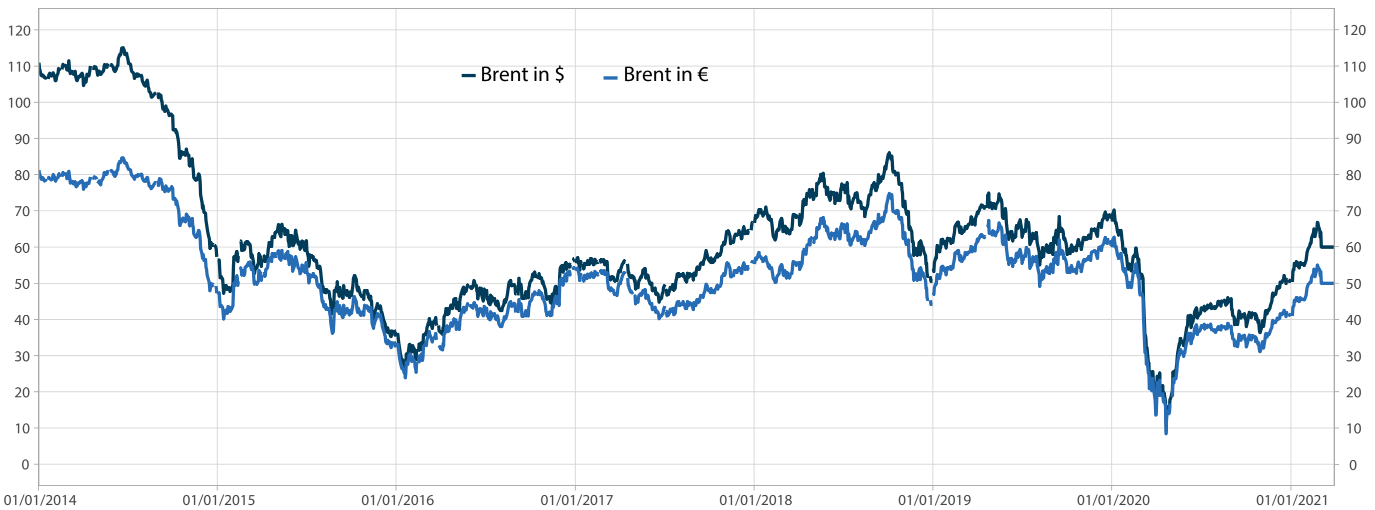
During 2020, oil prices fluctuated significantly (► **figure 1**). Prices briefly peaked at $70 in early 2020, in reaction to the geopolitical tensions between Iran and the United States, before plummeting to a record low of $9 in April 2020 under the impact of the health crisis. Prices have gradually picked up since then, averaging $44 in Q4 2020. Prices have continued to rise since the beginning of 2021, exceeding $60 per barrel of Brent in February. Assuming a conventional price of $60 from that date onwards, the price of oil is expected to reach $59.1 in Q1 2021.

Global oil demand remains well below pre-crisis levels

H1 2020 saw the biggest drop in worldwide oil demand in the history of the oil industry. The global recession linked to the COVID-19 epidemic led to a sharp decline in demand from all consumer countries (► **figure 2**). However, Chinese demand picked up in Q2 2020. In the summer of 2020, global oil demand from all consumer countries rebounded, driven by the easing of health restrictions, but remaining at a much lower level than before the health crisis. In Q4, global demand slowed under the impact of further restrictions introduced in a number of countries. In Q1 2021, demand is likely to slow down further, remaining almost flat and mainly sustained by European demand due to particularly cold winter temperatures. Chinese demand is expected to have a negative impact on global oil demand on an exceptional basis, with the introduction of new health restrictions significantly curbing the traditional Chinese New Year festivities.

