Oil prices expected to rise in 2021 as markets become more balanced

The U.S. Energy Information Administration (EIA) is reporting that European benchmark Brent crude oil spot prices averaged $45 per barrel in August, up $26 per barrel from the multiyear low in April. The increase in oil price occurred as global oil markets shifted from increasing inventories by 7.2 million barrels per day in the second quarter to EIA’s expected reduction of inventories of 3.7 million barrels per day in the third quarter.

EIA’s September Short-Term Energy Outlook forecasts inventory reductions in the fourth quarter will average 3.1 million barrels per day. Despite strong expected inventory draws, EIA expects high inventory levels and surplus crude oil production capacity will limit upward pressure on oil prices in the coming months.

EIA estimates Brent prices will average $44 per barrel in the fourth quarter of 2020, then rise to an average of $49 per barrel in 2021 as oil markets become more balanced. EIA expects inventories to be reduced at a rate of 300,000 barrels per day in 2021.

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