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Future Oil Market Outlook

[Noboru Kamakura](#)

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Abstract: Petroleum prices led by Crude oil prices have risen dramatically since the end of 2003 and have maintained a higher price range than what had previously been considered normal. The reason for current high prices cannot be explained by simple short-term fundamentals such as supply and demand balance, and inventory levels. However, they can be explained by the perception of future fundamentals instead. The market believes that world oil demand will be increasing steadily, notably from China and USA, while the supply side appears constrained. There is no additional production capacity left in OPEC and refineries are running at their full capacity to satisfy current oil demand. The Market is not looking at present fundamentals but future fundamentals, and this has lifted oil prices to an unexpectedly high level. Clear evidence of this perception is the rising forward curve. Previously, it was believed that long-term Crude oil price would remain at a level of 20's per barrel, and looking at the forward curve in the past, the forward price always converged to a level of around 20 per barrel. However, the current forward price converges to a level above \$50 per barrel, which implies people consider the oil market price structure has greatly shifted upward. As long as the current market presupposes a continued firm demand increase versus a fragile supply situation, it is highly likely that oil prices will be staying at the high level as we are seeing now.

Key words: [Future Supply Fears](#), [Steady Demand Increase](#)

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