► 1. Price of a barrel of Brent in dollars and euros

currency of the barrel



Source: Commodity Research Bureau

International economic outlook

After an unprecedented decline in the first three quarters of 2020, oil supply rebounded moderately thereafter and should remain at a very low level in Q1 2021

In Q1 2020, global oil supply declined, despite higher production in the United States, with OPEC deciding to further reduce its production. In Q2 2020, the output of all producing countries nosedived due to production difficulties linked to the restrictive measures in force, and a desire to adapt output to sharply declining demand. Consequently, OPEC countries decided to cut their production drastically in May and June in order to buoy up the prices of oil products.

In Q3 2020, OPEC decided on a further reduction in supply. Production recovered slightly in the United States. In Q4 2020, global supply increased, continuing to rise in the United States and picking up in OPEC countries. In particular, OPEC production increased, mainly as a result of higher production in Libya following the ceasefire in September. Iran, for its part, increased its production slightly, although it remains affected by the sanctions in force since the United States' withdrawal from the Vienna agreement on the Iranian nuclear programme in 2018. Iraq produced 3.83 million barrels per day – slightly above the OPEC threshold, and Saudi Arabia produced more than in Q3 2020, while still complying with its quotas. On 5 January 2021, OPEC agreed to extend the Algiers agreement,[1] and to increase production only slightly, given the tightening of health restrictions in several countries. All in all, world output is expected to increase moderately in Q1 2021, driven mainly by the recovery of production in the United States, where shale gas output rose at the end of the year. However, the market is likely to remain in deficit in Q1 2021, with supply remaining below demand (► figure 2).

Stocks remain high

US crude oil stocks fell to 492 million barrels in Q4 2020 but remain at very high levels – well above (+45%) the 2011-2014 average. Upward pressure on prices could therefore be curbed by the level of trade reserves continuing to remain high.

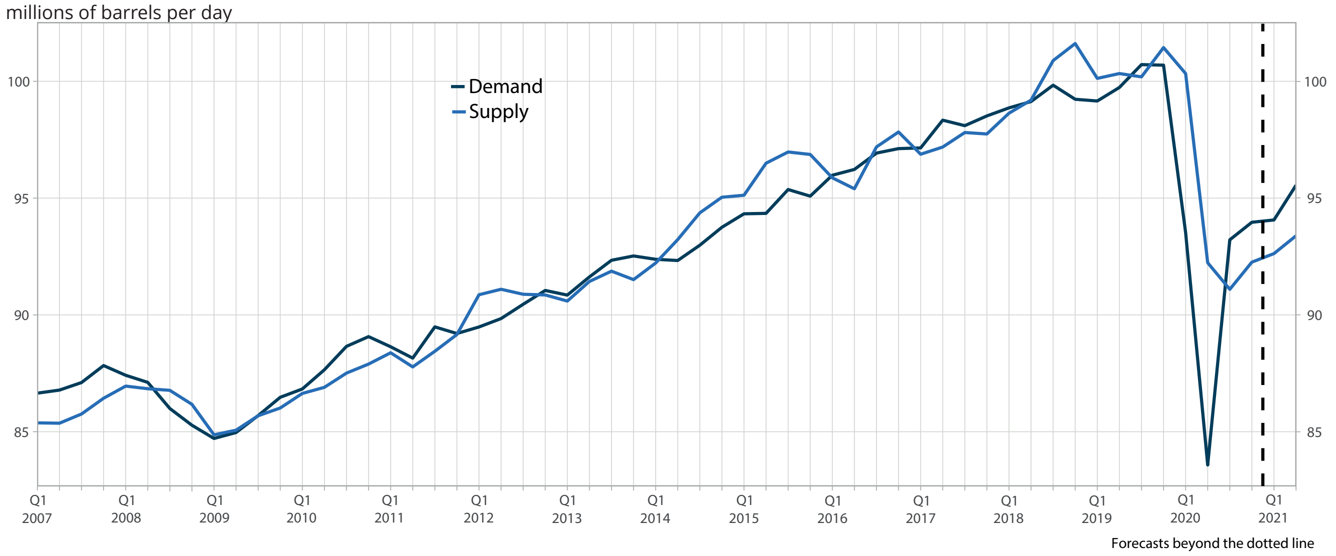
Commodity prices were very volatile in 2020

After declining in H1 2020, the prices of all commodities rebounded in Q4 (+5.4%), even exceeding their pre-crisis levels. This profile is mainly attributed to the price of mineral commodities. The price of iron ore rose by 20.2% in Q3 and by 4.5% in the Q4 2020 (► figure 3). Prices were driven up by the rebound in Chinese demand for manufactured steel products, and by adverse weather conditions in Australia, the main producer. The upswing in Chinese demand also buoyed up copper prices, which rebounded in Q3 and Q4 (+16.8% and +6.5%). The surge in mineral prices is likely to result in higher production costs in industry. In this respect, the producer price of metal products rose sharply in January (+5.0% in the initial estimate).

The profile of food and agri-food commodity prices was similar but more stable (► figure 3). However, these relatively moderate variations may mask much more marked developments in certain specific commodities. In cereals, for example, corn prices rose sharply in Q4 (+22.6%). Indeed, biofuel production and the end

1 At its meeting in Algiers in September 2016, OPEC expressed its desire to limit its production in order to reduce the surplus supply due to the sharp rise in US shale oil output. The agreement was ratified in November 2016, and came into effect on 1st January 2017. Several countries, including Russia, joined this effort. The production quotas have been reconsidered on a regular basis since then.

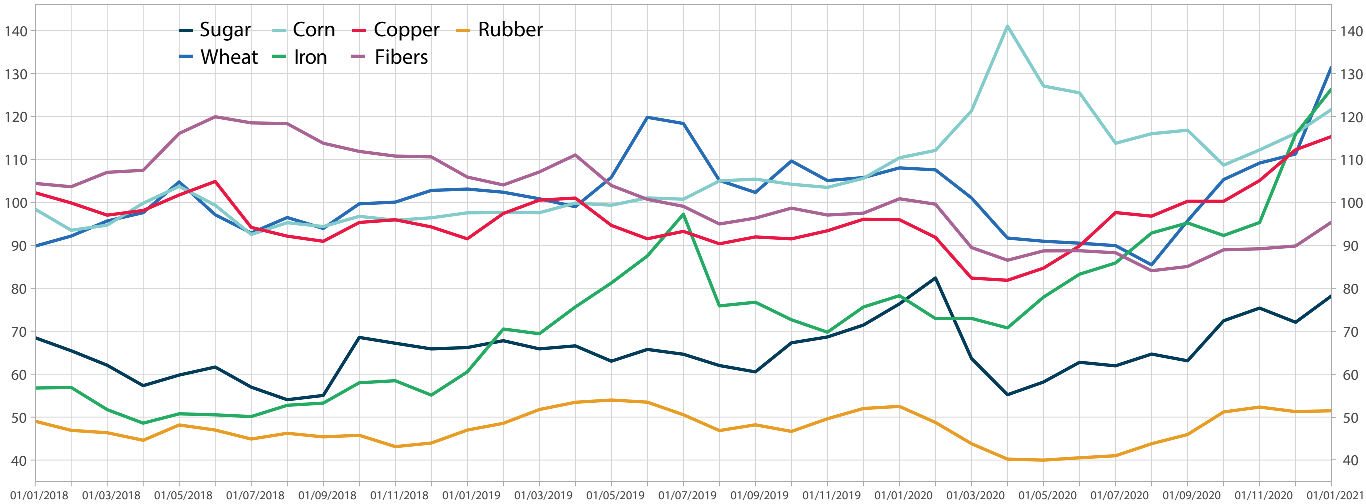
► 2. World oil market
in millions of barrels per day



Source: AIE, INSEE

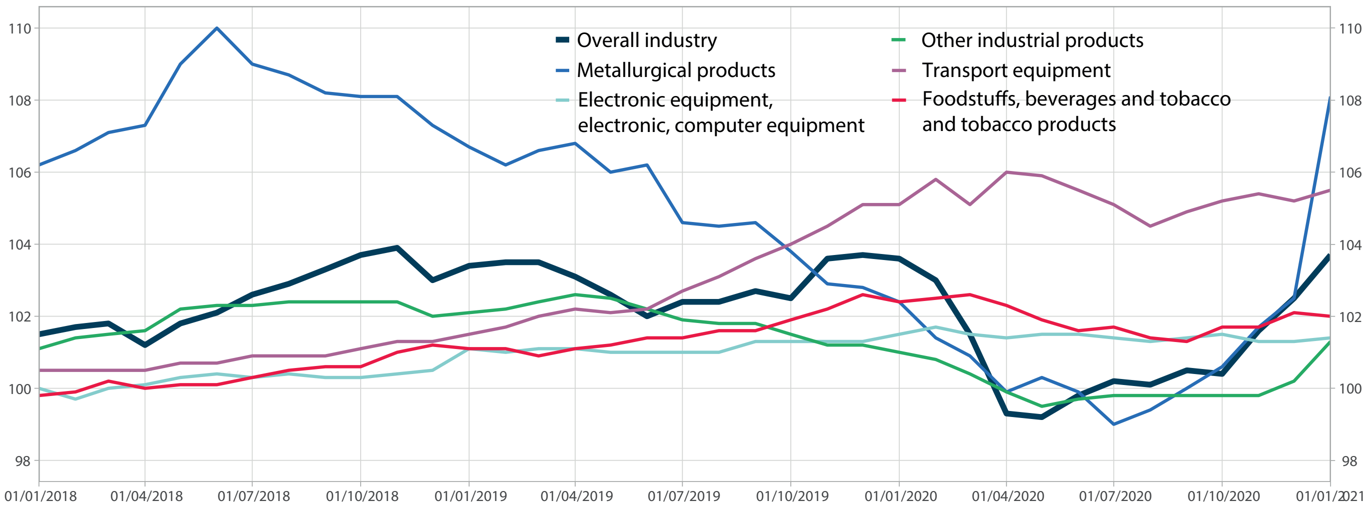
of swine flu in China drove up demand at a time of shorter supply caused by climatic disturbances (La Niña). Wheat prices also surged in Q4 (+20.2%), driven by unexpectedly record-breaking demand due to precautionary buying. On the other hand, sugar prices tumbled in Q2 2020 (–20.8%), in connection with the collapse of oil prices, which prompted producers to switch from sugar to ethanol production. They bounced back strongly thereafter, particularly in Q4 (+15.6% after +7.7% in Q3), in the wake of oil prices.
In agro-industrial commodities, textile fibre prices rebounded significantly in Q4 2020 (up 4.6%, after dropping by 9.2% and 2.3% in Q2 and Q3 respectively), driven by strong demand from China, where clothing activity has started to increase again, after a slower textile season due to the health crisis. Rubber prices bounced back in Q3 (+8.3%) and particularly in Q4 (+18.4%). The health crisis had caused prices to plummet in Q2 2020, with demand impacted by the closure of tyre manufacturing plants in countries affected by the pandemic, even as rubber production was rising.
These rises in commodity prices are reflected by producer prices in industry (► **figure 4**), and are likely to fuel the rise in the consumer price index, even though it remains moderate at this stage and can also be explained by cyclical factors (new weightings in the structure of the market basket for the index to take account of changes that occurred during the health crisis, changes to the dates of winter sales, etc.). ●

► 3. Commodity prices increased significantly in late 2020 – early 2021
base 100 in 2010



Source: INSEE

► 4. French producer price index in industry for all markets, domestic and foreign
base 100 in 2010



Source: INSEE